

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

*Years Ended August 31, 2016 and 2015*

# The University of Texas System Intermediate Term Fund

## Financial Statements

Years Ended August 31, 2016 and 2015

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## **INDEPENDENT AUDITORS' REPORT**

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

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

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

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

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

### **Auditors' Responsibility**

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

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

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

### **Opinion**

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

### **Emphasis of Matter**

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

Our opinion is not modified with respect to this matter.

### **Other Matters**

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

## **Report on Supplemental Schedule**

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

*Deloitte & Touche LLP*

October 28, 2016

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

Our discussion and analysis of The University of Texas System Intermediate Term Fund's (Fund) financial performance provides an overview of its activities for the years ended August 31, 2016 and 2015. This discussion was prepared by The University of Texas Investment Management Company (UTIMCO) and should be read in conjunction with the Fund's financial statements and notes. The Fund, 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 position, after contributions, withdrawals, and distributions increased by \$799.6 million from \$7,036.5 million to \$7,836.1 million or by approximately 11.4% for the year ended August 31, 2016, compared to an increase of \$371.6 million or approximately 5.6% for the year ended August 31, 2015. The change in net fiduciary position from year to year is mainly attributable to the following:

1. Net participant contributions to the Fund were \$761.4 million for the year ended August 31, 2016, compared to \$821.0 million for the year ended August 31, 2015.
2. The Fund posted a net investment gain of 3.27%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2016. Investments in emerging markets equities, real estate equities and investment grade fixed income were the biggest contributors to the 2016 return. Investments in developed country equities and hedge funds were the biggest contributors for August 31, 2015.
3. The Fund's distribution rate was 3.0% per year, or 0.25% per month, for the years ended August 31, 2016 and 2015. Distributions from the Fund were \$219.5 million for the year ended August 31, 2016 compared to the \$210.0 million distributed for the year ended August 31, 2015.

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## Use of Financial Statements and Notes

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

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

## Statements of Fiduciary Net Position

The statements of fiduciary net position present assets, liabilities, and the net position of the Fund as of the end of the 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 position (in millions):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Assets</b>			
Investments, at Fair Value	\$ 7,925.6	\$ 7,058.8	\$ 6,810.7
Other Assets	612.0	427.6	407.8
<b>Total Assets</b>	<u>8,537.6</u>	<u>7,486.4</u>	<u>7,218.5</u>
<b>Total Liabilities</b>	701.5	449.9	553.6
<b>Net Position Held in Trust</b>	<u>\$ 7,836.1</u>	<u>\$ 7,036.5</u>	<u>\$ 6,664.9</u>

## Statements of Changes in Fiduciary Net Position

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

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The net increase in fair value of investments of the Fund was \$191.4 million during the year ended August 31, 2016 compared to the net decrease in fair value of investments of \$295.1 million for the year ended August 31, 2015. Investment expenses totaled \$21.9 million, \$22.9 million and \$20.4 million respectively, for the years ended August 31, 2016, 2015 and 2014.

Distributions to participants totaled \$219.5 million, \$210.0 million and \$185.9 million, respectively, for the years ended August 31, 2016, 2015 and 2014. Cash distributions are paid monthly based on a 3% annual distribution rate.

The following summarizes the statements of changes in fiduciary net position (in millions) for the years ended August 31, 2016, 2015 and 2014:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Investment (Loss) Income	\$ 279.6	\$ (216.4)	\$ 630.9
Less Investment Expenses	21.9	22.9	20.4
Net Investment (Loss) Income	<u>257.7</u>	<u>(239.3)</u>	<u>610.5</u>
Participant Contributions	1,009.1	1,448.1	2,111.1
Total Additions	<u>1,266.8</u>	<u>1,208.8</u>	<u>2,721.6</u>
UT System Oversight Fee	0.1	0.1	0.1
Participant Withdrawals	247.6	627.1	1,390.4
Participant Distributions	219.5	210.0	185.9
Total Deductions	<u>467.2</u>	<u>837.2</u>	<u>1,576.4</u>
Change in Fiduciary Net Position	799.6	371.6	1,145.2
Net Position Held in Trust, Beginning of Period	7,036.5	6,664.9	5,519.7
Net Position Held in Trust, End of Period	<u>\$ 7,836.1</u>	<u>\$ 7,036.5</u>	<u>\$ 6,664.9</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 Position**

August 31, 2016 and 2015

(Dollars in thousands, except for per unit amounts)

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Investments, at Fair Value:		
Equity Securities	\$ 895,263	\$ 633,414
Preferred Stock	16,587	9,558
Debt Securities	2,173,954	1,887,086
Convertible Securities	170	-
Investment Funds	4,258,204	3,882,966
Physical Commodities	156,373	142,088
Purchased Options	1,113	382
Cash and Cash Equivalents	423,893	503,310
Total Investments	<u>7,925,557</u>	<u>7,058,804</u>
Collateral for Securities Loaned, at Fair Value	243,852	218,705
Deposits with Brokers for Derivative Contracts	16,754	16,368
Futures Contracts, at Fair Value	2,348	4,023
Swaps, at Fair Value	93,103	60,379
Unrealized Gains on Foreign Currency Exchange Contracts	12,774	24,411
Receivables:		
Investment Securities Sold	224,825	86,457
Accrued Income	18,246	17,000
Other	135	245
Total Receivables	<u>243,206</u>	<u>103,702</u>
<b>Total Assets</b>	<u>8,537,594</u>	<u>7,486,392</u>
 <b>Liabilities</b>		
Payable upon Return of Securities Loaned	243,852	218,705
Payable to Brokers for Collateral Held	2,342	10,870
Options Written, at Fair Value	1,191	530
Futures Contracts, at Fair Value	1,700	13,012
Swaps, at Fair Value	98,940	60,703
Unrealized Losses on Foreign Currency Exchange Contracts	16,062	11,393
Payables:		
Investment Securities Purchased	312,982	113,137
Distributions Payable	19,576	18,056
Other	4,829	3,470
Total Payables	<u>337,387</u>	<u>134,663</u>
<b>Total Liabilities</b>	<u>701,474</u>	<u>449,876</u>
 <b>Net Position Held in Trust (69,160,844 Units and 62,232,349 Units, respectively)</b>	<b><u>\$ 7,836,120</u></b>	<b><u>\$ 7,036,516</u></b>
<b>Net Position Held in Trust Per Unit</b>	<b><u>\$ 113.303</u></b>	<b><u>\$ 113.068</u></b>

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

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**Statements of Changes in Fiduciary Net Position**

*Years Ended August 31, 2016 and 2015*

*(in thousands)*

<b>Additions</b>	<u>2016</u>	<u>2015</u>
Investment Income:		
Net Increase (Decrease) in Fair Value of Investments	\$ 191,417	\$ (295,063)
Interest	68,150	60,677
Dividends	18,913	16,959
Securities Lending Income	1,129	966
Other Income	-	48
Total Investment Income (Loss)	<u>279,609</u>	<u>(216,413)</u>
Less Investment Expenses:		
Investment Management Fees	15,214	16,527
UTIMCO Management Fee	4,644	4,365
Custodial Fees and Expenses	1,504	1,551
Accounting Fees	166	158
Analytical and Risk Measurement Fees	148	144
Consulting Fees	86	76
Foreign Tax Consulting and Filing Fees	43	19
Background Check Fees	26	11
Legal Fees	18	24
Other Expenses	8	-
Total Investment Expenses	<u>21,857</u>	<u>22,875</u>
Net Investment Income (Loss)	<u>257,752</u>	<u>(239,288)</u>
Participant Contributions	<u>1,009,061</u>	<u>1,448,131</u>
<b>Total Additions</b>	<u>1,266,813</u>	<u>1,208,843</u>
<b>Deductions</b>		
Administrative Expenses:		
UT System Oversight Fee	61	60
Participant Withdrawals	247,674	627,156
Participant Distributions	<u>219,474</u>	<u>209,964</u>
<b>Total Deductions</b>	<u>467,209</u>	<u>837,180</u>
Change in Fiduciary Net Position	799,604	371,663
Net Position Held in Trust, Beginning of Year	<u>7,036,516</u>	<u>6,664,853</u>
<b>Net Position Held in Trust, End of Year</b>	<u><b>\$ 7,836,120</b></u>	<u><b>\$ 7,036,516</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 investment fund established for the collective investment of operating funds and other short and intermediate term funds held by the 14 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 accounting principles generally accepted in the United States of America as prescribed by 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 of the Fund may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements.

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

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

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

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

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

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*Notes to Financial Statements (cont.)*

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

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

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

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

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

Hedge funds, developed country equity, emerging markets equity, fixed income, real estate, and natural resources investment funds 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.

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

(C) ***Investment Income and Investment Expenses*** -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income are recorded net of foreign taxes where recovery of such taxes is not assured. For the years ended August 31, 2016 and 2015, interest and dividend withholding in the amounts of \$1,313,708 and \$1,625,197, respectively, have been netted against dividend and interest income. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Investment expenses are recorded on the accrual basis as incurred.

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## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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(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, 2016 and 2015 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 Fund's net position 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 position 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 Position** -- All participants in the Fund have a proportionate interest in the Fund's net position.

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

(J) **Derivative Instruments** -- Derivatives are financial instruments whose fair value is derived, in whole or part, from the fair value of any one or more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities, or currencies. The Fund, from time to time, uses various derivative instruments, as allowed under UT Board approved derivative investment policy guidelines, and by guidelines established in contracts with external investment managers. Derivative instruments included under these policies and contracts include futures, forwards, swaps and various forms of options. Futures contracts and foreign exchange contracts are fair valued at closing market prices on the valuation date. Futures contracts actively traded are categorized as Level 1 and foreign currency exchange contracts are not actively traded and therefore categorized as Level 2. Options and swaps are fair valued by using independent broker quotes, or using models with primarily externally verifiable model inputs. Purchased options actively traded are categorized as Level 1, otherwise options and swaps are generally categorized as Level 2. Derivative instruments in the Fund are used to achieve the following objectives:

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

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## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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

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

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

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

*Futures Contracts* -- The Fund enters into futures contracts to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes. Upon entering into a futures contract, initial margin deposit requirements are satisfied by the segregation of specific securities as collateral for the account of the broker (the Fund's agent in acquiring the futures position). During the period the futures positions are open, the contracts are marked to market daily; that is, they are fair valued at

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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

*Foreign Currency Contracts* -- The Fund enters into forward foreign currency exchange contracts to hedge against foreign currency exchange rate risks on its non-U.S. dollar denominated investment securities and to facilitate trading strategies primarily as a tool to increase or decrease market exposure to various foreign currencies. When entering into a forward foreign currency contract, the Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. These contracts are fair valued daily and the Fund's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the statements of fiduciary net position. Realized and unrealized gains and losses are included in the net increase (decrease) in fair value of investments in the statements of changes in fiduciary net position. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of fiduciary net position. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities fair values and interest rates.

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

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

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

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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Note 3 – Investments and Investment Derivatives

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

	Fair Value Measurements Using			
	Fair Value as of August 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level:</b>				
<b>Equity Securities:</b>				
Domestic Common Stock	\$ 314,805,416	\$ 314,805,416	\$ -	\$ -
Foreign Common Stock	572,973,593	572,968,578	5,015	-
Other Equities	7,483,505	7,483,505	-	-
<b>Total Equity Securities</b>	<b>895,262,514</b>	<b>895,257,499</b>	<b>5,015</b>	<b>-</b>
<b>Preferred Stock:</b>				
Domestic Preferred Stock	1,500,537	89,280	1,411,257	-
Foreign Preferred Stock	15,086,524	15,086,524	-	-
<b>Total Preferred Stock</b>	<b>16,587,061</b>	<b>15,175,804</b>	<b>1,411,257</b>	<b>-</b>
<b>Debt Securities:</b>				
U.S. Government Obligations	321,774,159	235,055,386	86,718,773	-
Foreign Government and Provincial Obligations	1,178,323,414	-	1,178,323,414	-
Corporate Obligations	664,929,821	-	664,929,821	-
Other	8,926,533	-	8,926,533	-
<b>Total Debt Securities</b>	<b>2,173,953,927</b>	<b>235,055,386</b>	<b>1,938,898,541</b>	<b>-</b>
<b>Purchased Options</b>	<b>1,112,627</b>	<b>666,387</b>	<b>446,240</b>	<b>-</b>
<b>Convertible Securities</b>	<b>170,357</b>	<b>-</b>	<b>170,357</b>	<b>-</b>
<b>Investment Funds:</b>				
Emerging Markets Equity	3,979	3,979	-	-
<b>Physical Commodities - Gold</b>	<b>156,372,762</b>	<b>156,372,762</b>	<b>-</b>	<b>-</b>
<b>Cash Equivalents</b>	<b>391,281,539</b>	<b>391,281,539</b>	<b>-</b>	<b>-</b>
<b>Total Investments by Fair Value Level</b>	<b>3,634,744,766</b>	<b>\$ 1,693,813,356</b>	<b>\$ 1,940,931,410</b>	<b>\$ -</b>
<b>Cash</b>	<b>32,611,343</b>			
<b>Investments Funds Fair Valued Using Practical Expedient:</b>				
<b>Hedge Funds</b>	<b>3,585,454,044</b>			
<b>Public Markets</b>	<b>672,746,565</b>			
<b>Investments Funds Fair Valued Using Practical Expedient</b>	<b>4,258,200,609</b>			
<b>Total Investments, at Fair Value</b>	<b>\$ 7,925,556,718</b>			

	Fair Value Measurements Using			
	Fair Value as of August 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investment Derivatives</b>				
Foreign Exchange Contracts	\$ (3,287,135)	\$ -	\$ (3,287,135)	\$ -
Futures Contracts	647,601	647,601	-	-
Swaps	(5,837,094)	-	(5,837,094)	-
Written Options	(1,191,177)	-	(1,191,177)	-
<b>Investment Derivatives</b>	<b>\$ (9,667,805)</b>	<b>\$ 647,601</b>	<b>\$ (10,315,406)</b>	<b>\$ -</b>



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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

	Fair Value as of August 31, 2015	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level:</b>				
<b>Equity Securities:</b>				
Domestic Common Stock	\$ 224,262,420	\$ 224,262,420	\$ -	\$ -
Foreign Common Stock	409,150,518	409,150,518	-	-
Other Equities	869	869	-	-
<b>Total Equity Securities</b>	<b>633,413,807</b>	<b>633,413,807</b>	<b>-</b>	<b>-</b>
<b>Preferred Stock:</b>				
Domestic Preferred Stock	300,984	97,894	203,090	-
Foreign Preferred Stock	9,256,734	8,529,234	727,500	-
<b>Total Preferred Stock</b>	<b>9,557,718</b>	<b>8,627,128</b>	<b>930,590</b>	<b>-</b>
<b>Debt Securities:</b>				
U.S. Government Obligations	366,424,046	285,850,652	80,573,394	-
Foreign Government and Provincial Obligations	919,879,393	-	919,879,393	-
Corporate Obligations	592,392,739	-	592,392,739	-
Other	8,389,973	-	8,389,973	-
<b>Total Debt Securities</b>	<b>1,887,086,151</b>	<b>285,850,652</b>	<b>1,601,235,499</b>	<b>-</b>
<b>Purchased Options</b>	<b>382,304</b>	<b>228,273</b>	<b>154,031</b>	<b>-</b>
<b>Investment Funds:</b>				
Emerging Markets Equity	8,370	8,370	-	-
<b>Total Investment Funds</b>	<b>8,370</b>	<b>8,370</b>	<b>-</b>	<b>-</b>
<b>Physical Commodities - Gold</b>	<b>142,087,663</b>	<b>142,087,663</b>	<b>-</b>	<b>-</b>
<b>Cash Equivalents</b>	<b>434,882,132</b>	<b>434,882,132</b>	<b>-</b>	<b>-</b>
<b>Total Investments by Fair Value Level</b>	<b>3,107,418,145</b>	<b>\$ 1,505,098,025</b>	<b>\$ 1,602,320,120</b>	<b>\$ -</b>
<b>Cash</b>	<b>68,427,981</b>			
<b>Investments Funds Fair Valued Using Practical Expedient:</b>				
<b>Hedge Funds</b>	<b>3,272,681,840</b>			
<b>Public Markets</b>	<b>610,275,561</b>			
<b>Investments Funds Fair Valued Using Practical</b>	<b>3,882,957,401</b>			
<b>Total Investments, at Fair Value</b>	<b>\$ 7,058,803,527</b>			

	Fair Value as of August 31, 2015	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investment Derivatives</b>				
Foreign Exchange Contracts	\$ 13,018,211	\$ -	\$ 13,018,211	\$ -
Futures Contracts	(8,988,979)	(8,988,979)	-	-
Swaps	(324,239)	-	(324,239)	-
Written Options	(530,051)	-	(530,051)	-
<b>Investment Derivatives</b>	<b>\$ 3,174,942</b>	<b>\$ (8,988,979)</b>	<b>\$ 12,163,921</b>	<b>\$ -</b>

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

Investment funds fair value at net asset value per share or based on the Fund's ownership interest in partners' capital include externally managed funds, limited partnerships, and corporate structures,

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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

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

Investment Funds:	Fair Value as of August 31, 2016	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<b>Hedge Funds:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	\$ 1,618,257,117	\$ -	Quarterly to Annually	15 - 95 Days
Redeemable Beyond One Year	750,837,785	-	Monthly to Annually	45 - 90 Days
Nonredeemable	70,830,425	41,094,987	Not Applicable	Not Applicable
<b>Total Developed Country Equity</b>	<u>2,439,925,327</u>	<u>41,094,987</u>		
<b>Credit-Related Fixed Income</b>				
Redeemable Within One Year	328,804,814	-	Quarterly to Annually	90 Days
Redeemable Beyond One Year	89,524,486	-	Quarterly/Annually	90 - 120 Days
Nonredeemable	130,535,347	95,535,268	Not Applicable	Not Applicable
<b>Total Credit-Related Fixed Income</b>	<u>548,864,647</u>	<u>95,535,268</u>		
<b>Investment Grade Fixed Income</b>				
Redeemable Within One Year	245,030,541	-	Monthly to Annually	5 - 75 Days
Redeemable Beyond One Year	94,851,899	26,164,689	Monthly to Annually	60 - 75 Days
<b>Total Investment Grade Fixed Income</b>	<u>339,882,440</u>	<u>26,164,689</u>		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	77,855,414	-	Annually	60 - 90 Days
Redeemable Beyond One Year	159,478,386	-	Annually	60 - 90 Days
Nonredeemable	19,033,765	-	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<u>256,367,565</u>	<u>-</u>		
<b>Natural Resources</b>				
Redeemable Within One Year	300,473	-	Daily	Not Applicable
Nonredeemable	113,592	-	Not Applicable	Not Applicable
<b>Total Natural Resources</b>	<u>414,065</u>	<u>-</u>		
<b>Total Hedge Funds</b>	<u>3,585,454,044</u>	<u>162,794,944</u>		
<b>Public Markets:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	395,171,948	-	Monthly to Annually	1 - 90 Days
Redeemable Beyond One Year	130,913,537	-	Quarterly to Annually	1 - 184 Days
<b>Total Developed Country Equity</b>	<u>526,085,485</u>	<u>-</u>		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	129,132,409	-	Daily to Annually	1 - 90 Days
Redeemable Beyond One Year	13,449,042	-	Quarterly	45 - 60 Days
Nonredeemable	4,079,629	6,160,791	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<u>146,661,080</u>	<u>6,160,791</u>		
<b>Total Public Markets</b>	<u>672,746,565</u>	<u>6,160,791</u>		
<b>Total Investment Funds</b>	<u>\$ 4,258,200,609</u>	<u>\$ 168,955,735</u>		

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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

	Fair Value as of <u>August 31, 2015</u>	Unfunded <u>Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
<b>Investment Funds:</b>				
<b>Hedge Funds:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	\$ 1,791,311,810	\$ -	Monthly to Annually	15 - 95 Days
Redeemable Beyond One Year	592,727,710	-	Monthly to Annually	60 - 90 Days
Nonredeemable	<u>55,708,721</u>	<u>57,975,842</u>	Not Applicable	Not Applicable
<b>Total Developed Country Equity</b>	<u>2,439,748,241</u>	<u>57,975,842</u>		
<b>Credit-Related Fixed Income</b>				
Redeemable Within One Year	173,071,261	-	Quarterly/Annually	1 - 90 Days
Redeemable Beyond One Year	209,048,510	-	Annually	90 - 180 Days
Nonredeemable	<u>90,463,675</u>	<u>49,378,805</u>	Not Applicable	Not Applicable
<b>Total Credit-Related Fixed Income</b>	<u>472,583,446</u>	<u>49,378,805</u>		
<b>Investment Grade Fixed Income</b>				
Redeemable Within One Year	<u>176,298,093</u>	-	Monthly/Quarterly	5 - 69 Days
<b>Emerging Market Equity</b>				
Redeemable Within One Year	17,038,516	-	Annually	75 Days
Redeemable Beyond One Year	144,599,356	-	Monthly	60 - 90 Days
Nonredeemable	<u>20,437,930</u>	-	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<u>182,075,802</u>	-		
<b>Real Estate</b>				
Redeemable Within One Year	<u>825,041</u>	-	Not Applicable	Not Applicable
<b>Natural Resources</b>				
Redeemable Within One Year	426,634	-	Daily	Not Applicable
Nonredeemable	<u>724,583</u>	-	Not Applicable	Not Applicable
<b>Total Natural Resources</b>	<u>1,151,217</u>	-		
<b>Total Hedge Funds</b>	<u>3,272,681,840</u>	<u>107,354,647</u>		
<b>Public Markets:</b>				
<b>Developed Country Equity</b>				
Redeemable Within One Year	351,753,976	-	Monthly to Annually	1 - 90 Days
Redeemable Beyond One Year	<u>113,855,625</u>	-	Quarterly, Annually	1 - 184 Days
<b>Total Developed Country Equity</b>	<u>465,609,601</u>	-		
<b>Emerging Market Equity</b>				
Redeemable Within One Year	105,020,732	-	Daily to Annually	1 - 90 Days
Nonredeemable	<u>3,568,592</u>	<u>7,409,791</u>	Not Applicable	Not Applicable
<b>Total Emerging Markets Equity</b>	<u>108,589,324</u>	<u>7,409,791</u>		
<b>Real Estate</b>				
Redeemable Within One Year	<u>36,076,636</u>	-	Monthly	30 Days
<b>Total Public Markets</b>	<u>610,275,561</u>	<u>7,409,791</u>		
<b>Total Investment Funds</b>	<u>\$ 3,882,957,401</u>	<u>\$ 114,764,438</u>		

The Fund invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the Fund's financial statements and related note disclosures represent the Fund's pro-rata share of these investment pool assets. The hedge fund pools are invested in private funds with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. There are certain risks associated with these private funds, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed \$477,253,372 of future funding to various hedge fund investments as of August 31, 2016 of which the Fund's pro-rata portion is \$162,794,944.

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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Public market funds are invested in exchange traded funds, index funds, and private placements with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These funds are characterized as public market funds based on individual risk/return characteristics and their relationship to the overall asset mix of the Fund. Some of these investment managers may invest in both long and short securities and may utilize modest leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. Certain of these investments are held through limited liability companies of which UTIMCO is the manager of the limited liability companies. There are certain risks associated with these investments, some of which are investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. Future funding in the amount of \$37,113,198, of which the Fund's pro-rata portion is \$6,160,791, have been committed to certain public market funds as of August 31, 2016.

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

### **Note 4 – Investment Risk**

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

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

Article VII, Section 11b of the Texas Constitution authorizes the UT Board, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the UT Board, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

*Notes to Financial Statements (cont.)*

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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, 2016 and 2015:

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

*Notes to Financial Statements (cont.)*

Investment Type	August 31,		Rating
	2016	2015	
<b>Investments:</b>			
U.S. Government Guaranteed	\$ 247,215,896	\$ 297,933,502	AA
U.S. Government Non-Guaranteed:			
U.S. Agency	3,298,580	32,375,848	AA
U.S. Agency Asset Backed	71,259,683	36,114,696	AA
Total U.S. Government Non-Guaranteed	74,558,263	68,490,544	
Total U.S. Government	321,774,159	366,424,046	
Corporate Obligations:			
Domestic	30,830,624	27,742,660	AAA
Domestic	42,024,050	21,178,445	AA
Domestic	161,333,082	162,184,079	A
Domestic	131,496,779	95,354,550	BAA/BBB
Domestic	21,439,307	4,208,068	BA/BB
Domestic	2,429,890	1,113,889	B
Domestic	3,728,604	6,963,190	CAA/CCC
Domestic	1,163,492	1,344,209	CA/CC
Domestic	-	1,038,777	C
Domestic	2,286,582	708,444	D
Domestic	225,450	376,335	Not Rated
Foreign	60,144,534	42,426,106	AAA
Foreign	82,006,720	77,151,087	AA
Foreign	36,626,925	59,095,831	A
Foreign	62,398,589	68,259,167	BAA/BBB
Foreign	14,478,312	8,582,648	BA/BB
Foreign	11,398,480	12,022,336	B
Foreign	918,275	2,375,889	CAA/CCC
Foreign	126	267,029	Not Rated
Total Corporate Obligations	664,929,821	592,392,739	
Foreign Government and Provincial Obligations	188,402,855	140,991,573	AAA
Foreign Government and Provincial Obligations	266,411,225	194,854,556	AA
Foreign Government and Provincial Obligations	324,759,723	287,161,218	A
Foreign Government and Provincial Obligations	289,775,052	259,108,479	BAA/BBB
Foreign Government and Provincial Obligations	107,805,783	37,682,549	BA/BB
Foreign Government and Provincial Obligations	1,168,776	-	B
Foreign Government and Provincial Obligations	-	81,018	Not Rated
Total Foreign Government and Provincial Obligations	1,178,323,414	919,879,393	
Other Debt Securities	675,661	673,396	AAA
Other Debt Securities	2,837,213	1,920,622	AA
Other Debt Securities	5,413,659	5,795,955	A
Total Other Debt Securities	8,926,533	8,389,973	
Total Debt Securities	\$ 2,173,953,927	\$ 1,887,086,151	
Convertible Securities	\$ 170,357	\$ -	Not Rated
Cash Equivalents - Money Market Funds	\$ 385,464,026	\$ 434,882,134	AAA
Cash Equivalents - Money Market Funds	5,817,513	-	Not Rated
Cash	32,611,343	68,427,981	Not Rated
Total Cash and Cash Equivalents	\$ 423,892,882	\$ 503,310,115	
<b>Net Deposit with Brokers for Derivative Contracts:</b>			
U.S. Government Guaranteed	\$ 4,604,489	\$ 4,518,031	AA
Cash	9,807,209	979,042	Not Rated
<b>Total Net Deposit with Brokers for Derivative Contracts</b>	\$ 14,411,698	\$ 5,497,073	

**(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 fair value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the Fund's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2016 and 2015, the Fund does not have any deposits or investments that are exposed to custodial credit risk.

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

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

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

*Notes to Financial Statements (cont.)*

Investment Type	August 31,			
	2016		2015	
	Fair Value	Modified Duration	Fair Value	Modified Duration
<b>Investments:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 208,512,747	9.32	\$ 258,001,870	12.21
U.S. Treasury Inflation Protected	26,542,639	7.01	27,848,782	8.10
U.S. Agency Asset Backed	12,160,510	2.79	12,082,850	4.03
Total U.S. Government Guaranteed	<u>247,215,896</u>	8.75	<u>297,933,502</u>	11.50
U.S. Government Non-Guaranteed:				
U.S. Agency	3,298,580	0.13	32,375,848	0.31
U.S. Agency Asset Backed	71,259,683	3.84	36,114,696	2.66
Total U.S. Government Non-Guaranteed	<u>74,558,263</u>	3.67	<u>68,490,544</u>	1.55
Total U.S. Government	<u>321,774,159</u>	7.57	<u>366,424,046</u>	9.64
Corporate Obligations:				
Domestic	396,957,860	6.45	322,212,646	5.83
Foreign	267,971,961	5.87	270,180,093	4.43
Total Corporate Obligations	<u>664,929,821</u>	6.21	<u>592,392,739</u>	5.19
Foreign Government and Provincial Obligations	<u>1,178,323,414</u>	6.20	<u>919,879,393</u>	6.97
Other Debt Securities	<u>8,926,533</u>	11.73	<u>8,389,973</u>	10.82
Total Debt Securities	<u>2,173,953,927</u>	6.43	<u>1,887,086,151</u>	6.95
Convertible Securities	<u>170,357</u>	0.28	<u>-</u>	-
Cash and Cash Equivalents	<u>423,892,882</u>	0.08	<u>503,310,115</u>	0.09
Total	<u>\$ 2,598,017,166</u>	5.39	<u>\$ 2,390,396,266</u>	5.50
<b>Net Deposit with Brokers for Derivative Contracts:</b>				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 2,221,946	3.99	\$ 4,518,031	5.27
U.S. Treasury Inflation Protected	2,382,543	8.53	-	-
Total U.S. Government Guaranteed	<u>4,604,489</u>	2.03	<u>4,518,031</u>	5.27
Cash	<u>9,807,209</u>	-	<u>979,042</u>	-
Total Net Deposit with Brokers for Derivative Contracts	<u>\$ 14,411,698</u>	2.03	<u>\$ 5,497,073</u>	4.33

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

The Fund may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The Fund also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2016 and 2015, the Fund's investments include the following investments that are highly sensitive to interest rate changes:

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$75,050,928 and \$93,047,062 as of August 31, 2016 and 2015, respectively.



Mortgage backed securities which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$71,988,164 and \$28,268,014 as of August 31, 2016 and 2015, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligees of the underlying assets in periods of decreasing interest rates could reduce or eliminate the stream of income that would have been received. These securities amounted to \$8,828,813 and \$7,438,896 as of August 31, 2016 and 2015, respectively.

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

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

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

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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2016	2015
<b>Domestic Common Stock:</b>		
Hong Kong Dollar	\$ 34,462	\$ -
Indian Rupee	-	979
Taiwan Dollar	-	3,510
Total Domestic Common Stock	34,462	4,489
<b>Foreign Common Stock:</b>		
Australian Dollar	16,326,557	7,431,571
Brazilian Real	49,030,089	18,592,193
Canadian Dollar	28,900,678	10,287,464
Chilean Peso	40,667	144,758
Chinese Yuan Renminbi	85,307,361	52,425,856
Colombian Peso	-	51,155
Czech Koruna	954,889	505,431
Danish Krone	-	1,560,407
Egyptian Pound	2,799,031	785,330
Euro	40,324,255	17,099,904
Hong Kong Dollar	49,958,792	49,178,617
Hungarian Forint	-	37,566
Indian Rupee	14,673,591	11,738,614
Indonesian Rupiah	3,414,752	3,147,651
Japanese Yen	63,315,394	68,056,060
Moroccan Dirham	453,193	-
Malaysian Ringgit	3,356,663	2,720,786
Mexican Peso	17,636,303	13,943,920
Norwegian Krone	335,085	146,843
Philippine Peso	1,944,416	2,642,655
Polish Zloty	514,282	1,010,711
Qatari Riyal	1,606,563	879,733
Singapore Dollar	8,212,393	5,588,186
South African Rand	6,430,160	4,959,624
South Korean Won	45,777,840	42,330,756
Swedish Krona	2,365,566	1,293,874
Swiss Franc	2,178,919	1,835,898
Taiwan Dollar	13,579,011	10,154,224
Thai Baht	6,263,286	5,576,350
Turkish Lira	1,628,956	3,030,844
UK Pound	40,277,680	35,884,044
United Arab Emirates Dirham	4,791,368	586,232
Vietnamese Dong	3,051,359	2,050,746
Total Foreign Common Stock	515,449,099	375,678,003
<b>Other - Equity Securities:</b>		
Canadian Dollar	319,340	-
Indian Rupee	1,330	-
South African Rand	-	40
Taiwan Dollar	-	295
Thai Baht	-	534
UK Pound	4,662	-
Total Other - Equity Securities	325,332	869
<b>Foreign Preferred Stocks:</b>		
Brazilian Real	8,925,775	5,596,764
Chilean Peso	-	3,740
Colombian Peso	10,669	11,068
Euro	1,455,577	-
South African Rand	8,364	5,678

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*Notes to Financial Statements (cont.)*

<b>Investment Type</b>	<b>August 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Foreign Preferred Stocks (continued):</b>		
South Korean Won	\$ 4,141,004	\$ 2,439,695
Total Foreign Preferred Stock	14,541,389	8,056,945
<b>Foreign Government and Provincial Obligations:</b>		
Australian Dollar	105,281,809	93,773,436
Brazilian Real	60,789,763	64,143,875
Canadian Dollar	29,590,566	21,050,589
Colombian Peso	11,932,179	7,883,119
Czech Koruna	424,493	-
Euro	149,627,064	207,270,226
Hungarian Forint	30,776,110	19,840,245
Indonesian Rupiah	26,123,693	20,318,098
Japanese Yen	183,620,497	102,070,791
Malaysian Ringgit	66,459,216	34,487,598
Mexican Peso	137,003,938	116,911,524
New Zealand Dollar	91,899,172	66,203,753
Norwegian Krone	31,952,513	22,503,798
Polish Zloty	40,668,570	23,561,342
Romanian Leu	2,488,428	-
Singapore Dollar	37,788,391	6,151,679
South African Rand	45,433,612	36,209,250
South Korean Won	6,911,783	11,642,690
Swedish Krona	-	615,211
Thai Baht	7,638,199	-
UK Pound	77,385,500	33,993,374
Total Foreign Government and Provincial Obligations	1,143,795,496	888,630,598
<b>Corporate Obligations:</b>		
Australian Dollar	17,892,535	18,498,438
Canadian Dollar	1,807,939	-
Danish Krone	22,448,103	3,499,572
Euro	45,342,357	45,701,398
Indian Rupee	126	127
Swedish Krona	-	1,297,052
UK Pound	23,885,500	34,982,811
Total Corporate Obligations	111,376,560	103,979,398
<b>Investment Funds-Emerging Markets:</b>		
Brazilian Real	4,079,629	3,239,899
<b>Convertible Securities:</b>		
Brazilian Real	170,357	-
<b>Purchased Options:</b>		
Brazilian Real	721,755	-
Euro	43,552	56,963
UK Pound	73,856	-
Japanese Yen	3,805	6,023
Total Purchased Options	842,968	62,986
<b>Cash and Cash Equivalents:</b>		
Australian Dollar	198,570	397,623
Brazilian Real	937,216	1,872,252
Canadian Dollar	224,524	36,637
Chilean Peso	739	174
Chinese Yuan Renminbi	16,966,329	33,758,039
Colombian Peso	1,317,484	620,467
Czech Koruna	20,770	1,723
Danish Krone	10,403,032	337

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*Notes to Financial Statements (cont.)*

<b>Investment Type</b>	<b>August 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash and Cash Equivalents (continued):</b>		
Egyptian Pound	\$ (4,641)	\$ 1,299
Euro	3,905,947	2,320,479
Hong Kong Dollar	54,171	36,483
Hungarian Forint	248	253
Indian Rupee	168,174	25,589
Indonesian Rupiah	22,156	20,186
Israeli Shekel	56	169
Japanese Yen	3,703,733	2,315,751
Malaysian Ringgit	374,988	10,064
Mexican Peso	498,571	281,893
New Zealand Dollar	787	623
Norwegian Krone	116,948	108,307
Peruvian Nuevo Sol	-	731
Philippine Peso	2,203	29,429
Polish Zloty	238,454	1,120
Qatari Riyal	-	5,483
Singapore Dollar	10,082	369
South African Rand	1,104,346	1,065,347
South Korean Won	1,152,393	632,418
Swedish Krona	(932,189)	16,646
Swiss Franc	(3,085,166)	904
Taiwan Dollar	661,627	56,269
Thai Baht	1,065,112	4,476
Turkish Lira	606,071	5,744
UK Pound	601,981	329,027
Vietnamese Dong	58,221	31,679
Total Cash and Cash Equivalents	<u>40,392,937</u>	<u>43,987,990</u>
<b>Written Options:</b>		
Australian Dollar	(6,129)	-
Brazilian Real	(797,463)	(35,586)
Chinese Yuan Renminbi	-	(26,618)
Euro	(76,349)	(357,232)
Japanese Yen	(4,059)	-
Mexican Peso	-	(4,130)
UK Pound	(114,349)	-
Total Written Options	<u>(998,349)</u>	<u>(423,566)</u>
<b>Swaps:</b>		
Australian Dollar	(39,807)	-
Brazilian Real	-	(117,627)
Canadian Dollar	8,484,278	-
Euro	33,889,295	55,745,745
Japanese Yen	(15,860,489)	(332,869)
Mexican Peso	(52,439)	38,210
South African Rand	(253)	-
Swedish Krona	39,758	(32,608)
Swiss Franc	-	4,039,484
UK Pound	25,321,060	(38,291)
Total Swaps	<u>51,781,403</u>	<u>59,302,044</u>
<b>Futures:</b>		
Australian Dollar	-	(619)
Canadian Dollar	(648)	3,269
Euro	(16,729)	(93,745)
Japanese Yen	(1,160)	-
UK Pound	(1,346)	(1,061)
Total Futures	<u>(19,883)</u>	<u>(92,156)</u>
Total	<u>\$ 1,881,771,400</u>	<u>\$ 1,482,427,499</u>

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

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

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

The Fund had gross counterparty exposure as of August 31, 2016 for options, swaps, and foreign currency exchange contracts as shown in the following table:

**Options**

Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2016	Fair Value as of August 31, 2016	
\$ 176,103,359	\$ 374,790,850	\$ 324,399	\$ 335,883	A
74,600,000	600,000	65,051	488	AA
\$ 250,703,359	\$ 375,390,850	\$ 389,450	\$ 336,371	

**Swaps**

Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2016	Fair Value as of August 31, 2016	
\$ 103,473,321	\$ 109,837,389	\$ 86,656,244	\$ 88,389,672	A
1,067,032	1,070,255	1,067,210	1,070,255	AA
657,051	1,158,060	54,915	184,825	BBB
\$ 105,197,404	\$ 112,065,704	\$ 87,778,369	\$ 89,644,752	

**Foreign Currency Exchange Contracts**

Assets	Liabilities	Assets	Liabilities	Counterparty Rating
Notional	Notional	Fair Value as of August 31, 2016	Fair Value as of August 31, 2016	
\$ 794,081,016	\$ 940,938,143	\$ 12,773,666	\$ 16,056,130	A
63,000	800,742	746	5,418	AA
\$ 794,144,016	\$ 941,738,885	\$ 12,774,412	\$ 16,061,548	

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

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

*Notes to Financial Statements (cont.)*

**Options**

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2015</u>	<u>Fair Value as of August 31, 2015</u>	
\$ 1,287,984,300	\$ 838,878,700	\$ 154,031	\$ 424,237	A

**Swaps**

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2015</u>	<u>Fair Value as of August 31, 2015</u>	
\$ 61,657,513	\$ 90,880,677	\$ 57,978,297	\$ 57,919,701	A

**Foreign Currency Exchange Contracts**

<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Counterparty Rating</u>
<u>Notional</u>	<u>Notional</u>	<u>Fair Value as of August 31, 2015</u>	<u>Fair Value as of August 31, 2015</u>	
\$ 702,473,733	\$ 441,752,024	\$ 24,411,115	\$ 11,367,861	A
-	1,626,507	-	25,043	AA
\$ 702,473,733	\$ 443,378,531	\$ 24,411,115	\$ 11,392,904	

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

Counterparty risk for swaps, options and foreign currency exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the Fund and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the Fund to cover the Fund's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the Fund in one of its accounts at the Fund's custodian bank. As of August 31, 2016 and 2015, the Fund held \$2,342,428 and \$10,870,434 respectively, of collateral related to derivative instruments other than futures and had on deposit with brokers \$14,702,785 and \$14,683,507 respectively as collateral related to derivative instruments other than futures.

**Note 5 – Securities Lending**

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

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Notes to Financial Statements (cont.)

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

Securities on Loan	2016 Fair Value	2015 Fair Value	Type of Collateral	2016 Fair Value of Collateral	2015 Fair Value of Collateral
U.S. Government	\$ 62,282,917	\$ 73,661,904	Cash	\$ 63,556,561	\$ 75,164,875
Foreign					
Government	-	10,344,787	Cash	-	10,875,196
Corporate Bonds	59,329,463	45,733,777	Cash	60,770,947	46,935,332
Common Stock	116,143,640	82,555,932	Cash	119,524,645	85,729,924
<b>Total</b>	<b>\$ 237,756,020</b>	<b>\$ 212,296,400</b>	<b>Total</b>	<b>\$ 243,852,153</b>	<b>\$ 218,705,327</b>
U.S. Government	\$ 21,842,127	\$ 90,145,341	Non-Cash	\$ 22,290,614	\$ 92,012,532
Corporate Bonds	-	685,209	Non-Cash	-	699,593
Common Stock	26,283,304	7,241,346	Non-Cash	27,002,727	7,502,048
<b>Total</b>	<b>\$ 48,125,431</b>	<b>\$ 98,071,896</b>	<b>Total</b>	<b>\$ 49,293,341</b>	<b>\$ 100,214,173</b>

Cash received as collateral for securities lending activities is invested and reinvested in a commingled pool managed exclusively for the benefit of the Fund, the PUF, The University of Texas System 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 at August 31, 2016 and 2015 is shown in the following table:

Description	August 31, 2016			August 31, 2015		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
		No Rating			No Rating	
Repurchase Agreements	\$ 133,295,249	Available	1	\$ 126,405,729	Available	1
Commercial Paper	16,804,418	P	53	16,441,823	P	18
Floating Rate Notes	46,704,167	AA		39,258,828	AA	
Floating Rate Notes	47,078,689	A		36,600,216	A	
Total Floating Rate Notes	93,782,856		29	75,859,044		29
Other Receivables/Payables	(30,370)	Not Rated	-	(1,269)	Not Rated	-
Total Collateral Pool Investment	<b>\$ 243,852,153</b>		16	<b>\$ 218,705,327</b>		12

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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

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

	Fair Value as of August 31, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Repurchase Agreements	\$ 133,295,249	\$ -	\$ 133,295,249	\$ -
Commercial Paper	16,804,418	-	16,804,418	-
Floating Rate Notes	93,782,856	-	93,782,856	-
<b>Total by Fair Value Level</b>	<b>243,882,523</b>	<b>\$ -</b>	<b>\$ 243,882,523</b>	<b>\$ -</b>
Other Receivables/Payables	(30,370)			
<b>Total Collateral Pool Investments</b>	<b>\$ 243,852,153</b>			

	Fair Value as of August 31, 2015	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Repurchase Agreements	\$ 126,405,729	\$ -	\$ 126,405,729	\$ -
Commercial Paper	16,441,823	-	16,441,823	-
Floating Rate Notes	75,859,044	-	75,859,044	-
<b>Total by Fair Value Level</b>	<b>218,706,596</b>	<b>\$ -</b>	<b>\$ 218,706,596</b>	<b>\$ -</b>
Other Receivables/Payables	(1,269)			
<b>Total Collateral Pool Investments</b>	<b>\$ 218,705,327</b>			

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

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

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



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

*Notes to Financial Statements (cont.)*

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

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

**Note 6 – Written Options**

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

Type	Fair Value at August 31, 2016		Fair Value at August 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Interest Rate Swap	\$ -	\$ 34,091	\$ -	\$ 110,459
Credit Default Swap	-	2,890	-	-
Currency	-	80,777	-	59,366
Commodity	-	-	-	1,592
Equity	-	796,521	-	-
	<u>\$ -</u>	<u>\$ 914,279</u>	<u>\$ -</u>	<u>\$ 171,417</u>

The fair values are included on the statements of fiduciary net position as options written, at fair value. The changes in fair value of open call options for the years ended August 31, 2016 and 2015 were a decrease and an increase in the amount of \$233,914 and \$69,923, respectively, which are included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

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

Type	Fair Value at August 31, 2016		Fair Value at August 31, 2015	
	Assets	Liabilities	Assets	Liabilities
Interest Rate Swap	\$ -	\$ 4,059	\$ -	\$ 244,508
Credit Default Swap	-	-	-	2,276
Commodity	-	54,452	-	104,222
Currency	-	217,357	-	6,968
Equity	-	943	-	660
Other	-	86	-	-
	<u>\$ -</u>	<u>\$ 276,897</u>	<u>\$ -</u>	<u>\$ 358,634</u>

The fair values are included on the statements of fiduciary net position as options written, at fair value. The change in fair value of open put options for the year ended August 31, 2016 and 2015 were an increase and decrease in the amount of \$137,405 and \$17,947, respectively, which are included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

# THE UNIVERSITY OF TEXAS SYSTEM

## INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

### Note 7 – Swaps

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

Type	Notional Value	Fair Value at August 31, 2016	
		Assets	Liabilities
Interest Rate	\$ 405,467,468	\$ 4,123,327	\$ 9,152,752
Credit Default	158,712,875	1,809,204	742,395
Commodity	3,623,641	8,178	227,189
Currency	175,659,498	86,996,019	88,699,925
Volatility	100,000	2,511	-
Equity	12,593,164	163,402	117,475
Total		<u>\$ 93,102,641</u>	<u>\$ 98,939,736</u>

The change in fair value of open swap positions for the year ended August 31, 2016 was a decrease in the amount of \$4,704,124, which is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

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

Type	Notional Value	Fair Value at August 31, 2015	
		Assets	Liabilities
Interest Rate	\$ 440,375,981	\$ 686,808	\$ 2,901,125
Credit Default	140,403,400	1,717,765	360,590
Inflation	3,076,000	50,236	-
Commodity	5,905,159	15,701	187,570
Currency	113,931,830	57,895,689	56,630,375
Volatility	47,566	12,761	14,938
Equity	5,085,856	-	608,601
Total		<u>\$ 60,378,960</u>	<u>\$ 60,703,199</u>

The change in fair value of open swap positions for the year ended August 31, 2015 was a decrease in the amount of \$290,641, which is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

### Note 8 – Futures Contracts

During the years ended August 31, 2016 and 2015, the asset classes that used futures included commodities and domestic and foreign debt. The changes in fair value of open futures contracts for the years ended August 31, 2016 and 2015 were increases in the amount of \$3,363,882 and \$14,582,495 respectively, which are included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position. The Fund had \$2,051,340 and \$1,684,000 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2016 and 2015, respectively. Short futures may be used by the Fund to hedge the Fund's interest rate or currency risk associated with security positions.

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

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*Notes to Financial Statements (cont.)*

made on a net basis to each respective exchange. The fair value, for August 31, 2016, shown in the table below for these open contracts do not include amounts previously settled with the exchanges. Net cash settlements for these open commodities contracts amounted to \$2,716,281 and \$23,571,475 as of August 31, 2016 and 2015, respectively.

During the years ended August 31, 2016 and 2015, 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 in the following tables with the associated pending cash settlement amounts shown as the fair value as of August 31, 2016 and 2015.

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

<u>Contract</u>	<u>Notional Value at August 31, 2016</u>		<u>Fair Value at August 31, 2016</u>	
	<u>Long</u>	<u>Short</u>	<u>Assets</u>	<u>Liabilities</u>
Commodities	\$ 63,198,024	\$ 14,870,435	\$ 2,298,318	\$ 1,651,943
Domestic Fixed Income	141,313,516	56,127,438	25,671	4,563
Foreign Fixed Income	102,532,577	39,268,865	23,836	43,718
<b>Total</b>	<u>\$ 307,044,117</u>	<u>\$ 110,266,738</u>	<u>\$ 2,347,825</u>	<u>\$ 1,700,224</u>

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

<u>Contract</u>	<u>Notional Value at August 31, 2015</u>		<u>Fair Value at August 31, 2015</u>	
	<u>Long</u>	<u>Short</u>	<u>Assets</u>	<u>Liabilities</u>
Commodities	\$ 175,816,175	\$ 43,273,156	\$ 4,013,442	\$ 12,784,218
Domestic Fixed Income	110,186,813	-	-	130,410
Foreign Fixed Income	83,545,743	93,908,792	9,774	97,567
<b>Total</b>	<u>\$ 369,548,731</u>	<u>\$ 137,181,948</u>	<u>\$ 4,023,216</u>	<u>\$ 13,012,195</u>

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Notes to Financial Statements (cont.)

**Note 9 – Foreign Currency Exchange Contracts**

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

Currency	Net Buy		Unrealized Gains		Unrealized Losses	
	August 31, 2016	August 31, 2016	August 31, 2016	August 31, 2016	August 31, 2016	August 31, 2016
Australian Dollar	\$ -	\$ 55,669,882	\$ 595,778	\$ 881,489		
Brazilian Real	-	15,831,861	43,346	313,154		
Canadian Dollar	6,436,111	-	186,940	181,151		
Chilean Peso	28,286,983	-	385,848	218,119		
Chinese Yuan (Offshore)	-	123,740,984	2,259,016	-		
Chinese Yuan Renminbi	-	2,793,264	270,397	409,965		
Colombian Peso	-	7,895,920	161,665	251,652		
Czech Koruna	-	54,235	1,248	-		
Danish Krone	-	21,416,405	68,639	40,987		
Euro	134,989,245	-	1,183,530	1,289,450		
Hong Kong Dollar	-	3,552,979	494	14		
Indian Rupee	27,023,041	-	78,719	103		
Israeli Shekel	554,277	-	5,391	-		
Japanese Yen	120,586,459	-	1,223,638	9,464,542		
Malaysian Ringgit	-	14,336,575	22,043	10,768		
Mexican Peso	-	14,516,687	357	158,499		
New Zealand Dollar	-	89,216,317	11,875	593,895		
Norwegian Kroner	35,527,983	-	333,187	120,331		
Polish Zloty	-	6,637,937	13,095	-		
Russian Ruble	3,515,348	-	97,409	3,544		
Singapore Dollar	-	89,128,208	1,396,914	215,236		
South African Rand	3,252,616	-	8,683	195,881		
South Korean Won	-	14,493,038	335,560	30,069		
Swedish Krona	54,361,930	-	45,733	321,284		
Swiss Franc	2,746,242	-	-	20,327		
Thai Baht	-	7,816,985	-	79,388		
Turkish Lira	138,647	-	-	57		
UK Pound	7,140,756	-	4,044,908	1,261,643		
	<u>\$ 424,559,638</u>	<u>\$ 467,101,277</u>	<u>\$ 12,774,413</u>	<u>\$ 16,061,548</u>		

The change in fair value of open foreign currency exchange contracts for the year ended August 31, 2016 was a decrease in the amount of \$3,287,135.01, which is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position.

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INTERMEDIATE TERM FUND

Notes to Financial Statements (cont.)

Currency	Net Buy August 31, 2015	Net Sell August 31, 2015	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2015	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2015
Australian Dollar	\$ -	\$ 74,029,180	\$ 4,451,978	\$ 87,651
Brazilian Real	-	31,496,324	5,405,439	1,480,696
Canadian Dollar	8,708,020	-	823,898	410,043
Chilean Peso	34,184,806	-	-	2,488,966
Chinese Yuan Renminbi	-	5,269,037	129,774	268,876
Colombian Peso	-	7,896,453	500,958	-
Danish Krone	-	2,536,810	-	60,880
Euro	46,813,280	-	1,371,313	2,317,687
Hong Kong Dollar	-	702	-	-
Indian Rupee	27,417,789	-	-	198,959
Indonesian Rupiah	-	37,444	-	129
Israeli Shekel	532,663	-	-	22,213
Japanese Yen	67,259,071	-	4,568,514	1,168,976
Malaysian Ringgit	-	5,061,989	217,332	43,560
Mexican Peso	-	25,266,165	1,180,668	781,670
New Zealand Dollar	-	77,076,956	4,350,271	132,628
Norwegian Kroner	20,157,167	-	-	439,802
Philippines Peso	-	78,321	-	101
Polish Zloty	7,003,881	-	103,071	-
Russian Ruble	263,629	-	2,623	6,981
Singapore Dollar	-	32,854,908	444,833	16,155
South African Rand	-	4,598,195	118,635	19,320
South Korean Won	-	4,388,928	278,414	272,726
Swedish Krona	19,152,213	-	145,951	4,570
Swiss Franc	2,721,025	-	44,488	-
Taiwan Dollar	19,004,563	-	5,943	567,255
Thai Baht	-	1,777,657	12,931	-
Turkish Lira	460,262	-	6,302	39,354
UK Pound	-	6,016,955	247,779	563,706
	\$ 253,678,369	\$ 278,386,024	\$ 24,411,115	\$ 11,392,904

The change in fair value of open foreign currency exchange contracts for the year ended August 31, 2015 was an increase in the amount of \$12,942,518, which is included in the net increase (decrease) in fair value of investments on the statements of changes in fiduciary net position

**Note 10 – Purchase Agreement**

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

**Note 11 – Fees and Expenses**

The Fund incurs investment management fees from various external managers of the Fund. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.10% to 1.50%. In addition to quarterly investment management fees, the Fund may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers' contracts. The investment management fees presented in the statements of changes in fiduciary net position represent only those paid directly from the Fund, and do not include fees incurred and charged by general partners in private investments, fees charged by mutual fund managers, and fees charged by hedge fund managers as these types of fees are netted directly against returns for those investments in accordance with standard industry practice. The investment management fees assessed by external managers and paid directly by the Fund for the years ended August 31, 2016 and 2015, were \$15,213,725 and \$16,526,679, respectively.

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, 2016 and 2015 were \$4,644,247 and \$4,364,858, 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, 2016 and 2015, were \$1,504,268 and \$1,550,678, respectively.

The Fund incurs accounting fees for external and UT System internal audit services. For the years ended August 31, 2016 and 2015, fees amounted to \$166,488 and \$158,148, 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, 2016 and 2015, were \$147,873 and \$144,393, respectively.

Consulting fees, in the amount of \$85,999 and \$75,775, respectively, for the years ended August 31, 2016 and 2015, were incurred for investment strategy and other investment planning services.

Foreign tax consulting and filing fees are incurred by the Fund for investment managers domiciled in certain foreign countries and for those that invest in securities issued in certain foreign countries. Fees in the amounts of \$42,657 and \$19,427, were incurred for the years ended August 31, 2016 and 2015, respectively.

Background check fees are incurred as part of the due diligence efforts undertaken as part of hiring of investment managers. Fees in the amount of \$25,761 and \$10,953, were incurred for the years ended August 31, 2016 and 2015, respectively.

The Fund incurs legal fees associated with the review of investment manager agreements and with due diligence efforts undertaken as part of hiring new investment managers. For the years ended August 31, 2016 and 2015 the fees incurred totaled \$18,315 and \$24,526, respectively.

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**INTERMEDIATE TERM FUND**

*Notes to Financial Statements (cont.)*

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The Fund is assessed a fee to cover costs associated with UT System personnel in their effort to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. For the years ended August 31, 2016 and 2015, the fees amounted to \$61,470 and \$59,670, respectively.

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*Supplemental Schedule*

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**Financial Highlights**

*Years Ended August 31,*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Selected Per Unit Data</b>					
Net Position, Beginning of Year	\$ 113.068	\$ 120.477	\$ 112.366	\$ 110.223	\$ 110.435
Income From Investment Operations					
Net Investment Income (A)	1.000	0.935	1.136	1.115	1.353
Net Realized and Unrealized Gain (Loss) on Investments	2.554	(4.797)	10.485	4.414	1.686
Total Income (Loss) from Investment Operations	3.554	(3.862)	11.621	5.529	3.039
Less Distributions					
From Net Investment Income	(1.000)	0.935	1.136	1.115	1.353
From Net Realized Gain	(2.319)	2.612	2.374	2.271	1.898
Total Distributions	(3.319)	3.547	3.510	3.386	3.251
Net Position, End of Year	<u>\$ 113.303</u>	<u>\$ 113.068</u>	<u>\$ 120.477</u>	<u>\$ 112.366</u>	<u>\$ 110.223</u>
<b>Ratios and Supplemental Data</b>					
Net Position, End of Year (in thousands)	\$ 7,836,120	\$ 7,036,516	\$ 6,664,853	\$ 5,519,663	\$ 4,892,993
Distribution Ratios to Average Net Position	3.00%	3.03%	3.01%	3.02%	3.00%

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