

Financial Statements
and Independent Auditors' Report
Permanent Health Fund
Years Ended August 31, 2018 and 2017

Permanent Health Fund

Financial Statements

Years Ended August 31, 2018 and 2017

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



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INDEPENDENT AUDITORS' REPORT

To the Board of Regents of The University of Texas System
To the Board of Directors of The University of Texas/Texas A&M Investment
Management Company

Report on the Financial Statements

We have audited the accompanying financial statements of the Permanent Health Fund (the "Fund"), which comprise the statements of fiduciary net position as of August 31, 2018 and 2017, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Permanent Health Fund as of August 31, 2018 and 2017, and the changes in its fiduciary net position thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended only to present the fiduciary net position of the Fund as of August 31, 2018 and 2017, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the consolidated net position of The University of Texas System, as of August 31, 2018 or 2017, or the changes in its consolidated net positions for the years then ended.

Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplemental Schedule

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

Deloitte & Touche LLP

October 29, 2018

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

Our discussion and analysis of the Permanent Health Fund's (Fund) financial performance provides an overview of its activities for the years ended August 31, 2018 and 2017. This discussion was prepared by The University of Texas/Texas A&M Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes and the financial statements and notes of The University of Texas System General Endowment Fund (GEF). The Fund is a pooled investment fund for the collective investment of state endowment funds for health-related institutions of higher education. The University of Texas System Board of Regents (UT Board) established the Fund in August 1999 with proceeds from state tobacco litigation. The Texas Constitution and various state statutes designate the UT Board as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

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

Financial Highlights

The Fund's net fiduciary position after distributions increased by \$59.1 million from \$1,144.6 million to \$1,203.7 million or by approximately 5.2% for the year ended August 31, 2018, compared to an increase of \$78.9 million or approximately 7.4% for the year ended August 31, 2017. The change in net fiduciary position from year to year is mainly attributable to the following:

1. The Fund posted a net investment return of 9.70%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2018, compared to a net investment gain of 12.35% for the prior fiscal year. The net investment return of the Fund is dependent on the results of the investments held in the GEF. The GEF's investments in developed country equities, credit-related hedge funds and private investments were the biggest contributors to the 2018 return. For the year ended August 31, 2017, investments in emerging markets and developed country equities and private investments were the biggest contributors to the net investment return.
2. The Fund's distribution rate was increased by 1.1%, approximately the three-year average rate of inflation, for the year ended August 31, 2018. This equated to an increase in the 2018 rate to \$0.0619 per unit from the 2017 rate of \$0.0612 per unit. The 2017 rate was increased by 1.0% from the year ended August 31, 2016 rate. The fiscal year distributions represented 4.29% of the Fund's average net position for the year ended August 31, 2018, and 4.56% of the Fund's average net position for the year ended August 31, 2017.

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3. There were no participant contributions to the Fund or withdrawals from the Fund during the years ended August 31, 2018 and 2017.

Use of Financial Statements and Notes

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

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

Statements of Fiduciary Net Position

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

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

As of August 31, 2018, the Fund owned 3,655,303 GEF units representing an ownership percentage of 11.55% compared to 3,816,098 GEF units representing an ownership percentage of 12.21% as of August 31, 2017. As of August 31, 2018 and 2017, the fair value of the GEF units was \$1,203.6 million and \$1,144.1 million, respectively.

The GEF invests in a broad mix of investments and is actively managed to its benchmark, the Endowment Policy Portfolio. The Endowment Policy Portfolio is the index or benchmark for the endowment funds that UTIMCO manages. The return of the Endowment Policy Portfolio is the sum of the weighted benchmark returns for each asset class. UTIMCO allocates GEF's assets to internally and externally managed portfolios in accordance with approved asset allocation policies, and attempts to supplement the original endowment corpus by increasing purchasing power over time.

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

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|-----------------------------------|-------------------|-------------------|-------------------|
| Assets | | | |
| GEF Units, at Fair Value | \$ 1,203.6 | \$ 1,144.1 | \$ 1,065.4 |
| Cash and Cash Equivalents | 0.1 | 0.5 | 0.3 |
| Net Position Held in Trust | <u>\$ 1,203.7</u> | <u>\$ 1,144.6</u> | <u>\$ 1,065.7</u> |

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Statements of Changes in Fiduciary Net Position

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

The net increase in fair value of investments of the Fund was \$101.5 million during the year compared to an increase in fair value of investments of \$120.9 million for the year ended August 31, 2017. The Fund's investment expenses totaled \$1.4 million for the year ended August 31, 2018 and \$1.3 million for the years ended 2017 and 2016.

Distributions to participants totaled \$50.7 million, \$50.2 million and \$49.7 million, respectively, for the years ended August 31, 2018, 2017, and 2016. The increase in distributions is a result of the UT Board increasing the distribution rate from \$0.0612 per unit to \$0.0619 per unit for fiscal year 2018. The increase for fiscal year 2017 is a result of the UT Board's increase of the distribution rate from \$0.0606 per unit to \$0.0612 per unit.

The Fund's objective is to maximize investment returns within the risk parameters as specified in its investment policy statement without regard to the distribution rate.

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

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

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|-------------------|
| Investment Income | \$ 111.2 | \$ 130.4 | \$ 41.0 |
| Less Investment Expenses | 1.4 | 1.3 | 1.3 |
| Net Investment Income | <u>109.8</u> | <u>129.1</u> | <u>39.7</u> |
| Participant Distributions | <u>50.7</u> | <u>50.2</u> | <u>49.7</u> |
| Change in Fiduciary Net Position | 59.1 | 78.9 | (10.0) |
| Net Position Held in Trust, Beginning of Year | <u>1,144.6</u> | <u>1,065.7</u> | <u>1,075.7</u> |
| Net Position Held in Trust, End of Year | <u>\$ 1,203.7</u> | <u>\$ 1,144.6</u> | <u>\$ 1,065.7</u> |

Contacting UTIMCO

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

PERMANENT HEALTH FUND

Statements of Fiduciary Net Position

August 31, 2018 and 2017

(Dollars in thousands, except per unit amounts)

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Assets | | |
| GEF Units, at Fair Value | \$ 1,203,617 | \$ 1,144,088 |
| Cash and Cash Equivalents | 43 | 549 |
| Other | <u>7</u> | <u>6</u> |
| Net Position Held in Trust (820,000,000 Units) | <u>\$ 1,203,667</u> | <u>\$ 1,144,643</u> |
| Net Position Held in Trust Per Unit | <u>\$ 1.468</u> | <u>\$ 1.396</u> |

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

PERMANENT HEALTH FUND

Statements of Changes in Fiduciary Net Position

Years Ended August 31, 2018 and 2017

(in thousands)

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Additions | | |
| Investment Income: | | |
| Net Increase in Fair Value of Investments | \$ 101,514 | \$ 120,912 |
| Allocation of GEF Net Investment Income | 9,672 | 9,493 |
| Interest | 3 | - |
| Total Investment Income | <u>111,189</u> | <u>130,405</u> |
| Less Investment Expenses: | | |
| UTIMCO Management Fee | 1,372 | 1,291 |
| Other Expenses | 26 | 25 |
| Total Investment Expenses | <u>1,398</u> | <u>1,316</u> |
| Net Investment Income | 109,791 | 129,089 |
| Deductions | | |
| Participant Distributions | 50,758 | 50,184 |
| Administrative Fee for UT System Oversight | 9 | 10 |
| Total Deductions | <u>50,767</u> | <u>50,194</u> |
| Change in Fiduciary Net Position | 59,024 | 78,895 |
| Net Position Held in Trust, Beginning of Year | <u>1,144,643</u> | <u>1,065,748</u> |
| Net Position Held in Trust, End of Year | <u>\$ 1,203,667</u> | <u>\$ 1,144,643</u> |

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

PERMANENT HEALTH FUND

Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

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

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

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

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

Management has evaluated subsequent events through October 29, 2018, the date the financial statements were available to be issued. No subsequent events requiring adjustment to, or disclosure in, the financial statements were identified as a result of this evaluation.

Note 2 – Investment in GEF

The Fund only invests in GEF units and a negligible amount of cash. At August 31, 2018, the Fund is the minority participant in the GEF, with ownership of 3,655,303 units, which represents 11.55% of the GEF. At August 31, 2017, the Fund held 3,816,098 units, which represented 12.21% of the GEF.

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

The GEF and the Fund have identical investment objectives. The financial statements of GEF are included elsewhere in this report and should be read with the Fund's financial statements. On a monthly basis for accounting purposes, the GEF allocates its net investment income and realized gain or loss to the Fund based on its ownership of GEF units at month end. The Fund redeems GEF units quarterly to meet its distribution requirements to its unitholders.

Note 3 – Significant Accounting Policies

(A) Valuation of Investments -- The Fund records its investment in GEF at fair value. The notes to GEF's financial statements included elsewhere in this report provide information about GEF's valuation policy and its period-end security valuations. The Fund's investment in the GEF is fair valued at \$1,203,617,526 and \$1,144,088,371, as of August 31, 2018 and 2017, respectively.

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

(C) Distributions to Participants -- Cash distributions to participants are paid quarterly based on a per unit payout established by the UT Board. For the year ended August 31, 2018, the quarterly rate was \$0.015475 per unit which equates to an annual rate of \$0.0619 per unit and for the year ended August 31, 2017, the quarterly rate was \$0.0153 per unit which equated to an annual rate of \$0.0612 per unit. The ratio of distributions to average net position (12-quarter average) was 4.50% as of August 31, 2018, and 4.58% as of August 31, 2017. For the years ended August 31, 2018 and 2017, the annual payout was adjusted by the average consumer price index of the prior 36 months.

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

(E) Purchases and Redemption of Units -- Unit purchases occur on the first business day of each fiscal quarter. Unit redemptions occur on the last business day of each fiscal quarter. The value of participating units, upon admission to the Fund, is based upon the market value of net position held as of the quarterly valuation date. Redemptions from the Fund will also be made at the market value price per unit at the quarterly valuation date at the time of the redemption. There are no transaction costs incurred by participants for the purchase or redemption of units. There were no purchase or redemption of Fund units during the years ended August 31, 2018 and 2017.

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

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

PERMANENT HEALTH FUND

Notes to Financial Statements (cont.)

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

Note 4 – Fees and Expenses

The Fund is assessed a management fee by UTIMCO to cover the costs of managing the Fund and providing day-to-day operations. These fees are based on a budget prepared by management and approved by the UT Board. For the years ended August 31, 2018 and 2017, the fees assessed were \$1,372,125 and \$1,291,263, respectively.

The Fund is assessed a fee to cover costs associated with UT System personnel in their effort to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. For the years ended August 31, 2018 and 2017, the fees amounted to \$9,480 and \$9,960, respectively.

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

PERMANENT HEALTH FUND

Supplemental Schedule

Financial Highlights

Years Ended August 31,

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Selected Per Unit Data | | | | | |
| Net Position, Beginning of Year | \$ 1.396 | \$ 1.300 | \$ 1.312 | \$ 1.358 | \$ 1.238 |
| Income from Investment Operations | | | | | |
| Net Investment Income (A) | 0.010 | 0.010 | 0.010 | 0.008 | 0.013 |
| Net Realized and Unrealized Gains on Investments | 0.124 | 0.147 | 0.039 | 0.006 | 0.166 |
| Total Income from Investment Operations | 0.134 | 0.157 | 0.049 | 0.014 | 0.179 |
| Less Distributions | | | | | |
| From Net Investment Income | 0.010 | 0.010 | 0.010 | 0.008 | 0.013 |
| From Net Realized Gain | 0.052 | 0.051 | 0.051 | 0.052 | 0.046 |
| Total Distributions | 0.062 | 0.061 | 0.061 | 0.060 | 0.059 |
| Net Position, End of Year | <u>\$ 1.468</u> | <u>\$ 1.396</u> | <u>\$ 1.300</u> | <u>\$ 1.312</u> | <u>\$ 1.358</u> |
| Ratios and Supplemental Data | | | | | |
| Net Position, End of Year (in thousands) | \$ 1,203,667 | \$ 1,144,643 | \$ 1,065,748 | \$ 1,075,710 | \$ 1,113,609 |
| Ratios to Average Net Position | | | | | |
| Distributions (5-quarter average) | 4.29% | 4.56% | 4.74% | 4.44% | 4.48% |
| Distributions (12-quarter average) | 4.50% | 4.58% | 4.55% | 4.50% | 4.60% |

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

Financial Statements

and Independent Auditors' Report

The University of Texas System

General Endowment Fund

Years Ended August 31, 2018 and 2017

The University of Texas System General Endowment Fund

Financial Statements

Years Ended August 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Regents of The University of Texas System
To the Board of Directors of The University of Texas/Texas A&M Investment
Management Company

Report on the Financial Statements

We have audited the accompanying financial statements of The University of Texas System General Endowment Fund (the "Fund"), which comprise the statements of fiduciary net position as of August 31, 2018 and 2017, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of The University of Texas System General Endowment Fund as of August 31, 2018 and 2017, and the changes in its fiduciary net position thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Fund are intended only to present the fiduciary net position of the Fund as of August 31, 2018 and 2017, and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the consolidated net position of The University of Texas System, as of August 31, 2018 or 2017, or the changes in its consolidated net positions for the years then ended.

Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplemental Schedule

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

Deloitte & Touche LLP

October 29, 2018

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

Our discussion and analysis of The University of Texas System General Endowment Fund's (Fund) financial performance provides an overview of its activities for the years ended August 31, 2018 and 2017. This discussion was prepared by The University of Texas/Texas A&M Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund is a pooled investment fund for the collective investment of the Permanent Health Fund (PHF) and The University of Texas System Long Term Fund (LTF). The Fund was created to allow the PHF and LTF to benefit from their identical investment objectives by providing greater efficiencies and cost savings than was possible when the investments of the PHF and LTF were managed separately. The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into an Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

Financial Highlights

The Fund's fiduciary net position, after contributions and withdrawals, increased by \$1,049.6 million from \$9,369.1 million to \$10,418.7 million or approximately 11.2% for the year ended August 31, 2018, compared to an increase of \$868.9 million or approximately 10.2% for the year ended August 31, 2017. The change in net fiduciary net position from year to year is mainly attributable to the following:

1. The Fund posted a net investment return of 9.61%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2018. Investments in developed country equities, credit-related hedge funds and private investments were the biggest contributors to the 2018 return. Investments in emerging markets and developed country equities and private investments were the biggest contributors to the net investment gain of 12.70% for August 31, 2017.
2. The PHF and LTF redeemed and purchased Fund units resulting in net contributions of \$122.6 million for the year ended August 31, 2018, compared to net distributions for the year ended August 31, 2017 of \$192.6 million.
3. The Fund allocates its net investment income and its realized gain or loss to the PHF and LTF monthly based on their ownership of Fund units at month end. The allocated net investment income and realized gain amounts increase the cost basis of the units of the Fund, and any allocated realized losses reduce the cost basis of the units in the Fund. Since the allocation is proportional to the percentage ownership by the PHF and LTF, no additional units are purchased.

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Use of Financial Statements and Notes

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

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

Statements of Fiduciary Net Position

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

The Fund invests in a broad mix of investments and is actively managed to its benchmark, the Endowment Policy Portfolio. The Endowment Policy Portfolio is the index or benchmark for the endowment funds that UTIMCO manages. The return of the Endowment Policy Portfolio is the sum of the weighted benchmark returns for each asset class. UTIMCO allocates the Fund's assets to internally and externally managed portfolios in accordance with approved asset allocation policies and attempts to supplement the original endowment corpus by increasing purchasing power over time. In doing so, UTIMCO increases the endowment resources available to fund the teaching, research, and health care programs specified by the various donors.

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

| Assets | 2018 | 2017 | 2016 |
|-----------------------------------|--------------------|-------------------|-------------------|
| Investments, at Fair Value | \$ 10,487.4 | \$ 9,377.6 | \$ 8,524.2 |
| Other Assets | 195.9 | 268.5 | 267.5 |
| Total Assets | 10,683.3 | 9,646.1 | 8,791.7 |
| Total Liabilities | 264.6 | 277.0 | 291.5 |
| Net Position Held in Trust | \$ 10,418.7 | \$ 9,369.1 | \$ 8,500.2 |

Statements of Changes in Fiduciary Net Position

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

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The net increase in fair value of investments of the Fund was \$845.1 million during the year ended August 31, 2018 compared to the net increase in fair value of investments of \$984.3 million for the year ended August 31, 2017. Expenses totaled \$33.1 million, \$40.2 million, and \$19.5 million, respectively, for the years ended August 31, 2018, 2017, and 2016.

The net increase in fiduciary net position totaled \$1,049.6 million for the year ended August 31, 2018 compared to a net increase in fiduciary net position totaling \$868.9 million for the year ended August 31, 2017.

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

| | 2018 | 2017 | 2016 |
|---|-------------|-------------|-------------|
| Investment Income | \$ 960.1 | \$ 1,101.7 | \$ 353.8 |
| Less Investment Expenses | 33.1 | 40.2 | 19.5 |
| Net Investment Income | 927.0 | 1,061.5 | 334.3 |
| Participant Contributions | 578.2 | 272.8 | 361.4 |
| Total Additions | 1,505.2 | 1,334.3 | 695.7 |
| Participant Withdrawals | 455.6 | 465.4 | 432.5 |
| Total Deductions | 455.6 | 465.4 | 432.5 |
| Change in Fiduciary Net Position | 1,049.6 | 868.9 | 263.2 |
| Net Position Held in Trust, Beginning of Year | 9,369.1 | 8,500.2 | 8,237.0 |
| Net Position Held in Trust, End of Year | \$ 10,418.7 | \$ 9,369.1 | \$ 8,500.2 |

Contacting UTIMCO

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

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

Statements of Fiduciary Net Position

August 31, 2018 and 2017

(Dollars in thousands, except per unit amounts)

| Assets | 2018 | 2017 |
|---|----------------------|---------------------|
| Investments, at Fair Value: | | |
| Equity Securities | \$ 1,219,530 | \$ 1,316,732 |
| Preferred Stock | 24,865 | 26,211 |
| Purchased Options | 725 | 2,640 |
| Debt Securities | 758,153 | 648,268 |
| Convertible Securities | 486 | 422 |
| Investment Funds | 7,769,285 | 6,915,303 |
| Physical Commodities | 165,354 | 221,399 |
| Cash and Cash Equivalents | 548,974 | 246,610 |
| Total Investments | <u>10,487,372</u> | <u>9,377,585</u> |
| Collateral for Securities Loaned, at Fair Value | 87,535 | 108,163 |
| Deposits with Brokers for Derivative Contracts | 8,491 | 20,444 |
| Futures Contracts, at Fair Value | 1,900 | 787 |
| Swaps, at Fair Value | 7,380 | 12,331 |
| Unrealized Gains on Foreign Exchange Contracts | 9,001 | 5,168 |
| Receivables: | | |
| Investment Securities Sold | 72,123 | 114,451 |
| Accrued Income | 9,184 | 6,792 |
| Other | 261 | 389 |
| Total Receivables | <u>81,568</u> | <u>121,632</u> |
| Total Assets | <u>10,683,247</u> | <u>9,646,110</u> |
| Liabilities | | |
| Payable Upon Return of Securities Loaned | 87,535 | 108,163 |
| Payable to Brokers for Collateral Held | 6,135 | 2,457 |
| Payable to Participants | 8,080 | 6,601 |
| Unrealized Losses on Foreign Exchange Contracts | 6,960 | 15,489 |
| Futures Contracts, at Fair Value | 8,339 | 214 |
| Swaps, at Fair Value | 3,054 | 13,137 |
| Options Written, at Fair Value | 89 | 740 |
| Payables: | | |
| Investment Securities Purchased | 139,235 | 105,868 |
| Other | 5,156 | 24,344 |
| Total Payables | <u>144,391</u> | <u>130,212</u> |
| Total Liabilities | <u>264,583</u> | <u>277,013</u> |
| Net Position Held in Trust | <u>\$ 10,418,664</u> | <u>\$ 9,369,097</u> |
| Number of Units: | | |
| Permanent Health Fund (PHF) | 3,655,303 | 3,816,098 |
| The University of Texas System Long Term Fund (LTF) | <u>27,985,455</u> | <u>27,434,457</u> |
| Total | <u>31,640,758</u> | <u>31,250,555</u> |
| Net Position Held in Trust Per Unit | <u>\$ 329.280</u> | <u>\$ 299.806</u> |

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

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Statements of Changes in Fiduciary Net Position

Years Ended August 31, 2018 and 2017

(in thousands)

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|---------------------|
| Additions | | |
| Investment Income: | | |
| Net Increase in Fair Value of Investments | \$ 845,079 | \$ 984,300 |
| Interest | 28,071 | 18,363 |
| Dividends | 30,543 | 32,066 |
| Income Distributions from Private Investment Funds | 55,397 | 65,865 |
| Securities Lending Income | 895 | 1,099 |
| Other Income | 142 | - |
| Total Investment Income | <u>960,127</u> | <u>1,101,693</u> |
| Less Investment Expenses: | | |
| Investment Management Fees | 29,902 | 37,504 |
| Custodial Fees and Expenses | 2,622 | 2,058 |
| Accounting Fees | 252 | 245 |
| Consulting Fees | 118 | 72 |
| Background Check Fees | 95 | 58 |
| Analytical and Risk Measurement Fees | 73 | 171 |
| Legal Fees | 41 | 26 |
| Foreign Tax Consulting and Filing Fees | 32 | 28 |
| Other Expenses | - | 5 |
| Total Investment Expenses | <u>33,135</u> | <u>40,167</u> |
| Net Investment Income | 926,992 | 1,061,526 |
| Participant Contributions | 578,233 | 272,844 |
| Total Additions | <u>1,505,225</u> | <u>1,334,370</u> |
| Deductions | | |
| Participant Withdrawals | <u>455,658</u> | <u>465,424</u> |
| Change in Fiduciary Net Position | 1,049,567 | 868,946 |
| Net Position Held in Trust, Beginning of Year | 9,369,097 | 8,500,151 |
| Net Position Held in Trust, End of Year | <u>\$ 10,418,664</u> | <u>\$ 9,369,097</u> |

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

Note 1 – Organization and Basis of Presentation

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

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

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

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

Management has evaluated subsequent events through October 29, 2018, the date the financial statements were available to be issued. No subsequent events requiring adjustment to, or disclosure in, the financial statements were identified as a result of this evaluation.

Note 2 – Significant Accounting Policies

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

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GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

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

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability.

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

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

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

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

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

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

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

(B) Foreign Currency Translation -- The accounting records of the Fund are maintained in U.S. dollars. Investments in securities are fair valued at the daily rates of exchange on the valuation date. Purchases and sales of securities of foreign entities and the related income receipts and expense payments are translated into U.S. dollars at the exchange rate on the dates of the transactions. The

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GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

Fund does not isolate that portion of the results of the change in fiduciary net position resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held on the statements of changes in fiduciary net position. Such fluctuations are included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

(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. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Investment expenses are recorded on the accrual basis as incurred.

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

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

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

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

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

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

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

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Notes to Financial Statements (cont.)

foreign exchange contracts are not actively traded and therefore categorized as Level 2. Options and swaps are fair valued by using independent broker quotes or using models with primarily externally verifiable model inputs. Purchased options actively traded are categorized as Level 1, otherwise options and swaps are generally categorized as Level 2.

Derivative instruments in the Fund are used to achieve the following objectives:

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

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

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

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

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

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Notes to Financial Statements (cont.)

based on instrument and counterparty. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net position. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities fair values and interest rates.

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

Foreign Exchange Contracts -- The Fund enters into forward foreign exchange contracts to hedge against foreign 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 foreign exchange contract, the Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are fair valued daily and the Fund's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statements of fiduciary net position. Realized and unrealized gains and losses are included in the net increase in fair value of investments in the statements of changes in fiduciary net position. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net position. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities fair values and interest rates.

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

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Notes to Financial Statements (cont.)

| | Fair Value Measurements Using | | | |
|---|----------------------------------|--|---|---|
| | Fair Value as of August 31, 2017 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments by Fair Value Level: | | | | |
| Equity Securities: | | | | |
| Domestic Common Stock | \$ 275,512,638 | \$ 275,512,638 | \$ - | \$ - |
| Foreign Common Stock | 1,024,479,734 | 1,024,471,305 | 8,429 | - |
| Other Equities | 16,739,898 | 16,672,488 | 67,410 | - |
| Total Equity Securities | 1,316,732,270 | 1,316,656,431 | 75,839 | - |
| Preferred Stock: | | | | |
| Domestic Preferred Stock | 457,090 | 45,090 | 412,000 | - |
| Foreign Preferred Stock | 25,753,873 | 25,753,873 | - | - |
| Total Preferred Stock | 26,210,963 | 25,798,963 | 412,000 | - |
| Debt Securities: | | | | |
| U.S. Government Obligations | 134,823,761 | 113,064,395 | 21,759,366 | - |
| Foreign Government and Provincial Obligations | 326,819,828 | - | 326,819,828 | - |
| Corporate Obligations | 184,791,120 | - | 184,791,120 | - |
| Other | 1,833,717 | - | 1,833,717 | - |
| Total Debt Securities | 648,268,426 | 113,064,395 | 535,204,031 | - |
| Purchased Options | 2,639,834 | 2,323,434 | 316,400 | - |
| Convertible Securities | 421,660 | - | 421,660 | - |
| Investment Funds: | | | | |
| Private Investments | 114,319,970 | - | - | 114,319,970 |
| Fixed Income | 11,619,201 | 11,619,201 | - | - |
| Natural Resources | 110,909 | 110,909 | - | - |
| Total Investment Funds | 126,050,080 | 11,730,110 | - | 114,319,970 |
| Physical Commodities - Gold | 221,398,625 | 221,398,625 | - | - |
| Cash Equivalents | 224,110,679 | 224,110,679 | - | - |
| Total Investments by Fair Value Level | 2,565,832,537 | \$ 1,915,082,637 | \$ 536,429,930 | \$ 114,319,970 |
| Cash | 22,499,702 | | | |
| Investments Funds Fair Valued Using Practical Expedient: | | | | |
| Hedge Funds | 1,987,511,678 | | | |
| Private Investments | 3,602,956,914 | | | |
| Public Markets | 1,198,784,146 | | | |
| Investments Funds Fair Valued Using Practical Expedient | 6,789,252,738 | | | |
| Total Investments, at Fair Value | \$ 9,377,584,977 | | | |

| | Fair Value Measurements Using | | | |
|-------------------------------|----------------------------------|--|---|---|
| | Fair Value as of August 31, 2017 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investment Derivatives | | | | |
| Foreign Exchange Contracts | \$ (10,321,118) | \$ - | \$ (10,321,118) | \$ - |
| Futures Contracts | 572,602 | 572,602 | - | - |
| Swaps | (806,138) | - | (806,138) | - |
| Written Options | (740,388) | - | (740,388) | - |
| Investment Derivatives | \$ (11,295,042) | \$ 572,602 | \$ (11,867,644) | \$ - |

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

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

Notes to Financial Statements (cont.)

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

The composition of investment funds that are fair valued using a practical expedient at August 31, 2018 and 2017 is summarized in the following tables as they are included within the asset mix of the Fund.

| Investment Funds: | Fair Value as of August 31, 2018 | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---------------------------------|-----------------------------|-------------------------------------|
| Hedge Funds: | | | | |
| Developed Country Equity | | | | |
| Redeemable Within One Year | \$ 677,309,106 | \$ - | Monthly to Annually | 30 - 90 Days |
| Redeemable Beyond One Year | 474,454,389 | - | Quarterly to Annually | 45 - 90 Days |
| Nonredeemable | 65,111,718 | 69,899,155 | Not Applicable | Not Applicable |
| Total Developed Country Equity | 1,216,875,213 | 69,899,155 | | |
| Credit-Related Fixed Income | | | | |
| Redeemable Within One Year | 154,960,725 | - | Quarterly to Annually | 90 Days |
| Redeemable Beyond One Year | 24,531,586 | - | Quarterly to Annually | 90 - 120 Days |
| Nonredeemable | 119,867,617 | 135,436,042 | Not Applicable | Not Applicable |
| Total Credit-Related Fixed Income | 299,359,928 | 135,436,042 | | |
| Investment Grade Fixed Income | | | | |
| Redeemable Within One Year | 171,430,294 | - | Monthly to Annually | 5 - 75 Days |
| Redeemable Beyond One Year | 79,397,100 | 16,227,307 | Quarterly to Annually | 65 - 75 Days |
| Total Investment Grade Fixed Income | 250,827,394 | 16,227,307 | | |
| Emerging Market Equity | | | | |
| Redeemable Within One Year | 46,160,621 | - | Annually | 60 - 90 Days |
| Redeemable Beyond One Year | 106,066,894 | - | Annually | 60 - 90 Days |
| Nonredeemable | 10,271,347 | - | Not Applicable | Not Applicable |
| Total Emerging Markets Equity | 162,498,862 | - | | |
| Total Hedge Funds | 1,929,561,397 | 221,562,504 | | |
| Private Investments (Nonredeemable): | | | | |
| Developed Country Equity | 1,350,728,809 | 501,437,286 | Not Applicable | Not Applicable |
| Credit-Related Fixed Income | 183,340,696 | 50,220,036 | Not Applicable | Not Applicable |
| Natural Resources | 1,180,297,635 | 476,576,091 | Not Applicable | Not Applicable |
| Emerging Market Equity | 543,284,715 | 164,357,884 | Not Applicable | Not Applicable |
| Real Estate | 809,778,416 | 467,806,285 | Not Applicable | Not Applicable |
| Total Private Investments | 4,067,430,271 | 1,660,397,582 | | |
| Public Markets: | | | | |
| Developed Country Equity | | | | |
| Redeemable Within One Year | 1,084,003,290 | - | Monthly to Annually | 6 - 90 Days |
| Redeemable Beyond One Year | 126,234,483 | 8,687,250 | Monthly to Annually | 1 - 90 Days |
| Total Developed Country Equity | 1,210,237,773 | 8,687,250 | | |
| Emerging Market Equity | | | | |
| Redeemable Within One Year | 347,044,115 | - | Daily to Quarterly | 1 - 90 Days |
| Redeemable Beyond One Year | 45,513,626 | - | Monthly to Quarterly | 45 - 60 Days |
| Nonredeemable | 17,083,025 | 38,186,807 | Not Applicable | Not Applicable |
| Total Emerging Markets Equity | 409,640,766 | 38,186,807 | | |
| Total Public Markets | 1,619,878,539 | 46,874,057 | | |
| Total Investment Funds | \$ 7,616,870,207 | \$ 1,928,834,143 | | |

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

Notes to Financial Statements (cont.)

| | <u>Fair Value as of August 31, 2017</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice Period</u> |
|---|---|---------------------------------|-----------------------------|-------------------------------------|
| Investment Funds: | | | | |
| Hedge Funds: | | | | |
| Developed Country Equity | | | | |
| Redeemable Within One Year | \$ 712,488,268 | \$ - | Monthly to Annually | 30 - 95 Days |
| Redeemable Beyond One Year | 514,216,739 | - | Quarterly to Annually | 45 - 90 Days |
| Nonredeemable | 45,722,840 | 98,012,376 | Not Applicable | Not Applicable |
| Total Developed Country Equity | <u>1,272,427,847</u> | <u>98,012,376</u> | | |
| Credit-Related Fixed Income | | | | |
| Redeemable Within One Year | 157,316,890 | - | Quarterly to Annually | 90 Days |
| Redeemable Beyond One Year | 42,135,732 | - | Quarterly to Annually | 90 - 120 Days |
| Nonredeemable | 94,457,903 | 54,732,490 | Not Applicable | Not Applicable |
| Total Credit-Related Fixed Income | <u>293,910,525</u> | <u>54,732,490</u> | | |
| Investment Grade Fixed Income | | | | |
| Redeemable Within One Year | 227,418,924 | - | Monthly to Annually | 5 - 75 Days |
| Redeemable Beyond One Year | 39,490,907 | 14,957,254 | Quarterly to Annually | 65 - 75 Days |
| Total Investment Grade Fixed Income | <u>266,909,831</u> | <u>14,957,254</u> | | |
| Emerging Market Equity | | | | |
| Redeemable Within One Year | 36,295,101 | - | Annually | 60 - 90 Days |
| Redeemable Beyond One Year | 106,362,584 | - | Annually | 60 - 90 Days |
| Nonredeemable | 11,354,411 | - | Not Applicable | Not Applicable |
| Total Emerging Markets Equity | <u>154,012,096</u> | <u>-</u> | | |
| Natural Resources | | | | |
| Redeemable Beyond One Year | 251,379 | - | Not Applicable | Not Applicable |
| Total Natural Resources | <u>251,379</u> | <u>-</u> | | |
| Total Hedge Funds | <u>1,987,511,678</u> | <u>167,702,120</u> | | |
| Private Investments (Nonredeemable): | | | | |
| Developed Country Equity | 1,089,071,089 | 464,036,251 | Not Applicable | Not Applicable |
| Credit-Related Fixed Income | 275,868,469 | 77,354,379 | Not Applicable | Not Applicable |
| Natural Resources | 1,133,535,695 | 461,656,191 | Not Applicable | Not Applicable |
| Emerging Market Equity | 457,498,521 | 155,042,072 | Not Applicable | Not Applicable |
| Real Estate | 646,983,140 | 437,224,474 | Not Applicable | Not Applicable |
| Total Private Investments | <u>3,602,956,914</u> | <u>1,595,313,367</u> | | |
| Public Markets: | | | | |
| Developed Country Equity | | | | |
| Redeemable Within One Year | 711,274,219 | - | Monthly to Annually | 1 - 90 Days |
| Redeemable Beyond One Year | 246,944,005 | 38,430,000 | Quarterly to Annually | 1 - 184 Days |
| Total Developed Country Equity | <u>958,218,224</u> | <u>38,430,000</u> | | |
| Emerging Market Equity | | | | |
| Redeemable Within One Year | 151,703,962 | - | Daily to Quarterly | 1 - 90 Days |
| Redeemable Beyond One Year | 79,068,982 | - | Monthly to Quarterly | 45 - 60 Days |
| Nonredeemable | 9,792,978 | 31,773,141 | Not Applicable | Not Applicable |
| Total Emerging Markets Equity | <u>240,565,922</u> | <u>31,773,141</u> | | |
| Total Public Markets | <u>1,198,784,146</u> | <u>70,203,141</u> | | |
| Total Investment Funds | <u>\$ 6,789,252,738</u> | <u>\$ 1,833,218,628</u> | | |

The Fund invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the Fund's financial statements and related note disclosures represent the Fund's pro-rata share of these investment pool assets. The hedge fund pools are invested in private funds with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the investment manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. There are certain risks associated with these private funds, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing

THE UNIVERSITY OF TEXAS SYSTEM

GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

leverage in the portfolios. The hedge fund pools have committed \$1,156,006,041 of future funding to various hedge fund investments as of August 31, 2018 of which the Fund's pro-rata portion is \$221,562,504.

The Fund invests in private investments in investment pools created in the name of the UT Board. Amounts presented in the Fund's financial statements and related note disclosures for the years ended August 31, 2018 and 2017, represent the Fund's pro-rata share of the investment pool assets. The private investment pools are generally invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid, and typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from underlying fund investments. It is estimated that the underlying assets of the private investments will be liquidated over the next seven to ten years after initial investment. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. Certain of these investments are held through limited liability companies, of which UTIMCO is the manager of the limited liability companies. The private investment pools have committed \$5,077,668,448 of future funding to various private investments as of August 31, 2018 of which the Fund's pro-rata portion is \$1,660,397,582.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the Fund. Some of these investment managers may invest in both long and short securities and may utilize leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the investment manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. Certain of these investments are held through limited liability companies of which UTIMCO is the manager of the limited liability companies. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. Future fundings in the amount of \$173,606,726, of which the Fund's pro-rata portion is \$46,874,057 has been committed to certain public market funds as of August 31, 2018.

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

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

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GENERAL ENDOWMENT 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 4. Fixed income investments held by these funds would also be subject to credit risk and interest rate risk; moreover, they may invest in securities whose fair values would be sensitive to changes in interest rates.

Note 4 – Investment Risk

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

(A) Credit Risk

Article VII, Section 11b of the Texas Constitution authorizes the UT Board, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the “PUF”) in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the UT Board, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the Fund then prevailing, taking into consideration the investment of all of the assets of the Fund rather than a single investment. Pursuant to Section 51.0031(c) of the Texas Education Code, the UT Board has elected the prudent investor standard to govern its management of the Fund.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The Fund’s investment policy does not provide specific requirements or limitations regarding investment ratings. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating as of August 31, 2018 and 2017:

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

| Investment Type | August 31, | | Rating |
|--|---------------------|----------------------|-----------|
| | 2018 | 2017 | |
| Investments: | | | |
| U.S. Government Guaranteed | \$ 197,057,077 | \$ 115,237,307 | AA |
| U.S. Government Non-Guaranteed: | | | |
| U.S. Agency | 99,831 | - | AA |
| U.S. Agency Asset Backed | 32,188,703 | 18,887,278 | AA |
| U.S. Agency Asset Backed | 180,529 | - | A |
| U.S. Agency Asset Backed | - | 207,098 | BAA/BBB |
| U.S. Agency Asset Backed | 343,885 | 321,567 | B |
| U.S. Agency Asset Backed | - | 170,511 | Not Rated |
| Total U.S. Government Non-Guaranteed | 32,812,948 | 19,586,454 | |
| Total U.S. Government | 229,870,025 | 134,823,761 | |
| Corporate Obligations: | | | |
| Domestic | 7,684,716 | 7,034,007 | AAA |
| Domestic | 14,298,039 | 9,328,644 | AA |
| Domestic | 56,453,248 | 41,073,786 | A |
| Domestic | 57,462,333 | 48,879,518 | BAA/BBB |
| Domestic | 2,600,506 | 3,064,445 | BA/BB |
| Domestic | 724,190 | 288,288 | B |
| Domestic | 788,764 | 889,682 | CAA/CCC |
| Domestic | 241,450 | 279,924 | CA/CC |
| Domestic | 53,880 | 618,304 | D |
| Domestic | 244,105 | - | Not Rated |
| Foreign | 22,619,258 | 26,256,497 | AAA |
| Foreign | 6,486,442 | 10,159,921 | AA |
| Foreign | 14,094,757 | 12,183,450 | A |
| Foreign | 16,306,357 | 18,378,278 | BAA/BBB |
| Foreign | 2,230,244 | 1,733,125 | BA/BB |
| Foreign | 1,640,981 | 1,271,516 | B |
| Foreign | 96,743 | 296,196 | CAA/CCC |
| Foreign | 4,915,781 | 3,055,539 | Not Rated |
| Total Corporate Obligations | 208,941,794 | 184,791,120 | |
| Foreign Government and Provincial Obligations | 76,587,269 | 65,749,255 | AAA |
| Foreign Government and Provincial Obligations | 47,528,982 | 51,518,508 | AA |
| Foreign Government and Provincial Obligations | 86,551,171 | 90,140,158 | A |
| Foreign Government and Provincial Obligations | 76,717,073 | 67,494,777 | BAA/BBB |
| Foreign Government and Provincial Obligations | 22,958,830 | 49,055,626 | BA/BB |
| Foreign Government and Provincial Obligations | 367,282 | 375,974 | B |
| Foreign Government and Provincial Obligations | 7,450,931 | 2,485,530 | Not Rated |
| Total Foreign Government and Provincial Obligations | 318,161,538 | 326,819,828 | |
| Other Debt Securities | 145,816 | 151,171 | AAA |
| Other Debt Securities | 321,162 | 90,938 | AA |
| Other Debt Securities | 603,977 | 1,480,709 | A |
| Other Debt Securities | 108,834 | 110,899 | BAA/BBB |
| Total Other Debt Securities | 1,179,789 | 1,833,717 | |
| Total Debt Securities | \$ 758,153,146 | \$ 648,268,426 | |
| Convertible Securities | \$ 25,914 | \$ - | B |
| Convertible Securities | 459,869 | 421,660 | Not Rated |
| Total Convertible Securities | \$ 485,783 | \$ 421,660 | |
| Other Investment Funds - Debt | \$ 10,989,102 | \$ 11,619,201 | BA/BB |
| Cash Equivalents - Money Market Funds | \$ 519,710,222 | \$ 224,110,679 | AAA |
| Cash | 29,263,901 | 22,499,702 | Not Rated |
| Total Cash and Cash Equivalents | \$ 548,974,123 | \$ 246,610,381 | |
| Net Deposit with Brokers for Derivative Contracts: | | | |
| U.S. Government Guaranteed | \$ 989,693 | \$ - | AA |
| Cash | 1,366,550 | 17,987,610 | Not Rated |
| Total Net Deposit with Brokers for Derivative Contracts | \$ 2,356,243 | \$ 17,987,610 | |

(B) Concentrations of Credit Risk

The Fund's investment policy statement contains the limitation that no more than 5% of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2018 and 2017, the Fund 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 Fund's fixed income investments.

(C) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the fair value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the Fund's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2018 and 2017, the Fund does not have any deposits or investments that are exposed to custodial credit risk.

(D) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the Fund is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the Fund's investments to changes in interest rates. The Fund has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the Fund's modified duration in years by investment type at August 31, 2018 and 2017:

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

| Investment Type | August 31, | | | |
|---|-------------------------|-------------------|-----------------------|-------------------|
| | 2018 | | 2017 | |
| | Fair Value | Modified Duration | Fair Value | Modified Duration |
| Investments: | | | | |
| U.S. Government Guaranteed: | | | | |
| U.S. Treasury Bonds and Notes | \$ 189,332,364 | 6.58 | \$ 108,153,688 | 6.64 |
| U.S. Treasury Inflation Protected | 5,797,491 | 11.00 | 4,910,706 | 5.86 |
| U.S. Agency Asset Backed | 1,927,222 | 4.43 | 2,172,913 | 3.47 |
| Total U.S. Government Guaranteed | <u>197,057,077</u> | 6.69 | <u>115,237,307</u> | 6.55 |
| U.S. Government Non-Guaranteed: | | | | |
| U.S. Agency | 99,831 | 0.08 | - | - |
| U.S. Agency Asset Backed | 32,713,117 | 6.28 | 19,586,454 | 5.65 |
| Total U.S. Government Non-Guaranteed | <u>32,812,948</u> | 6.26 | <u>19,586,454</u> | 5.65 |
| Total U.S. Government | <u>229,870,025</u> | 6.63 | <u>134,823,761</u> | 6.42 |
| Corporate Obligations: | | | | |
| Domestic | 140,551,231 | 4.31 | 111,456,598 | 6.01 |
| Foreign | 68,390,563 | 4.51 | 73,334,522 | 6.64 |
| Total Corporate Obligations | <u>208,941,794</u> | 4.37 | <u>184,791,120</u> | 6.26 |
| Foreign Government and Provincial Obligations | <u>318,161,538</u> | 4.25 | <u>326,819,828</u> | 4.36 |
| Other Debt Securities | <u>1,179,789</u> | 8.79 | <u>1,833,717</u> | 11.63 |
| Total Debt Securities | <u>758,153,146</u> | 5.01 | <u>648,268,426</u> | 5.35 |
| Convertible Securities | <u>485,783</u> | 0.26 | <u>421,660</u> | 0.14 |
| Other Investment Funds - Debt | <u>10,989,102</u> | 6.70 | <u>11,619,201</u> | 6.80 |
| Cash and Cash Equivalents | <u>548,974,123</u> | 0.08 | <u>246,610,381</u> | 0.08 |
| Total | <u>\$ 1,318,602,154</u> | 2.97 | <u>\$ 906,919,668</u> | 3.93 |
| Net Deposit with Brokers for Derivative Contracts: | | | | |
| U.S. Government Guaranteed: | | | | |
| U.S. Treasury Bills | \$ 989,693 | 0.30 | \$ - | - |
| Cash | 1,366,550 | - | 17,987,610 | - |
| Total Net Deposit with Brokers for Derivative Contracts | <u>\$ 2,356,243</u> | 0.13 | <u>\$ 17,987,610</u> | - |

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

The Fund may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The Fund also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2018 and 2017, the Fund's investments include the following investments that are highly sensitive to interest rate changes:

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$13,352,328 and \$14,198,463 as of August 31, 2018 and 2017, 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 \$33,748,572 and to \$19,721,621 as of August 31, 2018 and 2017, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. These securities amounted to \$3,217,017 and \$1,829,818 as of August 31, 2018 and 2017, respectively.

(F) Foreign Currency Risk

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

The classification of domestic common stock and foreign common stock is based on the country of domicile of the issuer, not the currency in which the security is traded. The following table summarizes the Fund's exposure to non-U.S. dollar investments at August 31, 2018 and 2017:

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND

Notes to Financial Statements (cont.)

| Investment Type | August 31, | |
|-----------------------------------|-------------|-------------|
| | 2018 | 2017 |
| Domestic Common Stock: | | |
| Australian Dollar | \$ 49,615 | \$ 54,414 |
| Foreign Common Stock: | | |
| Australian Dollar | 1,090,748 | 9,460,329 |
| Brazilian Real | 81,785,958 | 103,489,256 |
| Canadian Dollar | 5,473,492 | 16,131,909 |
| Chilean Peso | 468,208 | 414,565 |
| Chinese Yuan Renminbi | 121,258,741 | 250,028,616 |
| Colombian Peso | 63,225 | 83,893 |
| Czech Koruna | 2,416,972 | 2,543,636 |
| Danish Krone | 5,466,170 | - |
| Egyptian Pound | 6,004,842 | 4,939,615 |
| Euro | 85,911,015 | 74,215,510 |
| Hong Kong Dollar | 43,131,411 | 50,444,202 |
| Hungarian Forint | 505,140 | 403,124 |
| Indian Rupee | 29,691,742 | 23,125,963 |
| Indonesian Rupiah | 10,626,188 | 9,160,104 |
| Japanese Yen | 105,404,339 | 90,199,801 |
| Malaysian Ringgit | 8,568,238 | 9,028,475 |
| Mexican Peso | 34,672,912 | 33,681,044 |
| Moroccan Dirham | - | 908,548 |
| Norwegian Krone | 993,827 | - |
| Peruvian Sol | 33,848 | - |
| Philippine Peso | 412,286 | 3,131,996 |
| Polish Zloty | 1,440,522 | 730,933 |
| Qatari Riyal | 2,528,196 | 1,576,855 |
| Singapore Dollar | 7,128,304 | 6,891,626 |
| South African Rand | 11,743,751 | 12,132,621 |
| South Korean Won | 125,439,840 | 108,296,530 |
| Sri Lankan Rupee | 2,373,411 | - |
| Swedish Krona | - | 3,937,305 |
| Swiss Franc | 6,270,850 | 4,536,476 |
| Taiwan Dollar | 41,376,633 | 37,378,783 |
| Thai Baht | 11,077,555 | 9,801,783 |
| Turkish Lira | 4,977,376 | 3,875,009 |
| UK Pound | 32,733,516 | 37,415,493 |
| United Arab Emirates Dirham | 9,746,798 | 12,005,776 |
| Vietnamese Dong | 4,079,372 | 2,774,434 |
| Total Foreign Common Stock | 804,895,426 | 922,744,210 |
| Other - Equity Securities: | | |
| Australian Dollar | 1,047 | - |
| Malaysian Ringgit | 9,969 | 11,360 |
| Total Other - Equity Securities | 11,016 | 11,360 |
| Foreign Preferred Stock: | | |
| Brazilian Real | 13,210,779 | 12,493,121 |
| Colombian Peso | - | 19,281 |
| Euro | 2,798,695 | 1,210,596 |
| South African Rand | 28,502 | 33,255 |
| South Korean Won | 8,224,571 | 10,763,070 |
| Total Foreign Preferred Stock | 24,262,547 | 24,519,323 |

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

Notes to Financial Statements (cont.)

| Investment Type | August 31, | |
|---|--------------------|--------------------|
| | 2018 | 2017 |
| Foreign Government and Provincial Obligations: | | |
| Australian Dollar | \$ 27,789,615 | \$ 32,681,303 |
| Brazilian Real | 13,126,951 | 31,284,354 |
| Canadian Dollar | 17,857,372 | 7,444,696 |
| Colombian Peso | 6,826,666 | 4,375,974 |
| Czech Koruna | - | 219,986 |
| Euro | 59,869,294 | 50,572,306 |
| Hungarian Forint | - | 1,961,593 |
| Indonesian Rupiah | 8,066,398 | 7,610,888 |
| Japanese Yen | 33,921,575 | 34,679,333 |
| Malaysian Ringgit | 16,783,430 | 17,295,671 |
| Mexican Peso | 38,405,499 | 37,294,442 |
| New Zealand Dollar | 14,049,098 | 15,421,812 |
| Norwegian Krone | 4,388,322 | 4,160,728 |
| Peruvian Sol | 5,435,808 | 4,008,118 |
| Polish Zloty | 21,726,810 | 24,694,421 |
| Romanian Leu | 764,471 | 777,110 |
| Singapore Dollar | 14,263,586 | 13,268,537 |
| South African Rand | 9,339,779 | 13,127,474 |
| South Korean Won | 4,187,894 | - |
| Thai Baht | 2,567,456 | 2,352,468 |
| Turkish Lira | 492,100 | 1,671,575 |
| UK Pound | 6,387,474 | 11,201,711 |
| Total Foreign Government and Provincial Obligations | <u>306,249,599</u> | <u>316,104,500</u> |
| Corporate Obligations: | | |
| Australian Dollar | 334,593 | 894,044 |
| Canadian Dollar | 75,713 | - |
| Danish Krone | 9,155,872 | 15,755,641 |
| Euro | 4,893,562 | 6,407,961 |
| Indian Rupee | 1,576,752 | 275 |
| South African Rand | 1,264,155 | - |
| Swedish Krona | 5,438,418 | 5,825,022 |
| UK Pound | 6,585,866 | 5,878,564 |
| Total Corporate Obligations | <u>29,324,931</u> | <u>34,761,507</u> |
| Purchased Options: | | |
| Australian Dollar | - | 4,334 |
| Brazilian Real | 151,075 | 345,827 |
| Euro | 24,234 | 1,825,030 |
| Total Purchased Options | <u>175,309</u> | <u>2,175,191</u> |
| Private Investment Funds: | | |
| Australian Dollar | 40,037,642 | 16,800,199 |
| Canadian Dollar | 95,451,499 | 86,713,213 |
| Euro | 132,300,794 | 128,695,939 |
| UK Pound | 18,988,378 | 19,271,241 |
| Total Private Investment Funds | <u>286,778,313</u> | <u>251,480,592</u> |
| Investment Funds - Emerging Markets: | | |
| Brazilian Real | 7,898,967 | 9,732,437 |
| Convertible Securities | | |
| Brazilian Real | 459,486 | 421,333 |
| Cash and Cash Equivalents: | | |
| Australian Dollar | (1,806) | 10,318 |
| Brazilian Real | 1,076,844 | 2,698,401 |
| Canadian Dollar | 1,311,028 | 43,202 |
| Chilean Peso | 79 | 2,247 |
| Chinese Yuan Renminbi | 19,052,938 | 12,652,644 |
| Colombian Peso | 177,583 | 355,182 |
| Czech Koruna | 17 | 42 |
| Danish Krone | 5,699 | 499 |
| Egyptian Pound | 4,413 | - |
| Euro | 100,137 | 83,133 |

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Notes to Financial Statements (cont.)

| Investment Type | August 31, 2018 | August 31, 2017 |
|---|----------------------------|----------------------------|
| Cash and Cash Equivalents (continued): | | |
| Hong Kong Dollar | \$ 117,963 | \$ (177,677) |
| Hungarian Forint | 14,882 | - |
| Indian Rupee | 53,005 | 305,853 |
| Indonesian Rupiah | 52,471 | 33,150 |
| Israeli Shekel | 168 | 110 |
| Japanese Yen | 3,611,893 | 1,448,909 |
| Malaysian Ringgit | 140,049 | 19,922 |
| Mexican Peso | 650,365 | 414,123 |
| New Zealand Dollar | 30,628 | 21,326 |
| Norwegian Krone | 278 | 59,183 |
| Philippine Peso | 3,266 | 9,026 |
| Polish Zloty | 52,503 | 280 |
| Singapore Dollar | 304,042 | 256 |
| South African Rand | 542,289 | 326,629 |
| South Korean Won | 2,448,778 | 2,753,730 |
| Swedish Krona | 159 | 41,254 |
| Swiss Franc | 517 | 675 |
| Taiwan Dollar | 296,760 | 20,714 |
| Thai Baht | 8,806 | 17,480 |
| Turkish Lira | 25,818 | 277 |
| UK Pound | 201,492 | 141,853 |
| United Arab Emirates Dirham | (924) | (71) |
| Total Cash and Cash Equivalents | 30,282,140 | 21,282,670 |
| Written Options: | | |
| Australian Dollar | (1,494) | - |
| Brazilian Real | (39) | (477,952) |
| Canadian Dollar | - | (3,860) |
| Euro | (7,135) | (242,853) |
| UK Pound | (19,269) | - |
| Total Written Options | (27,937) | (724,665) |
| Swaps: | | |
| Canadian Dollar | 77,265 | (13,432) |
| Euro | 681,552 | 25,451 |
| Japanese Yen | (48,765) | (81,376) |
| Mexican Peso | 14,919 | 8,511 |
| New Zealand Dollar | 48,012 | 25,856 |
| South African Rand | (37,068) | 8,885 |
| South Korean Won | 4,019 | (17,057) |
| Swedish Krona | - | (29,969) |
| UK Pound | 1,401,434 | 10,173,342 |
| Total Swaps | 2,141,368 | 10,100,211 |
| Futures: | | |
| Australian Dollar | - | (2,966) |
| Canadian Dollar | (6,533) | (4,726) |
| Euro | (34,204) | (43) |
| Total Futures | (40,737) | (7,735) |
| Total | \$ 1,492,460,042 | \$ 1,592,655,348 |

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GENERAL ENDOWMENT FUND**

Notes to Financial Statements (cont.)

(G) Counterparty (Credit) Risk

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

The Fund had gross counterparty exposure as of August 31, 2018 for options, swaps, and foreign exchange contracts as shown in the following table:

| | Notional | | Fair Value | | Counterparty Rating |
|----------------------------|-------------|--------------|----------------------|----------------------|---------------------|
| | Assets | Liabilities | Assets | Liabilities | |
| Options | \$ - | \$ 1,100,000 | \$ - | \$ 10,107 | AA |
| Options | 2,239,402 | 13,358,579 | 161,061 | 36,424 | A |
| Swaps | 1,463,501 | 1,406,993 | 363,266 | 149,321 | AA |
| Swaps | 189,903,804 | 76,680,003 | 5,973,497 | 2,856,957 | A |
| Foreign Exchange Contracts | 170,066,553 | 399,731,057 | 3,882,385 | 4,393,509 | AA |
| Foreign Exchange Contracts | 231,901,876 | 298,803,470 | 5,109,952 | 2,541,961 | A |
| Foreign Exchange Contracts | 361,390 | 377,162 | 8,471 | 24,475 | BBB |
| | | | <u>\$ 15,498,632</u> | <u>\$ 10,012,754</u> | |

The Fund had gross counterparty exposure as of August 31, 2017 for options, swaps, and foreign exchange contracts as shown in the following table:

| | Notional | | Fair Value | | Counterparty Rating |
|----------------------------|---------------|---------------|----------------------|----------------------|---------------------|
| | Assets | Liabilities | Assets | Liabilities | |
| Options | \$ 30,604,980 | \$ 23,380,086 | \$ 29,687 | \$ 20,640 | A |
| Swaps | 1,987,972 | 500,000 | 271,310 | 16,956 | AA |
| Swaps | 27,994,968 | 35,584,460 | 13,327,038 | 12,253,967 | A |
| Foreign Exchange Contracts | 123,351,220 | 151,210,498 | 2,831,630 | 2,875,010 | AA |
| Foreign Exchange Contracts | 159,556,487 | 408,547,957 | 2,336,571 | 12,614,308 | A |
| | | | <u>\$ 18,796,236</u> | <u>\$ 27,780,881</u> | |

As of August 31, 2018 and 2017, the Fund also had investments in futures contracts, options on futures contracts and exchange-cleared swaps. Futures contracts, options on futures contracts and exchange-cleared swaps expose the Fund to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees them against default. Therefore, they are not presented in the table above.

Counterparty risk for swaps, options and foreign exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the Fund and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the Fund to cover the Fund's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the Fund in one of its accounts at the Fund's custodian bank. As of August 31, 2018 and 2017, the Fund held \$6,135,139 and \$2,456,971, respectively, of collateral related to

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Notes to Financial Statements (cont.)

derivative instruments other than futures, and had on deposit with brokers \$7,083,689 and \$19,923,581, respectively, as collateral related to derivative instruments other than futures.

Note 5 – Securities Lending

In accordance with the prudent investor investment standards, the Fund loans securities to certain brokers who pay the Fund negotiated lenders' fees. These fees are included in investment income in the statements of changes in fiduciary net position. The Fund receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of 102% of loaned securities of U.S. issuers and a market value of 105% for loaned securities of non-U.S. issuers. If the market value of the collateral held in connection with loans of securities of U.S. issuers is less than 100% at the close of trading on any business day, the borrower is required to deliver additional collateral by the close of the next business day to equal 102% of the market value. For non-U.S. issuers, the collateral should remain at 105% of the market value of the loaned securities at the close of any business day. If it falls below 105%, the borrower must deliver additional collateral by the close of the following business day. The fair value of securities loaned and the fair value of collateral held are as follows at August 31, 2018 and 2017:

| Securities on Loan | 2018 Fair Value | 2017 Fair Value | Type of Collateral | 2018 Fair Value of Collateral | 2017 Fair Value of Collateral |
|-------------------------------|----------------------------|----------------------------|-------------------------------|--|--|
| U.S. Government | \$ 11,050,747 | \$ 5,183,833 | Cash | \$ 11,284,333 | \$ 5,292,465 |
| Foreign | | | | | |
| Government | - | 206,558 | Cash | - | 215,480 |
| Corporate Bonds | 21,323,978 | 13,546,625 | Cash | 21,847,341 | 13,878,793 |
| Common Stock | 52,381,870 | 85,816,438 | Cash | 54,403,214 | 88,775,869 |
| Total | \$ 84,756,595 | \$ 104,753,454 | Total | \$ 87,534,888 | \$ 108,162,607 |
| U.S. Government | \$ 13,861,761 | \$ 10,944,317 | Non-Cash | \$ 14,163,281 | \$ 11,205,332 |
| Corporate Bonds | - | 237,751 | Non-Cash | - | 242,562 |
| Common Stock | 38,467,530 | 20,457,755 | Non-Cash | 40,142,133 | 21,349,471 |
| Total | \$ 52,329,291 | \$ 31,639,823 | Total | \$ 54,305,414 | \$ 32,797,365 |

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

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Notes to Financial Statements (cont.)

The Fund's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity as of August 31, 2018 and 2017, is shown in the following table:

| Description | 2018 | | | 2017 | | |
|---|----------------------|-----------|-----------------------------------|-----------------------|-----------|-----------------------------------|
| | Fair Value | Rating | Weighted Average Maturity In Days | Fair Value | Rating | Weighted Average Maturity In Days |
| Repurchase Agreements | \$ 30,449,476 | No Rating | | \$ 36,731,930 | No Rating | |
| Agencies | 1,512,040 | Available | 4 | - | Available | 2 |
| Commercial Paper | 27,713,065 | AA | 7 | 26,684,856 | P | 39 |
| Floating Rate Notes | 15,234,930 | P | 24 | 24,677,193 | AA | |
| Floating Rate Notes | 15,270,080 | AA | | 21,003,596 | A | |
| Total Floating Rate Notes | 30,505,010 | | 27 | 45,680,789 | | 22 |
| Other Receivables/Payables | (2,644,703) | A | | (934,968) | Not Rated | - |
| Total Collateral Pool Investment | \$ 87,534,888 | | 19 | \$ 108,162,607 | | 19 |

The following tables reflect fair value measurements of collateral pool investments as of August 31, 2018 and 2017, respectively, as categorized by level of the fair value hierarchy:

| | Fair Value Measurements Using | | | |
|--|----------------------------------|--|---|---|
| | Fair Value as of August 31, 2018 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Repurchase Agreements | \$ 30,449,476 | \$ - | \$ 30,449,476 | \$ - |
| Agencies | 1,512,040 | - | 1,512,040 | - |
| Commercial Paper | 27,713,065 | - | 27,713,065 | - |
| Floating Rate Notes | 30,505,010 | - | 30,505,010 | - |
| Total by Fair Value Level | 90,179,591 | \$ - | \$ 90,179,591 | \$ - |
| Other Receivables/Payables | (2,644,703) | - | - | - |
| Total Collateral Pool Investments | \$ 87,534,888 | | | |

| | Fair Value Measurements Using | | | |
|--|----------------------------------|--|---|---|
| | Fair Value as of August 31, 2017 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Repurchase Agreements | \$ 36,731,930 | \$ - | \$ 36,731,930 | \$ - |
| Commercial Paper | 26,684,856 | - | 26,684,856 | - |
| Floating Rate Notes | 45,680,789 | - | 45,680,789 | - |
| Total by Fair Value Level | 109,097,575 | \$ - | \$ 109,097,575 | \$ - |
| Other Receivables/Payables | (934,968) | - | - | - |
| Total Collateral Pool Investments | \$ 108,162,607 | | | |

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Notes to Financial Statements (cont.)

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

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

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

As of August 31, 2018 and 2017, the Fund had no credit risk exposure to borrowers because the amounts the Fund owed to borrowers exceeded the amounts the borrowers owed the Fund.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2018 and 2017.

Note 6 – Written Options

The following table discloses the fair values of the Fund's written call option contracts outstanding as of August 31, 2018 and 2017:

| Type | Fair Value at August 31, 2018 | | Fair Value at August 31, 2017 | |
|--------------------|----------------------------------|------------------|----------------------------------|-------------------|
| | Assets | Liabilities | Assets | Liabilities |
| Equity | \$ - | \$ 42,297 | \$ - | \$ 517,679 |
| Currency | - | 20,399 | - | 190,962 |
| Commodity | - | 299 | - | 2,700 |
| Interest Rate Swap | - | 939 | - | - |
| | <u>\$ -</u> | <u>\$ 63,934</u> | <u>\$ -</u> | <u>\$ 711,341</u> |

The fair values are included on the statements of fiduciary net position as options written, at fair value. The changes in fair value of open call options for the years ended August 31, 2018 and 2017 were an increase and decrease in the amounts of \$68,706 and \$177,653, respectively, which are included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

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Notes to Financial Statements (cont.)

The following table discloses the fair values of the Fund's written put option contracts as of August 31, 2018 and 2017:

| Type | Fair Value at August 31, 2018 | | Fair Value at August 31, 2017 | |
|---------------------|----------------------------------|------------------|----------------------------------|------------------|
| | Assets | Liabilities | Assets | Liabilities |
| | Currency | \$ - | \$ 23,013 | \$ - |
| Equity | - | - | - | 11,889 |
| Commodity | - | - | - | 2,349 |
| Interest Rate Swap | - | 361 | - | - |
| Credit Default Swap | - | 1,819 | - | - |
| | <u>\$ -</u> | <u>\$ 25,193</u> | <u>\$ -</u> | <u>\$ 29,047</u> |

The fair values are included on the statements of fiduciary net position as options written, at fair value. The changes in fair value of open put options for the years ended August 31, 2018 and 2017 were increases in the amounts of \$11,218 and \$71,823, respectively, which are included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

Note 7 – Swaps

The following table discloses the notional amounts and the fair values of the types of outstanding swap contracts as of August 31, 2018:

| Type | Notional Value | Fair Value at August 31, 2018 | |
|----------------|----------------|-------------------------------|---------------------|
| | | Assets | Liabilities |
| Interest Rate | \$ 357,150,154 | \$ 2,309,226 | \$ 536,437 |
| Credit Default | 18,898,100 | 284,996 | 117,511 |
| Commodity | 2,262,591 | 145,100 | 72,069 |
| Currency | 2,267,775 | 1,158,207 | 1,098,000 |
| Volatility | 1,600,000 | - | 17,130 |
| Equity | 243,832,036 | 3,482,673 | 1,212,884 |
| Total | | <u>\$ 7,380,202</u> | <u>\$ 3,054,031</u> |

The change in fair value of open swap positions for the year ended August 31, 2018 was an increase in the amount of \$4,574,641, which is included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

The following table discloses the notional amounts and the fair values of the types of outstanding swap contracts as of August 31, 2017:

| Type | Notional Value | Fair Value at August 31, 2017 | |
|----------------|----------------|-------------------------------|----------------------|
| | | Assets | Liabilities |
| Interest Rate | \$ 238,353,913 | \$ 579,076 | \$ 1,036,542 |
| Credit Default | 18,732,230 | 313,464 | 86,234 |
| Commodity | 1,288,777 | 23,532 | 63,254 |
| Currency | 22,221,320 | 11,336,539 | 10,882,080 |
| Equity | 23,351,124 | 78,093 | 1,068,732 |
| Total | | <u>\$ 12,330,704</u> | <u>\$ 13,136,842</u> |

The change in fair value of open swap positions for the year ended August 31, 2017 was an increase in the amount of \$105,780, which is included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

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Notes to Financial Statements (cont.)

Note 8 – Futures Contracts

The changes in fair value of open futures contracts for the years ended August 31, 2018 and 2017, were increases in the amounts of \$6,175,605 and \$1,272,962, respectively, which are included in the net increase in fair value of investments on the statements of changes in fiduciary net position. The Fund had \$1,407,693 and \$521,000 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2018 and 2017, respectively. Short futures may be used by the Fund to hedge the Fund's interest rate or currency risk associated with security positions.

Futures contracts on commodities are traded on several different exchanges around the world. The daily cash settlements made by the investment manager for these open commodities contracts are made on a net basis to each respective exchange. The fair value, for August 31, 2018 and 2017, 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 \$12,614,854 and \$700,360, respectively, as of August 31, 2018 and 2017.

During the years ended August 31, 2018 and 2017, certain of the Fund's investment managers trading in commodity futures on the London Metals Exchange (LME) closed out various long contract positions with offsetting short contract positions. For contracts traded and closed on the LME, cash settlement does not occur until the expiration date of the contract. The gross notional value of these long and short positions are shown below with the associated pending cash settlement amounts shown as the fair value as of August 31, 2018 and 2017.

The following discloses the type, notional value, and fair values for futures contracts as of August 31, 2018:

| Contract | Notional Value at August 31, 2018 | | Fair Value at August 31, 2018 | |
|-----------------------|--|-----------------------|--|---------------------|
| | Long | Short | Assets | Liabilities |
| Commodities | \$ 148,119,836 | \$ 49,239,983 | \$ 1,832,767 | \$ 8,184,449 |
| Domestic Fixed Income | 141,065,292 | 111,125,425 | - | - |
| Foreign Fixed Income | 107,898,943 | 45,308,626 | 66,755 | 100,959 |
| Domestic Equities | 11,753,505 | - | 405 | - |
| Foreign Equities | 7,302,116 | - | - | 53,768 |
| Total | \$ 416,139,692 | \$ 205,674,034 | \$ 1,899,927 | \$ 8,339,176 |

The following discloses the type, notional value, and fair values for futures contracts as of August 31, 2017:

| Contract | Notional Value at August 31, 2017 | | Fair Value at August 31, 2017 | |
|-----------------------|--|----------------------|--|--------------------|
| | Long | Short | Assets | Liabilities |
| Commodities | \$ 14,972,731 | \$ 3,670,821 | \$ 706,582 | \$ 198,985 |
| Domestic Fixed Income | 63,527,669 | 36,430,069 | 79,777 | 7,037 |
| Foreign Fixed Income | 56,400,997 | 196,263 | 416 | 8,151 |
| Total | \$ 134,901,397 | \$ 40,297,153 | \$ 786,775 | \$ 214,173 |

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Notes to Financial Statements (cont.)

Note 9 – Foreign Exchange Contracts

The following tables summarize by currency the contractual amounts of the Fund’s foreign exchange contracts at August 31, 2018 and 2017. Foreign currency amounts are translated at exchange rates as of August 31, 2018 and 2017. 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.

| <u>Currency</u> | <u>Net Buy</u> | | <u>Net Sell</u> | | <u>Unrealized Gains</u> | | <u>Unrealized Losses</u> | |
|-----------------------|------------------------|-------------------|------------------------|--------------------|--------------------------|------------------|--------------------------|------------------|
| | <u>August 31, 2018</u> | | <u>August 31, 2018</u> | | <u>on Foreign</u> | | <u>on Foreign</u> | |
| | | | | | <u>Currency Exchange</u> | | <u>Currency Exchange</u> | |
| | | | | | <u>Contracts</u> | | <u>Contracts</u> | |
| | | | | | <u>August 31, 2018</u> | | <u>August 31, 2018</u> | |
| Argentina Peso | \$ | 251,378 | \$ | - | \$ | 108,712 | \$ | 165,169 |
| Australian Dollar | | - | | 22,044,653 | | 275,991 | | 70,171 |
| Brazilian Real | | - | | 7,823,628 | | 746,979 | | 86,767 |
| Canadian Dollar | | - | | 7,227,791 | | 87,540 | | 238,015 |
| Chilean Peso | | 3,986,815 | | - | | - | | 16,027 |
| Chinese Yuan Renminbi | | - | | 689,094 | | 36,132 | | 239,958 |
| Colombian Peso | | 5,560,764 | | - | | 120,373 | | 268,312 |
| Czech Koruna | | 3,071 | | - | | - | | 918 |
| Danish Krone | | - | | 10,080,282 | | 32,032 | | 31,913 |
| Euro | | - | | 143,680,205 | | 682,170 | | 414,676 |
| Hong Kong Dollar | | - | | 4,350,001 | | 49,214 | | - |
| Hungarian Forint | | - | | 5,582,781 | | - | | 4,980 |
| Indian Rupee | | - | | 610,750 | | 93,640 | | 77,901 |
| Indonesian Rupiah | | - | | 6,063,425 | | 81,738 | | 70,412 |
| Israeli Shekel | | 1,326 | | - | | 3,795 | | 4 |
| Japanese Yen | | - | | 101,623,003 | | 3,279,269 | | 341,263 |
| Malaysian Ringgit | | - | | 120,398 | | - | | 12,432 |
| Mexican Peso | | - | | 5,899,917 | | 145,012 | | 437,424 |
| New Zealand Dollar | | - | | 20,424,559 | | 230,086 | | 27,671 |
| Norwegian Kroner | | 10,629,187 | | - | | 33,624 | | 314,137 |
| Peruvian Sol | | - | | 1,518,106 | | 11,986 | | - |
| Polish Zloty | | - | | 6,969,361 | | 42,597 | | 131,654 |
| Romanian Leu | | - | | 1,439,211 | | 366 | | 8,116 |
| Russian Ruble | | 1,323,829 | | - | | - | | 80,623 |
| Singapore Dollar | | - | | 20,224,698 | | 367,556 | | 34,699 |
| South African Rand | | - | | 2,384,278 | | 629,891 | | 465,418 |
| South Korean Won | | - | | 8,460,818 | | 4,093 | | 80,001 |
| Swedish Krona | | 20,927,599 | | - | | 65,554 | | 1,390,414 |
| Swiss Franc | | - | | 6,100,187 | | 20,788 | | 2,006 |
| Taiwan Dollar | | - | | 4,034,576 | | 76,879 | | 11,182 |
| Thai Baht | | - | | 7,546,913 | | 1,345 | | 42,976 |
| Turkish Lira | | - | | 460,918 | | 1,244,618 | | 1,324,732 |
| UK Pound | | - | | 25,925,818 | | 528,828 | | 569,975 |
| | \$ | <u>42,683,969</u> | \$ | <u>421,285,371</u> | \$ | <u>9,000,808</u> | \$ | <u>6,959,946</u> |

The change in fair value of open foreign exchange contracts for the year ended August 31, 2018 was an increase in the amount of \$2,115,434, which is included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

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Notes to Financial Statements (cont.)

| Currency | Net Buy August 31, 2017 | Net Sell August 31, 2017 | Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2017 | Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2017 |
|-------------------------|----------------------------|-----------------------------|---|--|
| Australian Dollar | \$ - | \$ 14,683,326 | \$ 150,284 | \$ 433,449 |
| Brazilian Real | - | 7,976,564 | 34,546 | 369,232 |
| Canadian Dollar | 8,204,536 | - | 94,600 | 40,321 |
| Chinese Yuan (Offshore) | - | 206,281,292 | - | 8,700,057 |
| Chinese Yuan Renminbi | 15,217 | - | 22,690 | 37,669 |
| Colombian Peso | 4,380 | - | 12 | - |
| Czech Koruna | - | 137,549 | 3,750 | 25,780 |
| Danish Krone | - | 10,168,000 | 105,028 | 593,620 |
| Euro | 22,435,502 | - | 1,284,586 | 533,565 |
| Hong Kong Dollar | - | 4,046,679 | 42,225 | 60 |
| Hungarian Forint | - | 1,969,127 | - | 13,281 |
| Indian Rupee | 8,660,651 | - | 146,029 | 6,798 |
| Indonesian Rupiah | 578,217 | - | 3,221 | - |
| Israeli Shekel | 121,426 | - | - | 2,622 |
| Japanese Yen | - | 25,128,725 | 336,250 | 3,007,136 |
| Malaysian Ringgit | 736,347 | - | 3,601 | 5,430 |
| Mexican Peso | - | 291,400 | 12,971 | 44,858 |
| New Zealand Dollar | - | 13,191,071 | 594,807 | 115,034 |
| Norwegian Kroner | 15,624,667 | - | 926,786 | 20,136 |
| Peruvian Sol | 293,226 | - | 1,191 | - |
| Philippines Peso | 3,856 | - | - | 4 |
| Polish Zloty | - | 11,136,524 | 48,669 | 406,137 |
| Russian Ruble | 754,909 | - | 28,243 | 4,087 |
| Singapore Dollar | - | 21,266,161 | 48,623 | 194,573 |
| South African Rand | - | 9,072,324 | 24,164 | 237,538 |
| South Korean Won | - | 2,941,607 | 33,103 | 18,586 |
| Swedish Krona | 7,876,563 | - | 799,131 | 167,237 |
| Swiss Franc | 936,906 | - | 4,474 | 3 |
| Taiwan Dollar | - | 15,675,197 | - | 77,307 |
| Thai Baht | - | 1,986,405 | 5,441 | 3,134 |
| Turkish Lira | 5,913,749 | - | 190,261 | - |
| UK Pound | 13,123,389 | - | 223,515 | 431,664 |
| | \$ 85,283,541 | \$ 345,951,951 | \$ 5,168,201 | \$ 15,489,318 |

The change in fair value of open foreign exchange contracts for the year ended August 31, 2017 was a decrease in the amount of \$10,321,117, which is included in the net increase in fair value of investments on the statements of changes in fiduciary net position.

Note 10 – Purchase Agreement

UTIMCO, as investment manager of the funds under the control and management of the UT Board, entered into a security purchase agreement with the UT Board. The agreement commits the funds under management, including the Fund, to purchase up to \$3,404,360,000 in UT System flexible rate notes in the event of a failed remarketing of such notes. The individual funds under management are not committed to a specific amount, rather all of the funds may be required to provide for the amount noted.

Note 11 – Fees and Expenses

The Fund incurs investment management fees from various external managers of the Fund. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.10% to 1.50%. In addition to quarterly investment management fees, the Fund may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers' contracts. The investment management fees presented in the statements of changes in fiduciary net position represent only those paid directly from the Fund, and do not include fees incurred and charged by general partners in private investments, fees charged by mutual fund managers, and fees charged by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice. The investment management fees assessed by external managers and paid directly by the Fund for the years ended August 31, 2018 and 2017 were \$29,901,837 and \$37,503,809, respectively.

Custodial fees and expenses are assessed by the financial institution which holds the Fund's assets. Fees are based on the number of accounts, market value of the Fund, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement and on-line communication services per the contractual agreement. For the years ended August 31, 2018 and 2017, custodial fees and expenses incurred by the Fund amounted to \$2,622,490 and \$2,058,324, respectively.

Accounting fees, in the amounts of \$251,590 and \$245,349, were incurred by the Fund during the years ended August 31, 2018 and 2017, respectively, for external and UT System internal audit services.

Consulting fees, in the amounts of \$117,850 and \$72,225, for the years ended August 31, 2018 and 2017, respectively, were incurred for investment strategy and other investment planning services.

Background check fees are incurred as part of the due diligence efforts undertaken as part of hiring of investment managers. Fees in the amounts of \$94,747 and \$58,398 were incurred for the years ended August 31, 2018 and 2017, respectively.

Analytical and risk measurement fees are also incurred to implement and maintain a sophisticated risk measurement system for the Fund. For the years ended August 31, 2018 and 2017, the fees incurred by the Fund amounted to \$73,365 and \$170,671, respectively.

The Fund incurs legal fees associated with the review of investment manager agreements and with due diligence efforts undertaken as part of hiring new investment managers. Fees incurred by the Fund for the years ended August 31, 2018 and 2017, amounted to \$40,748 and \$25,912, respectively.

Foreign tax consulting and filing fees are incurred by the Fund for investment managers domiciled in certain foreign countries and for those that invest in securities issued in certain foreign countries. Fees in the amounts of \$31,758 and \$27,900 were incurred for the years ended August 31, 2018 and 2017, respectively.

THE UNIVERSITY OF TEXAS SYSTEM
GENERAL ENDOWMENT FUND
Supplemental Schedule

Financial Highlights
Years Ended August 31,

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Selected Per Unit Data | | | | | |
| Net Position, Beginning of Year | \$ 299.806 | \$ 266.535 | \$ 256.223 | \$ 253.505 | \$ 220.935 |
| Income from Investment Operations | | | | | |
| Net Investment Income (A) | 2.591 | 2.421 | 2.253 | 1.741 | 2.443 |
| Net Realized and Unrealized Gain on Investments | <u>26.883</u> | <u>30.850</u> | <u>8.059</u> | <u>0.977</u> | <u>30.127</u> |
| Total Income from Investment Operations | <u>29.474</u> | <u>33.271</u> | <u>10.312</u> | <u>2.718</u> | <u>32.570</u> |
| Net Position, End of Year | <u><u>\$ 329.280</u></u> | <u><u>\$ 299.806</u></u> | <u><u>\$ 266.535</u></u> | <u><u>\$ 256.223</u></u> | <u><u>\$ 253.505</u></u> |

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