

Financial Statements  
and Independent Auditors' Report  
The University of Texas System  
Intermediate Term Fund

*Years Ended August 31, 2012 and 2011*

# The University of Texas System Intermediate Term Fund

## Financial Statements

Years Ended August 31, 2012 and 2011

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## INDEPENDENT AUDITORS' REPORT

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

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

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

As discussed in Note 1, the financial statements of the Fund are intended only to present the financial position of the Fund as of August 31, 2012 and August 31, 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the financial position of UTIMCO or The University of Texas System, as of August 31, 2012 or August 31, 2011, or the changes in its financial position for the years then ended.

As discussed in Note 2, the financial statements include investments valued at \$2,225,960,412 (46.1% of net assets) and \$2,071,030,119 (44.4% of net assets) as of August 31, 2012 and August 31, 2011, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on procedures performed by management which use information provided by the fund managers or the general partners.

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

Management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and express no opinion on it.

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

*Deloitte & Touche LLP*

October 31, 2012

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

Our discussion and analysis of The University of Texas System Intermediate Term Fund's (Fund) financial performance provides an overview of its activities for the year ended August 31, 2012. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund, created February 1, 2006, is an internal University of Texas System (UT System) pooled investment fund for the investment of operating funds and other intermediate and long-term funds held by the UT System institutions and UT System Administration. The Fund was created to improve the efficiency of operating funds management and to improve investment returns on UT System operating reserves. 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 net fiduciary assets, after contributions, withdrawals, and distributions increased by \$231.4 million from \$4,661.6 million to \$4,893.0 million or by approximately 5.0% for the year ended August 31, 2012. The change in net fiduciary assets from year to year is mainly attributable to the following:
  1. Net participant contributions to the Fund were \$237.3 million for the year ended August 31, 2012, compared to \$159.7 million for the year ended August 31, 2011.
  2. The Fund posted a net investment gain of 2.87%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2012. Investments in credit-related fixed income, developed country equities and real estate were the biggest contributors to the 2012 return. Investments in natural resources, investment grade fixed income and developed country equities investments were the biggest contributors to the net investment gain of 11.39% for August 31, 2011.
  3. The Fund's distribution rate was 3.0% per year, or 0.25% per month, for the year ended August 31, 2012 and 2011. Distributions from the Fund were \$142.3 million for the year ended August 31, 2012 compared to the \$138.8 million distributed for the year ended August 31, 2011.

# THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND

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## Use of Financial Statements and Notes

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

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

## Statements of Fiduciary Net Assets

The statements of fiduciary net assets present assets, liabilities, and net assets of the Fund as of the end of the 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 Policy Portfolio. The Policy Portfolio is the index or benchmark for the intermediate term funds that UTIMCO manages. The return of the 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 preserve the purchasing power of Fund assets by earning a compound annualized return over rolling three year-periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index plus 3%. In doing so, UTIMCO increases the operating resources available to the UT System institutions which invest in the Fund.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Assets</b>			
Investments, at Fair Value	\$ 4,923.5	\$ 4,584.0	\$ 4,135.9
Other Assets	280.3	324.4	233.5
<b>Total Assets</b>	<u>5,203.8</u>	<u>4,908.4</u>	<u>4,369.4</u>
<b>Total Liabilities</b>	310.8	246.8	213.6
<b>Net Assets Held in Trust</b>	<u>\$ 4,893.0</u>	<u>\$ 4,661.6</u>	<u>\$ 4,155.8</u>

## Statements of Changes in Fiduciary Net Assets

Changes in fiduciary net assets as presented on the statements of changes in fiduciary net assets are based on activity of the 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 withdrawals and distributions.

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The net increase in investments of the Fund was \$77.2 million during the year ended August 31, 2012 compared to the net increase in investments of \$425.6 million for the year ended August 31, 2011. Investment expenses totaled \$13.9 million, \$16.8 million and \$13.6 million respectively, for the years ended August 31, 2012, 2011 and 2010.

Distributions to participants totaled \$142.3 million, \$138.8 million and \$119.3 million, respectively, for the years ended August 31, 2012, 2011 and 2010. Cash distributions are paid monthly based on a 3% annual distribution rate.

The following summarizes the statements of changes in fiduciary net assets (in millions) for the years ended August 31, 2012, 2011 and 2010:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Investment Income	\$ 150.4	\$ 501.8	\$ 420.5
Less Investment Expenses	(13.9)	(16.8)	(13.6)
Net Investment Income	<u>136.5</u>	<u>485.0</u>	<u>406.9</u>
Participant Contributions	<u>419.8</u>	<u>328.2</u>	<u>409.0</u>
Total Additions	<u>556.3</u>	<u>813.2</u>	<u>815.9</u>
UT System Oversight Fee	0.1	0.1	0.1
Participant Withdrawals	182.5	168.5	112.3
Participant Distributions	142.3	138.8	119.3
Total Deductions	<u>324.9</u>	<u>307.4</u>	<u>231.7</u>
Change in Fiduciary Net Assets	231.4	505.8	584.2
Net Assets Held in Trust, Beginning of Period	4,661.6	4,155.8	3,571.6
Net Assets Held in Trust, End of Period	<u>\$ 4,893.0</u>	<u>\$ 4,661.6</u>	<u>\$ 4,155.8</u>

**Contacting UTIMCO**

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

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**Statements of Fiduciary Net Assets**

August 31, 2012 and 2011

(Dollars in thousands, except for per unit amounts)

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Investments, at Fair Value:		
Equity Securities	\$ 532,033	\$ 534,158
Preferred Stock	15,083	18,088
Debt Securities	1,506,547	1,282,454
Convertible Securities	139	1,224
Investment Funds	2,283,966	2,071,030
Physical Commodities	234,745	242,342
Purchased Options	10,312	42,844
Cash and Cash Equivalents	340,678	391,868
Total Investments	<u>4,923,503</u>	<u>4,584,008</u>
Collateral for Securities Loaned, at Fair Value	130,073	113,865
Deposits with Brokers for Derivative Contracts	32,711	54,974
Futures Contracts, at Fair Value	1,122	3,158
Swaps, at Fair Value	1,750	3,091
Unrealized Gains on Foreign Currency Exchange Contracts	5,682	9,879
Receivables:		
Investment Securities Sold	90,674	123,698
Accrued Income	18,150	15,721
Other	102	2
Total Receivables	<u>108,926</u>	<u>139,421</u>
<b>Total Assets</b>	<u>5,203,767</u>	<u>4,908,396</u>
 <b>Liabilities</b>		
Payable upon Return of Securities Loaned	130,073	113,865
Payable to Brokers for Collateral Held	7,465	26,330
Options Written, at Fair Value	4,075	21,106
Futures Contracts, at Fair Value	1,653	369
Swaps, at Fair Value	1,124	10,538
Unrealized Losses on Foreign Currency Exchange Contracts	9,964	9,219
Payables:		
Investment Securities Purchased	140,668	49,841
Distributions Payable	12,101	11,946
Other	3,651	3,605
Total Payables	<u>156,420</u>	<u>65,392</u>
<b>Total Liabilities</b>	<u>310,774</u>	<u>246,819</u>
 <b>Net Assets Held in Trust (44,391,686 Units and 42,211,069 Units, respectively)</b>	 <u><u>\$ 4,892,993</u></u>	 <u><u>\$ 4,661,577</u></u>
<b>Net Asset Value Held in Trust Per Unit</b>	<u><u>\$ 110.223</u></u>	<u><u>\$ 110.435</u></u>

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



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**Statements of Changes in Fiduciary Net Assets**

*Years Ended August 31, 2012 and 2011*

*(in thousands)*

	<u>2012</u>	<u>2011</u>
<b>Additions</b>		
Investment Income:		
Net Increase in Investments	\$ 77,190	\$ 425,577
Interest	59,326	59,683
Dividends	13,412	16,087
Securities Lending Income	381	392
Other Income	79	4
Total Investment Income	<u>150,388</u>	<u>501,743</u>
Less Investment Expenses:		
Investment Management Fees	9,276	11,866
UTIMCO Management Fee	3,230	3,065
Custodial Fees and Expenses	1,264	1,378
Accounting Fees	86	158
Analytical and Risk Measurement Fees	130	127
Consulting Fees	88	85
Legal Fees	39	48
Foreign Tax Consulting and Filing	25	29
Background Check Fees	24	22
Other Expenses	17	9
Securities Lending Fees	(306)	6
Total Investment Expenses	<u>13,873</u>	<u>16,793</u>
Net Investment Income	136,515	484,950
Participant Contributions	<u>419,815</u>	<u>328,188</u>
<b>Total Additions</b>	556,330	813,138
<b>Deductions</b>		
Administrative Expenses:		
UT System Oversight Fee	78	93
Participant Withdrawals	182,498	168,439
Participant Distributions	<u>142,338</u>	<u>138,835</u>
<b>Total Deductions</b>	<u>324,914</u>	<u>307,367</u>
Change in Fiduciary Net Assets	231,416	505,771
Net Assets Held in Trust, Beginning of Year	<u>4,661,577</u>	<u>4,155,806</u>
<b>Net Assets Held in Trust, End of Year</b>	<u><b>\$ 4,892,993</b></u>	<u><b>\$ 4,661,577</b></u>

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

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

The University of Texas System Intermediate Term Fund (Fund) is a pooled fund established for the collective investment of operating funds and other short and intermediate term funds held by the 15 University of Texas System (UT System) institutions and UT System Administration. The Fund was established February 1, 2006, by the Board of Regents of UT System (UT Board). Fiduciary responsibility for the Fund rests with the UT Board. The day-to-day operational responsibilities of the Fund are delegated to The University of Texas Investment Management Company (UTIMCO), pursuant to an Investment Management Services Agreement with the UT Board.

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

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

Management has evaluated subsequent events through October 31, 2012, the date the financial statements were available to be issued. No subsequent events requiring adjustment to, or disclosure in, the financial statements were identified as a result of this evaluation.

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

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

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

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

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

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 consideration of any other information provided by the investment managers or other sources.

The statements of fiduciary net assets include investments valued at \$2,255,960,412 (46.1% of net assets) and \$2,071,030,119 (44.4% of net assets) as of August 31, 2012, and August 31, 2011,

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*Notes to Financial Statements (cont.)*

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respectively, whose fair values have been estimated by management in the absence of readily determinable fair values, as described above.

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

(C) ***Investment Income and Investment Expenses*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income are recorded net of foreign taxes where recovery of such taxes is not assured. For the years ended August 31, 2012 and 2011, interest and dividend withholding in the amounts of \$1,191,571 and \$1,181,413 have been netted against dividend and interest income. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Investment expenses are recorded on the accrual basis as incurred.

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

(E) ***Distributions to Participants*** -- Cash distributions to participants are paid monthly based on a percentage rate established by the UT Board. For the years ended August 31, 2012 and 2011 the annual distribution rate was 3.0%.

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

(G) ***Purchases and Redemption of Units*** -- Unit purchases and redemptions occur on the first business day of each month. The value of participating units, upon admission to the Fund, is based upon the market value of net assets held as of the monthly valuation date. Redemptions from the Fund will also be made at the market value price per unit at the monthly 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 Assets*** -- All participants in the Fund have a proportionate interest in the Fund's net assets.

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

(J) ***Derivative Instruments*** -- Derivative securities are financial instruments whose value is derived, in whole or part, from the value of any one or more underlying securities or assets, or index

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*Notes to Financial Statements (cont.)*

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of securities or assets, such as stocks, bonds, commodities, or currencies. The Fund from time to time uses various derivative instruments, as allowed under UT Board approved derivative investment policy guidelines, and by guidelines established in contracts with external investment managers. Derivative instruments included under these policies and contracts include futures, forwards, swaps and all forms of options. Futures contracts are valued at closing market prices on the valuation date. Written options and swaps are valued by using broker quotes, or using models with primarily externally verifiable model inputs. 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 investments in the statement of changes in fiduciary net assets.

*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 investments in the statement of changes in fiduciary net assets. The difference between the premium and the amount paid on effecting a closing purchase transaction, including brokerage commissions, is also treated as a realized gain, or, if the premium is less than the amount paid for the closing purchase transaction, as a realized loss and are included in the net increase in investments in the statements of changes in fiduciary net assets. If a call option is 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 statement of fiduciary net assets.

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

when it is prematurely terminated by both parties to the agreement, and when it reaches maturity. The frequency of the resets is defined by the term sheet of the particular swap agreement, and varies from instrument to instrument. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net assets. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates.

*Futures Contracts* -- The 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 valued at the close of business each day, and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss is referred to as the daily variation margin which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the carrying and fair value of the futures contracts, and is included on the statement of fiduciary net assets. The Fund executes such contracts either on major exchanges or with major international financial institutions and minimizes market and credit risk associated with these contracts through the managers' various trading and credit monitoring techniques.

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

(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 assets.

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

**Note 3 – Investment Risk**

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

(A) ***Credit Risk***

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

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

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*Notes to Financial Statements (cont.)*

Investment Type	August 31,		Rating
	2012	2011	
<b>Investments:</b>			
U.S. Government Guaranteed	\$ 187,260,143	\$ 213,244,722	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	1,270,968	1,260,056	AA
U.S. Agency Asset Backed	-	31,560,312	AAA
U.S. Agency Asset Backed	120,684,374	102,363,385	AA
Total U.S. Government Non-Guaranteed	121,955,342	135,183,753	
Total U.S. Government	309,215,485	348,428,475	
Corporate Obligations:			
Domestic	22,154,167	31,762,697	AAA
Domestic	12,288,434	19,199,510	AA
Domestic	107,569,331	97,340,411	A
Domestic	92,615,141	56,753,464	BAA/BBB
Domestic	5,761,581	3,935,113	BA/BB
Domestic	6,860,317	5,333,226	B
Domestic	10,409,587	12,006,551	CAA/CCC
Domestic	2,635,685	3,350,650	CA/CC
Domestic	-	204,433	C
Domestic	884,452	344,241	D
Domestic	834,424	1,322,246	Not Rated
Foreign	88,276,577	88,112,700	AAA
Foreign	25,071,822	29,761,281	AA
Foreign	32,693,222	36,920,521	A
Foreign	36,157,906	19,881,732	BAA/BBB
Foreign	3,208,480	1,992,189	BA/BB
Foreign	3,414,902	327,752	B
Foreign	211,388	-	CAA/CCC
Foreign	-	1,001,000	C
Foreign	251,892	-	Not Rated
Total Corporate Obligations	451,299,308	409,549,717	
Foreign Government and Provincial Obligations	231,548,329	270,378,998	AAA
Foreign Government and Provincial Obligations	108,375,307	45,665,128	AA
Foreign Government and Provincial Obligations	172,880,840	72,154,727	A
Foreign Government and Provincial Obligations	146,210,664	95,448,464	BAA/BBB
Foreign Government and Provincial Obligations	35,962,023	12,383,744	BA/BB
Foreign Government and Provincial Obligations	28,616,572	7,787,013	Not Rated
Total Foreign Government and Provincial Obligations	723,593,735	503,818,074	
Other Debt Securities	6,457,799	5,893,842	AA
Other Debt Securities	14,264,182	13,458,282	A
Other Debt Securities	245,904	204,099	BAA/BBB
Other Debt Securities	-	1,100,943	BA/BB
Other Debt Securities	1,470,910	-	B
Total Other Debt Securities	22,438,795	20,657,166	
Total Debt Securities	\$ 1,506,547,323	\$ 1,282,453,432	
Convertible Securities	\$ 139,081	\$ -	B
Convertible Securities	-	1,077,584	Not Rated
Total Convertible Securities	\$ 139,081	\$ 1,077,584	
Cash and Cash Equivalents - Money Market Funds	\$ 333,349,954	\$ 382,702,479	AAA
Cash and Cash Equivalents	7,328,388	9,165,410	Not Rated
Total Cash and Cash Equivalents	\$ 340,678,342	\$ 391,867,889	
<b>Net Deposit with Brokers for Derivative Contracts:</b>			
U.S. Government Guaranteed	\$ 737,904	\$ 2,374,282	AA
Foreign Government and Provincial Obligations	7,591,041	10,603,464	BAA/BBB
Foreign Government and Provincial Obligations	7,217,407	732,717	Not Rated
Cash	9,700,138	14,933,784	Not Rated
<b>Total Net Deposit with Brokers for Derivative Contracts</b>	\$ 25,246,490	\$ 28,644,247	

**(B) Concentrations of Credit Risk**

The Fund's investment policy statement contains the limitation that no more than 5% of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. The Fund does not hold any direct investments in any one issuer 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 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, 2012 and 2011, 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 value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. Interest rate risk inherent in the Fund is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the Fund's investments to changes in interest rates. The Fund has no specific policy statement limitations with respect to its overall modified duration. The following table summarizes the Fund's modified duration by investment type at August 31, 2012 and 2011:



**THE UNIVERSITY OF TEXAS SYSTEM  
INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

Investment Type	August 31,			
	2012		2011	
	Value	Modified Duration	Value	Modified Duration
<b>Investments:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 153,684,841	7.76	\$ 207,595,814	10.52
U.S. Treasury Bills	32,253,254	0.53	5,608,724	0.50
U.S. Treasury Inflation Protected	1,286,735	6.50	-	-
U.S. Agency Asset Backed	35,313	3.19	40,184	2.80
Total U.S. Government Guaranteed	<u>187,260,143</u>	6.50	<u>213,244,722</u>	10.26
U.S. Government Non-Guaranteed:				
U.S. Agency	1,270,968	3.00	1,260,056	6.69
U.S. Agency Asset Backed	120,684,374	2.99	133,923,697	3.22
Total U.S. Government Non-Guaranteed	<u>121,955,342</u>	2.99	<u>135,183,753</u>	3.26
Total U.S. Government	<u>309,215,485</u>	5.12	<u>348,428,475</u>	7.54
Corporate Obligations:				
Domestic	262,013,119	6.38	231,552,542	6.31
Foreign	189,286,189	5.46	177,997,175	5.43
Total Corporate Obligations	<u>451,299,308</u>	5.99	<u>409,549,717</u>	5.93
Foreign Government and Provincial Obligations	<u>723,593,735</u>	6.16	<u>503,818,074</u>	6.64
Other Debt Securities	<u>22,438,795</u>	12.80	<u>20,657,166</u>	12.75
Total Debt Securities	<u>1,506,547,323</u>	6.00	<u>1,282,453,432</u>	6.75
Convertible Securities	<u>139,081</u>	29.03	<u>1,077,584</u>	2.37
Cash and Cash Equivalents	<u>340,678,342</u>	0.05	<u>391,867,889</u>	0.08
Total	<u>\$ 1,847,364,746</u>	4.90	<u>\$ 1,675,398,905</u>	5.19
<b>Net Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 490,198	19.79	\$ -	-
U.S. Treasury Bills	247,706	0.56	2,374,282	0.43
Total U.S. Government Guaranteed	<u>737,904</u>	13.34	<u>2,374,282</u>	0.43
Foreign Government and Provincial Obligations	14,808,448	5.49	11,336,181	6.91
Cash	<u>9,700,138</u>	-	<u>14,933,784</u>	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ 25,246,490</u>	3.61	<u>\$ 28,644,247</u>	2.77

The Fund has purchased options on ten year constant maturity swaps, with expirations ranging from five to seven years, as insurance against possible future increases in inflation. As of August 31, 2012 these options had a notional value of \$2,251,000,000 and a fair value of \$3,180,467. As of August 31, 2011 these options had a notional value of \$1,867,000,000 and a fair value of \$8,356,710. The risk of loss on these options is limited to the premiums paid by the Fund upon the purchase of the options, which totaled \$12,635,510 as of August 31, 2012 and \$10,216,310 as of August 31, 2011. The Fund also purchased both puts and swaptions on the Japanese Yen with expirations ranging from one to two years, as insurance against the possibility of a downturn in the Japanese economy. As of August 31, 2012 the puts and swaptions had a notional value of \$644,858,582 with a fair value of \$619,115 and a loss limited to \$5,569,862 which represents the premiums paid. As of August 31, 2011 the puts and swaptions had a notional value of \$1,170,870,655 with a fair value of \$2,308,083 and a loss limited to \$6,525,163 which represents the premiums paid. It is estimated that these

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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options would adjust the 2012 duration of total debt securities of 6.00 downward by approximately 0.10, and the total duration of 4.90 downward by approximately 0.11. It is estimated that these options would adjust the 2011 duration of total debt securities of 6.75 downward by approximately 0.17, and the total duration of 5.19 downward by approximately 0.22. One of the Fund's external managers also uses options and interest rate and credit default swaps to modify the duration of its portfolio in a cost efficient manner. It is estimated by management that these positions held by the external manager would not significantly adjust the duration of the Fund as presented above.

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

In accordance with the Fund's investment policy statement, 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, 2012 and 2011, 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 \$98,876,472 and \$118,614,282 as of August 31, 2012 and 2011, respectively.

Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$71,163,119 and \$71,252,724 as of August 31, 2012 and 2011, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. These securities amounted to \$10,686,913 and \$14,678,002 as of August 31, 2012 and 2011, respectively.

### **(F) Foreign Currency Risk**

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

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

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

Investment Type	August 31,	
	2012	2011
<b>Foreign Common Stock:</b>		
Australian Dollar	\$ 11,834,760	\$ 15,476,611
Brazilian Real	28,290,187	18,312,649
Canadian Dollar	11,506,994	18,608,545
Chilean Peso	893,852	964,629
Czech Koruna	456,449	550,861
Danish Krone	948,129	784,606
Egyptian Pound	348,895	380,307
Euro	20,658,831	24,194,933
Hong Kong Dollar	54,242,974	47,995,890
Hungarian Forint	360,227	468,847
Indian Rupee	5,622,389	8,662,034
Indonesian Rupian	4,772,672	4,091,021
Israeli Shekel	-	23,670
Japanese Yen	14,870,893	16,981,693
Malaysian Ringgit	6,826,959	5,977,508
Mexican Peso	5,186,138	5,289,824
Moroccan Dirham	139,490	171,155
Norwegian Kroner	371,712	720,707
Pakistani Rupee	246,938	158,343
Philippine Peso	3,711,313	1,405,777
Peruvian Nuevo Sol	1,673	11,708
Polish Zloty	2,181,904	3,106,024
Russian Ruble	-	520,988
Singapore Dollar	6,584,363	5,578,823
South African Rand	7,566,450	11,277,687
South Korean Won	20,432,409	27,197,675
Swedish Krona	4,347,764	4,627,102
Swiss Franc	2,995,865	4,095,668
Taiwan Dollar	12,715,969	11,511,188
Thai Baht	7,100,863	6,033,018
Turkish Lira	3,937,402	3,861,261
UK Pound	38,464,207	42,503,323
United Arab Emirates Dirham	310,569	350,919
Total Foreign Common Stock	<u>277,929,240</u>	<u>291,894,994</u>
<b>Other - Equity Securities:</b>		
Chilean Peso	257	-
Malaysian Ringgit	-	1,037
Thai Baht	26,951	-
UK Pound	12	-
Total Other - Equity Securities	<u>27,220</u>	<u>1,037</u>
<b>Foreign Preferred Stocks:</b>		
Brazilian Real	10,399,971	11,780,506
South Korean Won	210,164	63,966
Total Foreign Preferred Stock	<u>10,610,135</u>	<u>11,844,472</u>
<b>Foreign Government and Provincial Obligations:</b>		
Australian Dollar	60,575,527	32,590,184
Brazilian Real	73,557,843	74,173,296
Canadian Dollar	17,216,469	17,628,969
Colombian Peso	3,859,503	-
Euro	187,898,600	120,051,702
Hong Kong Dollar	187,479	254,073
Hungarian Forint	15,662,317	8,731,685
Indonesian Rupian	-	12,383,744

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

Investment Type	August 31,	
	2012	2011
<b>Foreign Government and Provincial Obligations (continued):</b>		
Japanese Yen	\$ 84,263,073	\$ 28,906,015
Malaysian Ringgit	16,605,981	17,207,184
Mexican Peso	54,079,559	31,666,676
New Zealand Dollar	46,026,319	29,171,516
Norwegian Kroner	-	15,299,305
Polish Zloty	41,389,083	21,278,962
Singapore Dollar	880,756	8,085,469
South African Rand	21,198,082	15,674,497
South Korean Won	17,499,895	16,681,623
UK Pound	83,471,729	56,690,696
Total Foreign Government and Provincial Obligations	<u>724,372,215</u>	<u>506,475,596</u>
<b>Corporate Obligations:</b>		
Australian Dollar	26,744,937	23,040,555
Canadian Dollar	2,165,472	2,556,392
Euro	82,896,054	88,781,204
Japanese Yen	3,549,329	3,961,556
New Zealand Dollar	1,970,465	-
UK Pound	26,912,936	16,743,133
Total Corporate Obligations	<u>144,239,193</u>	<u>135,082,840</u>
<b>Convertible Securities:</b>		
Brazilian Real	-	1,077,584
<b>Investment Funds-Emerging Markets:</b>		
Brazilian Real	2,143,661	1,907,997
Canadian Dollar	341,848	-
Euro	1,284,127	-
Hong Kong Dollar	408,357	-
Swedish Krona	251,201	-
Taiwan Dollar	24,170	-
UK Pound	16,511,026	-
Total Investment Funds-Emerging Market	<u>20,964,390</u>	<u>1,907,997</u>
<b>Investment Funds-Natural Resources:</b>		
UK Pound	974,874	-
<b>Purchased Options:</b>		
Australian Dollar	1,114,961	16,921,183
Brazilian Real	166,464	-
Euro	3,048	1,458,643
Japanese Yen	619,115	2,308,083
South Korean Won	5,184,357	13,712,772
Total Purchased Options	<u>7,087,945</u>	<u>34,400,681</u>
<b>Cash and Cash Equivalents:</b>		
Australian Dollar	407,175	1,424,988
Brazilian Real	(54,571)	624,564
Canadian Dollar	38,763	433,213
Chilean Peso	4,083	797
Czech Koruna	12,831	9
Danish Krone	14,806	202
Egyptian Pound	250	16,032
Euro	542,648	2,617,417
Hong Kong Dollar	323,008	116,554
Hungarian Forint	1,742	405

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

Investment Type	August 31,	
	2012	2011
<b>Cash and Cash Equivalents (continued):</b>		
Indian Rupee	\$ 110,871	\$ 205,552
Indonesian Rupian	16,387	5,894
Israeli Shekel	1,571	9,729
Japanese Yen	234,167	14,203
Malaysian Ringgit	63,992	336,496
Mexican Peso	15,942	44,048
Moroccan Dirham	2,051	11,174
New Zealand Dollar	1,598	463
Norwegian Kroner	235	230,236
Pakistani Rupee	16	-
Peruvian Nuevo Sol	144	358
Philippine Peso	3,015	10,409
Polish Zloty	33,271	7,470
Singapore Dollar	123,724	1,784
South African Rand	28,475	12,131
South Korean Won	139,930	63,611
Swedish Krona	4,733	1,057
Swiss Franc	465	7,443
Taiwan Dollar	385,505	299,425
Thai Baht	16,453	5,632
Turkish Lira	37,002	197
UK Pound	301,758	1,580,374
Total Cash and Cash Equivalents	<u>2,812,040</u>	<u>8,081,867</u>
<b>Written Options:</b>		
Australian Dollar	(568,831)	(10,370,464)
Euro	-	(49,145)
South Korean Won	(2,523,186)	(8,900,748)
Total Written Options	<u>(3,092,017)</u>	<u>(19,320,357)</u>
<b>Swaps:</b>		
Australian Dollar	41,550	-
Brazilian Real	-	62,066
Canadian Dollar	-	104,444
Euro	(2,121)	(24,405)
Japanese Yen	21,328	40,551
Mexican Peso	773,649	1,241,931
UK Pound	(203,796)	(506,924)
Total Swaps	<u>630,610</u>	<u>917,663</u>
<b>Futures:</b>		
Australian Dollar	(87,080)	82,581
Brazilian Real	(496,390)	-
Canadian Dollar	(8,126)	(57,125)
Euro	12,905	(164,975)
Japanese Yen	17,842	-
UK Pound	6,550	(337,103)
Total Futures	<u>(554,299)</u>	<u>(476,622)</u>
Total	<u>\$ 1,186,001,546</u>	<u>\$ 971,887,752</u>

**THE UNIVERSITY OF TEXAS SYSTEM**

**INTERMEDIATE TERM 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 assets. 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, 2012 for options, swaps, and foreign currency exchange contracts as shown in the following table:

**Options**

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2012</u>	<u>Fair Value as of August 31, 2012</u>	
\$ 3,451,070,102	\$ 501,087,579	\$ 10,101,949	\$ 3,980,807	A

**Swaps**

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2012</u>	<u>Fair Value as of August 31, 2012</u>	
\$ 51,698,950	\$ 86,339,442	\$ 1,803,985	\$ 945,691	A
13,394,566	300,000	15,193	4,246	AA
<u>\$ 65,093,516</u>	<u>\$ 86,639,442</u>	<u>\$ 1,819,178</u>	<u>\$ 949,937</u>	

**Foreign Currency Exchange Contracts**

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2012</u>	<u>Fair Value as of August 31, 2012</u>	
\$ 410,316,617	\$ 559,202,129	\$ 5,403,411	\$ 9,546,874	A
19,384,003	17,229,903	279,031	417,305	AA
<u>\$ 429,700,620</u>	<u>\$ 576,432,032</u>	<u>\$ 5,682,442</u>	<u>\$ 9,964,179</u>	

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

**THE UNIVERSITY OF TEXAS SYSTEM  
INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

<b>Options</b>				
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2011</u>	<u>Fair Value as of August 31, 2011</u>	<u>Counterparty Rating</u>
\$ 5,840,666,161	\$ 1,467,286,593	\$ 30,447,618	\$ 16,226,132	A
3,762,798,934	277,963,572	12,372,257	4,831,188	AA
<u>\$ 9,603,465,095</u>	<u>\$ 1,745,250,165</u>	<u>\$ 42,819,875</u>	<u>\$ 21,057,320</u>	

  

<b>Swaps</b>				
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2011</u>	<u>Fair Value as of August 31, 2011</u>	<u>Counterparty Rating</u>
\$ 54,321,941	\$ 181,568,162	\$ 1,430,497	\$ 10,454,283	A
2,101,585,979	5,900,000	1,660,814	83,218	AA
<u>\$ 2,155,907,920</u>	<u>\$ 187,468,162</u>	<u>\$ 3,091,311</u>	<u>\$ 10,537,501</u>	

  

<b>Foreign Currency Exchange Contracts</b>				
<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2011</u>	<u>Fair Value as of August 31, 2011</u>	<u>Counterparty Rating</u>
\$ 723,393,604	\$ 640,201,641	\$ 7,265,450	\$ 5,325,230	A
173,028,810	117,409,270	2,613,624	3,893,891	AA
<u>\$ 896,422,414</u>	<u>\$ 757,610,911</u>	<u>\$ 9,879,074</u>	<u>\$ 9,219,121</u>	

As of August 31, 2012 and 2011, the Fund also had investments in futures contracts, options on future contracts and exchange-cleared swaps. Futures contracts, options on future 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, and therefore they are not presented in the table above.

Counterparty risk for swaps, options and foreign currency exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the 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, 2012 and 2011, the Fund held \$7,465,000 and \$26,330,000 respectively, of collateral related to derivative instruments other than futures and had on deposit with brokers \$15,974,265 and \$26,006,181, respectively as collateral related to derivative instruments other than futures.

**Note 4 – 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, and related expenses, net of rebates paid to borrowers, are included in investment expenses in the statements of changes in fiduciary net assets. The Fund receives qualified securities and/or cash as collateral against the loaned securities. The collateral, when received, will have a market value of

**THE UNIVERSITY OF TEXAS SYSTEM**

**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

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

<u>Securities on Loan</u>	<u>2012 Value</u>	<u>2011 Value</u>	<u>Type of Collateral</u>	<u>2012 Value of Collateral</u>	<u>2011 Value of Collateral</u>
U.S. Government	\$ 39,033,408	\$ 26,031,079	Cash	\$ 39,835,732	\$ 26,556,856
Foreign					
Government	755,774	20,436,360	Cash	802,725	21,432,750
Corporate Bonds	20,907,883	22,586,383	Cash	21,468,093	23,194,806
Common Stock	64,899,881	40,996,525	Cash	67,966,235	42,680,792
<b>Total</b>	<u>\$ 125,596,946</u>	<u>\$ 110,050,347</u>	<b>Total</b>	<u>\$ 130,072,785</u>	<u>\$ 113,865,204</u>
U.S. Government	\$ 89,661,244	\$ 2,081,645	Non-Cash	\$ 91,514,032	\$ 2,208,858
Common Stock	7,089	465,570	Non-Cash	7,235	494,022
Corporate Bonds	-	369,893	Non-Cash	-	392,498
	<u>\$ 89,668,333</u>	<u>\$ 2,917,108</u>		<u>\$ 91,521,267</u>	<u>\$ 3,095,378</u>

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

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



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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Description	August 31,					
	2012			2011		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 63,661,628	No Available	4	\$ 40,399,273	No Available	1
Treasuries	1,808,564	AA	169	-	-	-
Agencies	3,549,733	P	36	-	-	-
Commercial Paper	28,022,245	P	57	39,740,319	P	28
Floating Rate Notes	15,572,361	AA		9,775,831	AA	
Floating Rate Notes	4,356,183	A		11,751,580	A	
Total Floating Rate Notes	<u>19,928,544</u>		40	<u>21,527,411</u>		33
Interest Bearing Notes	-		-	537,892	AA	76
Certificates of Deposit	12,207,271	P	68	11,646,656	P	33
Time Deposits	904,455	P	24	-	-	-
Other Receivables/Payables	(9,655)	Not Rated	-	13,653	Not Rated	-
Total Collateral Pool Investment	<u>\$ 130,072,785</u>		30	<u>\$ 113,865,204</u>		20

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 assets. Pool investments are valued at cost which because of the nature of these investments is indicative of fair value. Investments received as collateral for securities lending activities are not recorded as assets because the investments remain under the control of the transferor, except in the event of default.

In the event of default, where the borrower is unable to return the securities loaned, the 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, 2012 and 2011, 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, 2012 and 2011.

**Note 5 – Investment Funds**

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

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

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

	August 31,	
	2012	2011
<b>Investment Funds:</b>		
<b>Hedge Funds:</b>		
Developed Country Equity	\$ 1,138,609,290	\$ 1,046,946,004
Credit Related Fixed Income	304,630,635	240,501,062
Investment Grade Fixed Income	171,507,090	154,827,403
Emerging Market Equity	155,108,538	132,082,960
Real Estate	33,868,524	34,232,638
Natural Resources	4,002,894	5,771,134
Total Hedge Funds	<u>1,807,726,971</u>	<u>1,614,361,201</u>
<b>Public Markets:</b>		
<b>Developed Country Equity:</b>		
Private Placements	<u>270,859,060</u>	<u>231,743,586</u>
<b>Emerging Markets:</b>		
Private Placements	113,840,094	159,947,176
Other Investment Funds	26,159,342	-
Total Emerging Markets	<u>139,999,436</u>	<u>159,947,176</u>
<b>Natural Resources:</b>		
Private Placements	63,534,287	64,978,156
Other Investment Funds	1,846,680	-
Total Natural Resources	<u>65,380,967</u>	<u>64,978,156</u>
Total Public Markets	<u>476,239,463</u>	<u>456,668,918</u>
<b>Total Investment Funds</b>	<u>\$ 2,283,966,434</u>	<u>\$ 2,071,030,119</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 placements with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. The funds invested may be subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these private placements, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed \$122,892,459 of future funding to various hedge fund investments as of August 31, 2012 of which the Fund's pro-rata portion is \$28,019,481.

Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the Fund. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. Certain of these investments are held through limited liability companies of which UTIMCO is the sole managing member. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. Future funding in the amount of \$22,000,000, of which the Fund's pro-rata portion is \$3,818,275, have been committed to certain public market funds as of August 31, 2012.

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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In some instances it may be necessary for the Fund to provide funding for certain managers in advance of the effective investment date to facilitate trading in the international market by the investment manager. As of August 31, 2012, \$25,000,000, of which the Fund's pro-rata share was \$4,360,000, had been funded to a manager for investment on the first business day of September 2012. This amount is included in the investment funds fair value on the statements of fiduciary net assets.

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

Hedge funds 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 lockup 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.

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

### **Note 6 – Written Options**

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

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2012	
				Assets	Liabilities
<b>Commodity</b>					
	Corn Futures	1	11/23/12	\$ -	\$ 751
<b>Interest Rate Swap</b>					
	United States 3 month Libor	2,800,000	10/11/12	-	12,001
	United States 3 month Libor	5,300,000	11/14/12	-	54,386
	United States 3 month Libor	24,000,000	3/18/13	-	829,475
				-	895,862
				<u>\$ -</u>	<u>\$ 896,613</u>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open call options for the year ending August 31, 2012 was a decrease in the amount of \$632,156, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The Fund recognized losses in the amount of \$109,791 on call options written which are included in the net increase in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2012.

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

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2012	
				Assets	Liabilities
<b>Interest Rate Swap</b>					
	United States 3 month Libor	2,800,000	10/11/12	\$ -	\$ 34
	United States 3 month Libor	5,300,000	11/14/12	-	304
	United States 3 month Libor	24,000,000	3/18/13	-	44,538
				<u>-</u>	<u>44,876</u>
<b>Commodity</b>					
	Brent Crude Futures	1	11/12/12	-	8,034
	Copper Futures	2	12/5/12	-	1,768
	Corn Futures	10	11/23/12	-	171
	Corn Futures	6	11/23/13	-	13,671
	Crude Oil Futures	1	11/13/12	-	255
	Crude Oil Futures	1	11/17/15	-	8,306
	Natural Gas Futures	5	12/26/12	-	6,200
				<u>-</u>	<u>38,405</u>
<b>Equity</b>					
	Australia S&P/ASX 200 Index	31,871	9/20/12	-	11,095
	Australia S&P/ASX 200 Index	14,539	8/15/13	-	557,736
	Korean KOSPI 200 Index	743,988,083	6/13/13	-	753,045
	Korean KOSPI 200 Index	493,203,234	8/8/13	-	1,770,141
				<u>-</u>	<u>3,092,017</u>
<b>Other</b>					
	CPI Urban Consumer Not Seasonally Adj.	700,000	9/29/20	-	882
	CPI Urban Consumer Not Seasonally Adj.	800,000	10/13/20	-	1,860
				<u>-</u>	<u>2,742</u>
				<u>\$ -</u>	<u>\$ 3,178,040</u>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open put options for the year ending August 31, 2012 was an increase in the amount of \$7,306,925, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The Fund recognized gains in the amount of \$24,214,807 on put options written which are included in the net increase in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2012.

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

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2011	
				Assets	Liabilities
<b>Commodity</b>					
	Copper Futures	1	12/7/11	\$ -	\$ 3,146
	Corn Futures	1	11/23/12	-	866
				-	4,012
<b>Other</b>					
	Forward Volatility Agreement	2,800,000	10/11/11	-	8,727
	Forward Volatility Agreement	5,300,000	11/14/11	-	53,765
				-	62,492
				<b>\$ -</b>	<b>\$ 66,504</b>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open call options for the year ending August 31, 2011 was an increase in the amount of \$11,781, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The Fund recognized gains in the amount of \$53,037 on call options written which are included in the net increase in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2011.

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

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

Type	Underlying	Contracts	Expiration Date	Fair Value at August 31, 2011	
				Assets	Liabilities
<b>Interest Rate Swap</b>					
	United States 3 month Libor	25,000,000	6/18/12	\$ -	\$ 15,774
	United States 3 month Libor	3,100,000	7/10/12	-	10
	United States 3 month Libor	31,700,000	9/24/12	-	33,098
				<u>-</u>	<u>48,882</u>
<b>Commodity</b>					
	Brent Crude Futures	4	11/10/11	-	3,112
	Corn Futures	3	11/23/12	-	5,317
	Crude Oil Futures	1	11/15/11	-	817
	Crude Oil Futures	1	11/17/15	-	10,702
				<u>-</u>	<u>19,948</u>
<b>Currency</b>					
	U.S. Dollar vs. Euro	4,500,000	9/27/11	-	49,146
<b>Equity</b>					
	Australia S&P/ASX 200 Index	27,091	6/21/12	-	4,987,241
	Australia S&P/ASX 200 Index	11,672	6/20/13	-	3,139,667
	Australia S&P/ASX 200 Index	14,539	8/15/13	-	2,243,556
	Dow Jones U.S. Real Estate Index	1,270,641	2/21/12	-	1,616,125
	Korean KOSPI 200 Index	213,610,632	6/13/13	-	3,395,559
	Korean KOSPI 200 Index	493,203,234	8/8/13	-	5,505,189
				<u>-</u>	<u>20,887,337</u>
<b>Fixed Income</b>					
	Euro-BOBL Futures	28	9/30/11	-	-
	U.S. 10 yr Treasury Note Futures	59	9/23/11	-	25,078
				<u>-</u>	<u>25,078</u>
<b>Other</b>					
	CPI Urban Consumer Not Seasonally Adj.	700,000	9/29/20	-	3,292
	CPI Urban Consumer Not Seasonally Adj.	800,000	10/13/20	-	6,171
				<u>-</u>	<u>9,463</u>
				<u>\$ -</u>	<u>\$ 21,039,854</u>

The fair value is included on the statements of fiduciary net assets as options written, at fair value. The change in fair value of open put options for the year ending August 31, 2011 was a decrease in the amount of \$652,334, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The Fund recognized gains in the amount of \$1,110,999 on put options written which are included in the net increase in investments on the statement of changes in fiduciary net assets for the year ended August 31, 2011.

**Note 7 – Swaps**

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

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2012	
				Assets	Liabilities
<b>Interest Rate</b>					
<b>Australian Dollar</b>					
	5.000%	400,000	6/15/2022	\$ 41,550	\$ -
<b>British Pound</b>					
	1.250%	10,400,000	9/21/2014	-	160,546
	2.500%	1,200,000	9/21/2013	-	43,250
<b>Japanese Yen</b>					
	0.250%	1,090,000,000	6/20/2014	15,772	-
	0.300%	1,820,000,000	12/19/2014	361	-
	0.350%	420,000,000	6/20/2014	-	4,487
	1.000%	90,000,000	3/21/2023	9,682	-
<b>Mexican Peso</b>					
	5.500%	14,000,000	9/13/2017	15,034	-
	6.750%	119,700,000	6/8/2016	548,454	-
	6.590%	15,100,000	12/8/2015	56,320	-
	6.960%	22,600,000	7/27/2020	153,841	-
<b>U.S. Dollar</b>					
	2.250%	500,000	6/20/2022	-	30,293
				841,014	238,576
<b>Credit Default</b>					
<b>Euro</b>					
	0.250%	3,400,000	6/20/2016	-	5,438
	1.000%	200,000	6/20/2017	3,317	-
<b>U.S. Dollar</b>					
	0.250%	4,100,000	12/20/2016	-	38,616
	0.250%	3,300,000	6/20/2017	-	113,649
	0.510%	800,000	3/20/2018	-	13,943
	0.990%	200,000	9/20/2015	-	4,433
	1.000%	1,700,000	9/20/2012	3,860	-
	1.000%	7,100,000	6/20/2015	172,905	-
	1.000%	11,900,000	12/20/2015	22,186	-
	1.000%	4,700,000	3/20/2016	99,197	-
	1.000%	5,300,000	6/20/2016	99,815	-
	1.000%	2,800,000	9/20/2016	64,629	-
	1.000%	600,000	12/20/2016	29,076	-
	1.000%	3,000,000	6/20/2017	-	464,230
	1.000%	100,000	9/20/2017	-	14,946
	1.000%	1,600,000	12/20/2020	-	91,644
	1.060%	680,000	3/20/2018	54,896	-
	1.450%	1,000,000	6/20/2013	-	12,701
	1.530%	100,000	9/20/2016	121	-
	1.540%	100,000	6/20/2018	1,071	-
	1.600%	900,000	3/20/2021	4,099	-
	1.630%	800,000	3/20/2021	5,340	-
	1.780%	300,000	6/20/2013	-	4,246
	1.970%	700,000	3/20/2021	18,552	-
	2.150%	900,000	3/20/2021	35,210	-
	2.950%	1,700,000	12/20/2020	86,235	-
	5.000%	700,000	9/20/2015	102,249	-
				802,758	763,846



**THE UNIVERSITY OF TEXAS SYSTEM  
INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

	Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2012	
					Assets	Liabilities
<b>Commodity</b>						
<b>U.S. Dollar</b>						
		Uranium	210,358	4/30/2013	\$ -	\$ 14,650
		S&P GSCI Grains	2,273,394	2/28/2013	-	28,963
					<u>-</u>	<u>43,613</u>
<b>Equity</b>						
<b>U.S. Dollar</b>						
		MSCI Korea Index	3,850,514	5/29/2013	106,580	-
		U.S. Real Estate Index	57,084,589	8/20/2013	-	45,949
		Taiwan TAIEX Index	2,694,240	9/19/2012	-	31,839
					<u>106,580</u>	<u>77,788</u>
<b>Total</b>					<u><b>\$ 1,750,352</b></u>	<u><b>\$ 1,123,823</b></u>

The change in fair value of open swap positions for the year ending August 31, 2012 was a decrease in the amount of \$210,074, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

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

**THE UNIVERSITY OF TEXAS SYSTEM  
INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2011	
				Assets	Liabilities
<b>Interest Rate</b>					
<b>UK Pound</b>					
	2.500%	13,000,000	9/21/2013	\$ -	\$ 506,924
<b>Canadian Dollar</b>					
	5.750%	1,000,000	12/19/2028	104,444	-
<b>Euro</b>					
	2.000%	16,800,000	9/21/2016	-	195,089
	3.000%	2,300,000	9/21/2016	129,673	-
	3.000%	5,300,000	9/21/2021	93,905	-
<b>Japanese Yen</b>					
	0.250%	1,830,000,000	12/21/2013	40,551	-
<b>U.S. Dollar</b>					
	3.250%	6,300,000	12/21/2021	-	423,412
	3.500%	7,700,000	6/15/2021	-	839,312
<b>Mexican Peso</b>					
	6.590%	15,100,000	12/8/2015	63,136	-
	6.750%	167,800,000	6/8/2016	802,153	-
	6.960%	35,200,000	7/27/2020	140,890	-
	7.500%	34,000,000	6/2/2021	235,752	-
<b>Brazilian Real</b>					
	11.245%	2,400,000	1/2/2012	-	4,776
	11.250%	3,900,000	1/2/2012	-	7,622
	11.360%	7,200,000	1/2/2012	74,464	-
				<u>1,684,968</u>	<u>1,977,135</u>
<b>Credit Default</b>					
<b>Euro</b>					
	0.250%	3,400,000	6/20/2016	-	52,894
<b>U.S. Dollar</b>					
	0.210%	100,000	9/20/2011	-	39
	0.250%	7,300,000	12/20/2015	-	357,133
	0.250%	1,100,000	3/20/2016	-	58,174
	0.250%	2,900,000	9/20/2016	-	176,066
	0.450%	1,000,000	9/20/2014	-	4,418
	0.460%	100,000	9/20/2011	-	80
	0.510%	800,000	3/20/2018	-	3,539
	0.550%	300,000	9/20/2011	-	309
	0.770%	300,000	3/20/2012	-	1,243
	0.990%	1,000,000	9/20/2015	-	8,840
	1.000%	9,300,000	12/20/2011	30,188	-
	1.000%	1,700,000	9/20/2012	5,525	-
	1.000%	5,400,000	12/20/2012	-	60,337
	1.000%	7,100,000	6/20/2015	118,185	-
	1.000%	11,900,000	12/20/2015	-	66,831
	1.000%	4,700,000	3/20/2016	57,337	-
	1.000%	7,500,000	6/20/2016	43,937	-
	1.000%	3,800,000	9/20/2016	-	63,063
	1.000%	400,000	12/20/2016	58,240	-
	1.000%	1,600,000	12/20/2020	-	85,401
	1.060%	780,000	3/20/2018	81,761	-
	1.170%	1,000,000	6/20/2013	-	7,146
	1.450%	1,000,000	6/20/2013	-	17,066
	1.530%	100,000	9/20/2016	2,141	-
	1.540%	800,000	12/20/2013	73,365	-
	1.540%	100,000	6/20/2018	-	236
	1.600%	900,000	3/20/2021	4,891	-
	1.620%	1,000,000	6/20/2012	22,194	-

**THE UNIVERSITY OF TEXAS SYSTEM  
INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

Currency	Coupon	Notional Value	Maturity Date	Fair Value at August 31, 2011	
				Assets	Liabilities
<b>Credit Default</b>					
<b>U.S. Dollar (continued)</b>					
	1.630%	800,000	3/20/2021	\$ 6,046	\$ -
	1.743%	300,000	6/20/2013	-	5,585
	1.780%	300,000	6/20/2013	-	5,810
	1.820%	200,000	6/20/2013	-	4,034
	1.970%	700,000	3/20/2021	12,467	-
	2.150%	900,000	3/20/2021	27,129	-
	2.950%	1,700,000	12/20/2020	108,930	-
	5.000%	700,000	9/20/2015	114,439	-
				<u>766,775</u>	<u>978,244</u>
<b>Commodity</b>					
<b>U.S. Dollar</b>					
	Uranium	222,460	4/30/2012	-	36,944
				<u>-</u>	<u>36,944</u>
<b>Equity</b>					
<b>U.S. Dollar</b>					
	MSCI Canada Index	6,185,979	5/16/2012	136,597	-
	MSCI Europe Index	10,301,394	2/22/2012	-	582,109
	MSCI Japan Index	3,302,486	2/22/2012	-	132,255
	Oil & Gas	12,741,941	9/26/2011	502,971	-
	S&P 400 Index	9,345,419	2/21/2012	-	1,037,865
	S&P 500 Index	23,794,896	8/20/2012	-	2,038,965
	U.S. Real Estate Index	46,501,507	8/20/2012	-	3,753,984
				<u>639,568</u>	<u>7,545,178</u>
<b>Total</b>				<b>\$ 3,091,311</b>	<b>\$ 10,537,501</b>

The change in fair value of open swap positions for the year ending August 31, 2011 was a decrease in the amount of \$7,981,498, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

**Note 8 – Futures Contracts**

During the years ended August 31, 2012 and 2011, the asset classes that used futures included domestic and foreign equities, domestic and foreign debt, and commodities. The change in fair value of open futures contracts for the years ending August 31, 2012 and 2011 were an increase in the amount of \$553,166 and \$2,788,795 respectively, which is included in the net increase in investments on the statement of changes in fiduciary net assets. The Fund had \$16,737,225 and \$28,968,066 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2012 and 2011, respectively. Short futures may be used by the Fund to hedge the Fund's interest rate or currency risk associated with security positions. The amount of net realized losses on futures contracts, which is included in the net increase in investments on the statement of changes in fiduciary net assets, was \$9,056,172 for the year ended August 31, 2012. The amount of net realized gains on futures contracts was \$41,282,916 for the year ended August 31, 2011.

Futures contracts on commodities are traded on several different exchanges around the world. The daily cash settlements made by the investment manager for these open commodities contracts are made on a net basis to each respective exchange. The carrying and fair value, for August 31, 2012, shown in the table below for these open contracts do not include amounts previously settled with the exchanges. Net cash settlements for these open commodities contracts amounted to \$1,084,234 and \$181,063 as of August 31, 2012 and 2011, respectively.

**THE UNIVERSITY OF TEXAS SYSTEM**

**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

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

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

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2012		Carrying and Fair Value at August 31, 2012	
			Long	Short	Assets	Liabilities
<b>Commodities</b>						
Aluminum Hg	-	Sep-12	\$ 614,494	\$ 614,494	\$ -	\$ 35,681
Aluminum Hg	73	Dec-12	5,489,455	2,002,215	-	489,134
Aluminum Hg	33	Jun-13	1,613,700	-	-	-
Brent Crude Oil	9	Oct-12	1,076,342	-	-	-
Brent Crude Oil	24	Dec-12	2,726,400	-	-	-
Brent Crude Oil	25	Dec-13	2,047,060	638,111	-	-
Coffee 'C'	33	Dec-12	2,034,005	-	-	44,401
Copper	6	Sep-12	2,021,385	971,820	15,524	-
Copper	39	Dec-12	3,586,606	-	-	60,937
Copper	35	Mar-13	3,032,313	-	-	-
Corn	190	Dec-12	7,602,993	-	1,080	-
Corn	9	Jul-13	351,225	-	-	-
Cotton No 2	25	Sep-12	972,288	-	-	-
Cotton No 2	-	Dec-12	-	-	-	12,676
Cotton No 2	20	Mar-13	779,800	-	-	-
Crude Oil	2	Oct-12	216,724	-	91,332	-
Crude Oil	13	Dec-12	1,248,956	-	81,919	-
Crude Oil	2	Jun-13	220,228	-	18,659	-
Crude Oil	43	Dec-13	4,132,487	-	21,771	34,572
Crude Oil	45	Dec-14	4,174,200	-	-	-
Gasoline RBOB	3	Oct-12	433,496	-	58,609	-
Gasoline RBOB	22	Dec-12	2,613,072	-	-	-
Gasoline RBOB	4	Jun-13	487,553	-	-	-
Gold 100 OZ	1	Oct-12	172,095	-	5,704	-
Gold 100 OZ	62	Dec-12	10,495,250	-	73,655	-
Heating Oil	4	Oct-12	600,133	-	65,354	-
Heating Oil	13	Dec-12	1,734,041	-	-	-
Heating Oil	11	Mar-13	1,445,875	-	-	-
Lead	-	Sep-12	220,666	220,666	-	12,524
Lean Hogs	62	Dec-12	1,792,669	-	-	397
Live Cattle	16	Apr-13	869,760	-	1,023	-
Natural Gas	53	Oct-12	1,617,747	154,025	11,259	-
Natural Gas	6	Nov-12	-	193,922	-	214
Natural Gas	49	Dec-12	2,606,706	40,908	-	-
Natural Gas	196	Jan-13	6,596,273	-	-	67,445
Natural Gas	6	Feb-13	199,891	-	-	5,420
Natural Gas	3	Mar-13	103,055	-	4,170	-
Natural Gas	66	Jan-14	2,617,327	-	-	645
Natural Gas	9	Mar-14	331,528	-	584	-
Nickel	-	Sep-12	1,909,080	1,909,080	-	183,054
Nickel	25	Dec-12	2,561,709	156,526	-	28,849
Platinum	10	Oct-12	769,212	-	52,211	-
Silver	21	Dec-12	3,346,820	-	90,879	-
Soybean	40	Nov-12	3,496,348	-	367,132	-
Soybean	29	Mar-13	2,442,163	-	-	-
Soybean	63	May-13	5,008,500	-	-	-
Soybean Oil	82	Dec-12	2,816,556	-	75,197	-
Sugar #11 World	99	Oct-12	2,188,231	-	-	23,658
Sugar #11 World	42	Mar-13	1,367,878	-	-	-

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2012		Carrying and Fair Value at August 31, 2012	
			Long	Short	Assets	Liabilities
<b>Commodities (continued)</b>						
Sugar #11 World	47	May-13	\$ 1,079,120	\$ -	\$ -	\$ -
Wheat	38	Dec-12	1,669,386	-	12,688	-
Wheat	46	Mar-13	2,068,850	-	-	-
Wheat	71	Jul-13	3,049,549	-	3,471	-
Zinc	-	Sep-12	1,547,638	1,547,638	-	21,750
Zinc	87	Dec-12	4,025,047	-	-	25,348
			<u>118,223,885</u>	<u>8,449,405</u>	<u>1,052,221</u>	<u>1,046,705</u>
<b>Domestic Fixed Income</b>						
US Treasury Bond	5	Dec-12	-	757,031	-	4,688
US 5yr Treasury Note	6	Dec-12	802,312	-	25,945	-
US 10yr Treasury Note	81	Dec-12	10,097,789	-	3,469	-
			<u>10,900,101</u>	<u>757,031</u>	<u>29,414</u>	<u>4,688</u>
<b>Foreign Fixed Income</b>						
Australia 3 Year Bond	215	Sep-12	-	24,487,284	-	87,080
Canada 10 Year Bond	20	Dec-12	-	2,769,215	-	8,126
Cupom Cambial	1,120	Jan-13	59,002,712	-	-	499,531
Euro-Bobl	44	Sep-12	7,078,061	-	11,086	-
Euro Btp	10	Dec-12	1,246,382	-	-	6,794
Euro-Bund	2	Sep-12	363,074	-	8,613	-
Japan 10yr Bond	20	Sep-12	36,781,609	-	17,842	-
One-Day Bank Deposit Rate	1,120	Jan-13	-	52,225,457	1,865	-
UK Long Gilt	1	Dec-12	-	192,111	-	461
			<u>104,471,838</u>	<u>79,674,067</u>	<u>39,406</u>	<u>601,992</u>
<b>Foreign Equity</b>						
Bovespa IndexFuture	2	Oct-12	-	81,047	1,276	-
			<u>-</u>	<u>81,047</u>	<u>1,276</u>	<u>-</u>
<b>Total</b>			<u>\$ 233,595,824</u>	<u>\$ 88,961,550</u>	<u>\$ 1,122,317</u>	<u>\$ 1,653,385</u>

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

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2011		Carrying and Fair Value at August 31, 2011		
			Long	Short	Assets	Liabilities	
<b>Domestic Equity</b>							
S&P 500 Index	4	Sep-11	\$ 1,217,700	\$ -	\$ 12,900	\$ -	
<b>Commodities</b>							
Aluminum Hg	-	Oct-11	735,675	735,675	69,731	-	
Aluminum Hg	103	Dec-11	6,687,088	305,940	-	50,748	
Aluminum Hg	7	Dec-12	463,811	-	-	27,059	
Brent Crude Oil	9	Sep-11	1,012,977	-	73,098	-	
Brent Crude Oil	75	Nov-11	8,520,000	-	-	-	
Brent Crude Oil	2	May-12	-	197,586	4,492	-	
Coffee 'C'	11	Dec-11	1,297,125	84,746	-	8,590	
Coffee 'C'	19	Mar-12	2,070,525	-	-	-	
Coffee Robusta	4	Nov-11	86,881	-	3,651	-	
Copper	88	Dec-11	10,227,782	-	82,222	-	
Copper	2	Dec-12	454,401	-	22,712	-	
Corn	303	Dec-11	11,630,849	-	198,918	-	
Cotton No 2	39	Dec-11	2,077,685	-	-	45,460	
Crude Oil	6	Sep-11	522,203	-	28,459	-	
Crude Oil	44	Nov-11	3,951,470	-	-	12,786	
Crude Oil	11	May-12	963,144	-	-	8,811	
Crude Oil	63	Nov-12	5,769,527	-	-	56,317	
Gas Oil	8	Sep-11	801,385	-	40,855	-	
Gasoline RBOB	8	Oct-11	994,710	-	1,958	-	
Gasoline RBOB	31	Nov-11	3,769,786	69,270	-	3,674	
Gold 100 Oz	113	Dec-11	20,678,428	-	823,680	-	
Heating Oil	1	Sep-11	76,162	-	-	855	
Heating Oil	2	Oct-11	279,842	-	707	-	
Heating Oil	23	Nov-11	3,251,115	203,910	-	11,500	
Heating Oil	14	May-12	1,778,347	-	-	-	
Lead	6	Dec-11	467,935	75,881	54,896	-	
Lean Hogs	2	Oct-11	68,400	-	-	-	
Lean Hogs	79	Dec-11	2,635,159	-	-	1,833	
Live Cattle	2	Oct-11	89,396	-	-	2,285	
Live Cattle	49	Dec-11	2,286,846	-	-	12,971	
Live Cattle	54	Feb-12	2,596,780	-	29	-	
Mill Wheat Euro	17	Nov-11	262,306	-	-	21,377	
Natural Gas	6	Sep-11	-	220,188	10,343	7,623	
Natural Gas	3	Oct-11	-	109,159	-	12,911	
Natural Gas	-	Nov-11	128,948	115,988	-	25,634	
Natural Gas	174	Dec-11	7,835,156	-	-	37,838	
Natural Gas	95	Dec-12	4,882,764	-	-	7,875	
Nickel	-	Nov-11	665,910	665,910	112,260	-	
Nickel	20	Dec-11	2,607,749	-	-	9,955	
Platinum	4	Oct-11	363,815	-	9,757	-	
Platinum	2	Jan-12	182,280	-	108	-	
Silver	30	Dec-11	6,248,493	-	30,944	-	
Soybean	85	Nov-11	6,162,601	-	78,945	-	
Soybean	58	Jul-12	4,250,675	-	-	-	
Soybean Oil	75	Oct-11	2,641,050	-	-	-	
Soybean Oil	24	Dec-11	850,608	-	-	-	

THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Contract	Number of Contracts	Expiration	Notional Value at August 31, 2011		Carrying and Fair Value at August 31, 2011		
			Long	Short	Assets	Liabilities	
<b>Commodities (continued)</b>							
Sugar #11 World	65	Sep-11	\$ 2,175,596	\$ -	\$ 68,056	\$ -	
Sugar #11 World	35	Feb-12	1,132,096	-	-	-	
Sugar #11 World	24	Jun-12	704,794	-	-	-	
Sugar #11 World	4	Sep-12	111,604	-	18,148	-	
Wheat	78	Dec-11	3,149,707	-	76,412	-	
Wheat	70	Mar-12	2,894,500	-	-	-	
Zinc	27	Dec-11	1,545,819	-	49,807	-	
Zinc	40	Jun-12	2,340,250	-	-	-	
			<u>147,382,155</u>	<u>2,784,253</u>	<u>1,860,188</u>	<u>366,102</u>	
<b>Foreign Fixed Income</b>							
Australia 3 Year Bond	81	Sep-11	-	9,208,473	36,608	-	
Canada 10 Year Bond	69	Dec-11	9,138,610	-	29,382	-	
Euro-Bobl	49	Sep-11	-	8,588,781	104,242	-	
Euro-Bund	51	Sep-11	9,880,714	-	489,562	-	
Euro-Bund	18	Dec-11	3,446,622	-	-	3,357	
UK Long Gilt	48	Dec-11	9,884,389	-	270,410	-	
			<u>32,350,335</u>	<u>17,797,254</u>	<u>930,204</u>	<u>3,357</u>	
<b>Foreign Equity</b>							
DAX Index Future	14	Sep-11	2,919,015	-	76,320	-	
FTSE 100 Index Future	43	Sep-11	3,770,994	-	97,579	-	
			<u>6,690,009</u>	<u>-</u>	<u>173,899</u>	<u>-</u>	
<b>Total</b>			<u>\$ 187,640,199</u>	<u>\$ 20,581,507</u>	<u>\$ 2,977,191</u>	<u>\$ 369,459</u>	

**Note 9 – Foreign Currency Exchange Contracts**

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



THE UNIVERSITY OF TEXAS SYSTEM

INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Currency	Net Buy August 31, 2012	Net Sell August 31, 2012	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2012	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2012
Australian Dollar	\$ -	\$ 127,254,763	\$ 686,134	\$ 1,705,349
Brazilian Real	7,244,699	-	98,302	511,898
Canadian Dollar	-	160,771	283,178	182,003
Chilean Peso	12,971,628	-	452,133	-
Chinese Yuan Renminbi	-	1,466	79,789	851,356
Colombian Peso	-	3,747,973	38,603	-
Danish Krone	1,531,216	-	15,098	-
Euro	-	89,075,552	702,037	2,690,121
Hong Kong Dollar	36,821	-	-	11
Hungarian Forint	970	-	1	-
Indian Rupee	-	18,753	842,368	283,464
Indonesian Rupian	1,164	-	1	-
Japanese Yen	54,250,282	-	601,528	1,026,007
Malaysian Ringgit	8,484,499	-	26,058	28
Mexican Peso	7,827,588	-	103,935	172,818
New Zealand Dollar	-	66,373,065	138,053	498,095
Norwegian Kroner	521,725	-	5,573	-
Philippine Peso	4,650	-	172	-
Polish Zloty	-	9,553,980	-	95,835
Singapore Dollar	369,075	-	3,232	-
South African Rand	9,583,078	-	142,041	51,167
South Korean Won	18,383,168	-	274,593	78,354
Swedish Krona	10,046,228	-	110,645	375
Swiss Franc	-	19,229,990	21,714	595,661
Taiwan Dollar	10,793,626	-	9,970	179,878
Thailand Baht	522,610	-	5,832	-
Turkish Lira	16,454,810	-	-	313,741
UK Pound	29,333,017	-	1,041,452	728,018
	<u>\$ 188,360,854</u>	<u>\$ 315,416,313</u>	<u>\$ 5,682,442</u>	<u>\$ 9,964,179</u>

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2012 was a decrease in the amount of \$4,281,737, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Currency	Net Buy August 31, 2011	Net Sell August 31, 2011	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2011	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2011
Australian Dollar	\$ -	\$ 84,595,369	\$ 1,099,116	\$ 283,538
Brazilian Real	-	12,016,234	233,070	2,083
Canadian Dollar	12,547,819	-	329,684	92,698
Chinese Yuan Renminbi	20,124,590	-	398,038	118,962
Danish Krone	4,127,134	-	63,660	7,934
Euro	-	95,475,832	539,109	1,956,672
Hong Kong Dollar	-	1,493,423	20	757
Indian Rupee	3,503,422	-	96,591	7,701
Indonesian Rupian	2,015,691	-	137,320	177
Japanese Yen	90,052,772	-	2,536,713	4,979,644
Malaysian Ringgit	571,718	-	19,312	146
Mexican Peso	-	5,530,587	778,496	473,270
New Zealand Dollar	-	42,874,338	485,968	155,643
Norwegian Kroner	-	14,262,357	1,329	373,120
Philippines Peso	408,290	-	151,342	98,510
Polish Zloty	423,931	-	191	23,919
Singapore Dollar	630,759	-	49,178	3,295
South African Rand	-	465,045	317,181	141,583
South Korean Won	5,146,997	-	258,891	12,405
Swedish Krona	3,807,346	-	60,034	9,473
Swiss Franc	-	22,318,359	1,675,249	159,682
Taiwan Dollar	7,003,066	-	17,046	44,690
Thailand Baht	406,977	-	18,360	-
Turkish Lira	13,382,113	-	314,660	-
UK Pound	10,979,221	-	298,516	273,219
	\$ 175,131,846	\$ 279,031,544	\$ 9,879,074	\$ 9,219,121

The change in fair value of open foreign currency exchange contracts for the year ending August 31, 2011 was an increase in the amount of \$659,953, which is included in the net increase in investments on the statement of changes in fiduciary net assets.

**Note 10 – Purchase Agreement**

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

**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 0.15% to 1.50%. In addition to

## THE UNIVERSITY OF TEXAS SYSTEM

### INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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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 assets 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.

UTIMCO assesses the Fund a management fee 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. The fees for the years ended August 31, 2012 and 2011 were \$3,230,325 and \$3,064,771, 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. Fees incurred for the years ended August 31, 2012 and 2011, were \$1,263,756 and \$1,378,513, 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. For the years ended August 31, 2012 and 2011 the fees incurred totaled \$38,914 and \$48,081, 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, 2012 and 2011, the fees amounted to \$77,480 and \$93,250, respectively.

Analytical and risk measurement fees are also incurred to maintain a sophisticated risk measurement system for the Fund. Fees incurred for the years ended August 31, 2012 and 2011, were \$130,139 and \$127,393, respectively.

The Fund incurs accounting fees for external and UT System internal audit services. For the years ended August 31, 2012 and 2011, fees in the amount of \$86,318 and \$157,550, respectively, were paid by the Fund.

Consulting fees, in the amount of \$87,875 and \$84,548, respectively, for the years ending August 31, 2012 and 2011, 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 amount of \$23,958 and \$21,601, were incurred for the years ending August 31, 2012 and 2011, 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 \$25,301 and \$29,316, were incurred for the years ending August 31, 2012 and 2011, respectively.

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Supplemental Schedules*

**Comparison Summary of Investments**  
*August 31, 2012 and 2011*  
*(in thousands)*

	<b>2012</b>		<b>2011</b>	
	<b>Value</b>	<b>% of Total Investments</b>	<b>Value</b>	<b>% of Total Investments</b>
<b>Equity Securities</b>				
Domestic Common Stock	\$ 193,685	3.93%	\$ 181,430	3.96%
Foreign Common Stock	338,321	6.87%	352,719	7.69%
Other Equity Securities	27	0.00%	9	0.00%
<b>Total Equity Securities</b>	<b>532,033</b>	<b>10.80%</b>	<b>534,158</b>	<b>11.65%</b>
<b>Preferred Stock</b>				
Domestic Preferred Stock	531	0.01%	923	0.02%
Foreign Preferred Stock	14,552	0.30%	17,165	0.37%
<b>Total Preferred Stock</b>	<b>15,083</b>	<b>0.31%</b>	<b>18,088</b>	<b>0.39%</b>
<b>Debt Securities</b>				
U.S. Government Obligations	309,215	6.28%	348,429	7.60%
Corporate Obligations	451,299	9.17%	409,550	8.93%
Foreign Government and Provincial Obligations	723,594	14.70%	503,818	10.99%
Other	22,439	0.46%	20,657	0.45%
<b>Total Debt Securities</b>	<b>1,506,547</b>	<b>30.61%</b>	<b>1,282,454</b>	<b>27.97%</b>
<b>Purchased Options</b>	<b>10,312</b>	<b>0.21%</b>	<b>42,844</b>	<b>0.93%</b>
<b>Convertible Securities</b>	<b>139</b>	<b>0.00%</b>	<b>1,224</b>	<b>0.03%</b>
<b>Investment Funds</b>				
Hedge Funds	1,807,727	36.72%	1,614,361	35.22%
Developed Country Equity	270,859	5.50%	231,744	5.06%
Emerging Markets	139,999	2.84%	159,947	3.49%
Natural Resources	65,381	1.33%	64,978	1.42%
<b>Total Investment Funds</b>	<b>2,283,966</b>	<b>46.39%</b>	<b>2,071,030</b>	<b>45.19%</b>
<b>Physical Commodities - Gold</b>	<b>234,745</b>	<b>4.77%</b>	<b>242,342</b>	<b>5.29%</b>
<b>Cash and Cash Equivalents</b>	<b>340,678</b>	<b>6.91%</b>	<b>391,868</b>	<b>8.55%</b>
<b>Total Investments</b>	<b>\$ 4,923,503</b>	<b>100.00%</b>	<b>\$ 4,584,008</b>	<b>100.00%</b>

**THE UNIVERSITY OF TEXAS SYSTEM**  
**INTERMEDIATE TERM FUND**  
*Supplemental Schedules (cont.)*

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**Financial Highlights**

*Years Ended August 31,*

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Selected Per Unit Data</b>					
Net Asset Value, Beginning of Period	\$ 110.435	\$ 102.029	\$ 94.674	\$ 104.957	\$ 108.986
Income From Investment Operations					
Net Investment Income (A)	1.353	1.413	1.532	1.774	2.510
Net Realized and Unrealized Gain (Loss) on Investments	1.686	10.301	8.810	(9.448)	(3.202)
Total Income (Loss) from Investment Operations	3.039	11.714	10.342	(7.674)	(0.692)
Less Distributions					
From Net Investment Income	1.353	1.413	1.532	1.774	2.510
From Net Realized Gain	1.898	1.895	1.455	0.835	0.827
Total Distributions	3.251	3.308	2.987	2.609	3.337
Net Asset Value, End of Period	\$ 110.223	\$ 110.435	\$ 102.029	\$ 94.674	\$ 104.957
<b>Ratios and Supplemental Data</b>					
Net Assets, End of Period (in thousands)	\$ 4,892,993	\$ 4,661,577	\$ 4,155,806	\$ 3,571,567	\$ 3,874,807
Ratios to Average Net Assets					
Expenses	0.29%	0.37%	0.35%	0.44%	0.31%
Net Investment Income (A)	1.25%	1.30%	1.55%	1.99%	2.27%
Distributions	3.00%	3.05%	3.02%	2.93%	3.04%

(A) Net investment income is comprised of investment income (excluding the net increase in investments) and investment expenses as presented on the statement of changes in fiduciary net assets.