

Financial Statements
and Independent Auditors' Report
Permanent University Fund
Years Ended August 31, 2020 and 2019

Permanent University Fund

Financial Statements

Years Ended August 31, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Permanent University Fund (the "PUF"), which comprise the statements of net position, as of August 31, 2020 and 2019, and the related statements of changes in net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the PUF'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 PUF'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 net position of the Permanent University Fund as of August 31, 2020 and 2019, and the changes in its 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 PUF are intended only to present the net position of the PUF as of August 31, 2020 and 2019, and the changes in its net position for the years then ended in conformity with accounting principles generally accepted in the United States and do not purport to, and do not, present the consolidated net position of The University of Texas System, as of August 31, 2020 or 2019, or the changes in its consolidated net position for the years then ended.

Also, the financial statements of the PUF include the investment-related assets and liabilities and changes therein which are being managed by UTIMCO and do not include the 2.1 million acres of land discussed in Note 1.

Our opinion is not modified with respect to these matters.

Other Matters

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

Report on Supplemental Schedule

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of PUF'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 30, 2020

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

Our discussion and analysis of the Permanent University Fund's (PUF) financial performance provides an overview of its activities for the years ended August 31, 2020 and 2019. This discussion was prepared by The University of Texas/Texas A&M Investment Management Company (UTIMCO) and should be read in conjunction with the PUF's financial statements and notes. The PUF is a public endowment contributing to the support of 18 institutions and 6 agencies in The University of Texas System (UT System) and The Texas A&M University System (TAMU System). The Texas Constitution and various state statutes designate The University of Texas System Board of Regents (UT Board) as the fiduciary for the management of certain public endowment and operating funds. The UT Board has entered into a Master Investment Management Services Agreement delegating investment management responsibility for all investments to UTIMCO.

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

Financial Highlights

The PUF's net position after distributions increased by \$1,550.5 million from \$22,830.1 million to \$24,380.6 million, or approximately 6.79% for the year ended August 31, 2020, compared to an increase of \$953.0 million or approximately 4.36% for the year ended August 31, 2019. The change in net position from year to year is mainly attributable to the following:

1. The PUF posted a net investment return of 9.50%, calculated using the Modified Dietz Method as described by the CFA Institute, for the year ended August 31, 2020. Investments in public equities, including global developed public equity and emerging markets public equity, and private equity were the biggest contributors to the 2020 return. For the year ended August 31, 2019, the PUF posted a net investment return of 4.48%. Investments in gold, private equity, private real estate, and investment grade fixed income were the biggest contributors to the 2019 returns.
2. Fiscal year 2020 contributions of PUF Lands mineral income decreased by 24.86% from \$1,026.1 million to \$771.0 million and represented 3.31% of the average value of the PUF investments during the year, compared to fiscal year 2019 contributions which decreased by 0.55%, from \$1,031.8 million to \$1,026.1 million and represented 4.63% of the average value of the PUF investments during the year. PUF Lands expenses were \$25.4 million and \$21.5 million for the years ended August 31, 2020 and 2019, respectively. PUF Lands consist of more than 2.1 million acres in 19 counties primarily in West Texas.
3. The PUF's annual distribution to the Available University Fund (AUF) increased by 29.33% in fiscal year 2020. The UT Board approved a one-time supplemental distribution of \$250 million that was made during the year, which comprised 24.65% of the total increase. The increase in fiscal year 2019 was 14.28%.

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Use of Financial Statements and Notes

The PUF'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). PUF's activities are accounted for as an investment trust fund, therefore two financial statements are typically required under GASB: the statement of net position and statement of changes in net position.

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

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

Statements of Net Position

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

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets			
Investments, at Fair Value	\$ 24,603.5	\$ 23,026.7	\$ 22,008.4
Other Assets	595.1	531.3	395.9
Total Assets	<u>25,198.6</u>	<u>23,558.0</u>	<u>22,404.3</u>
Total Liabilities	<u>818.0</u>	<u>727.9</u>	<u>527.2</u>
Net Position Restricted for Beneficiaries	<u>\$ 24,380.6</u>	<u>\$ 22,830.1</u>	<u>\$ 21,877.1</u>

Statements of Changes in Net Position

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

The net increase in fair value of investments of the PUF was \$2,020.9 million during the year compared to a net increase in fair value of investments of \$787.2 million for the year ended August 31, 2019. Investment expenses totaled \$98.5 million, \$72.7 million, and \$61.3 million, respectively, for the years ended August 31, 2020, 2019, and 2018.

The PUF's objectives are to maximize investment returns within the risk parameters specified in its investment policy statement without regard to the distribution rate.

Distributions to the AUF increased by \$297.4 million, from \$1,014.0 million in fiscal year 2019 to \$1,311.4 million, in fiscal year 2020. The fiscal year 2020 amount include a one-time supplemental distribution of \$250 million. The fiscal year 2019 distribution amount increased by \$126.7 million from the fiscal year 2018 distribution of \$887.3 million. PUF distributions are determined by the UT Board as provided in the Texas Constitution, which directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF investments over the long term. The annual amount is calculated based on the following formula:

1. Increase the prior year's distribution amount by the sum of the average inflation rate for the previous twelve-quarters plus 2.65%, unless further modified pursuant to 2 and 3 below.
2. If the inflationary increase in step 1 results in a distribution rate below 3.5% of the trailing twenty-quarter average of the net position of the PUF for the quarter ending February of each year, the distribution shall be increased to 3.5%.
3. If the inflationary increase in step 1 results in a distribution rate exceeding 6.0% of the trailing twenty-quarter average of the net position of the PUF for the quarter ending February of each year, the distribution increase shall be capped at 6.0%.

For the year ended August 31, 2020, the distribution, including the supplemental one-time amount, was 6.86% of the trailing twenty-quarter net position of the PUF as of February 28, 2019. For the year ended August 31, 2019 the distribution was 5.70% of the trailing twelve-quarter net position of the PUF as of February 28, 2018.

Distributions to the AUF are made at the discretion of the UT Board subject to the following overriding conditions of the Texas Constitution:

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Investment Income	\$ 2,215.0	\$ 1,035.3	\$ 1,906.9
Less Investment Expenses	98.5	72.7	61.3
PUF Lands Contributions	771.0	1,026.1	1,031.8
Total Additions	<u>2,887.5</u>	<u>1,988.7</u>	<u>2,877.4</u>
Administrative Expenses			
PUF Lands Expenses	25.4	21.5	25.7
UT System Oversight Fee	0.2	0.2	0.1
Distributions to AUF	1,311.4	1,014.0	887.3
Total Deductions	<u>1,337.0</u>	<u>1,035.7</u>	<u>913.1</u>
Change in Net Position	1,550.5	953.0	1,964.3
Net Position Restricted for Beneficiaries, Beginning of Year	<u>22,830.1</u>	<u>21,877.1</u>	<u>19,912.8</u>
Net Position Restricted for Beneficiaries, End of Year	<u><u>\$24,380.6</u></u>	<u><u>\$22,830.1</u></u>	<u><u>\$21,877.1</u></u>

Contacting UTIMCO

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

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Statements of Net Position

August 31, 2020 and 2019

(in thousands)

Assets	2020	2019
Investments, at Fair Value:		
Equity Securities	\$ 2,857,753	\$ 2,731,490
Preferred Stock	49,288	55,452
Debt Securities	2,256,703	2,152,485
Investment Funds	18,652,989	16,718,957
Purchased Options	9,937	4,155
Physical Commodities	-	308,398
Cash and Cash Equivalents	776,805	1,055,744
Total Investments	<u>24,603,475</u>	<u>23,026,681</u>
Collateral for Securities Loaned, at Fair Value	182,647	186,855
Deposits with Brokers for Derivative Contracts	30,769	24,156
Unrealized Gains on Foreign Exchange Contracts	25,890	20,730
Futures Contracts, at Fair Value	7,605	127
Swaps, at Fair Value	37,160	20,122
Receivables:		
Investment Securities Sold	293,877	257,465
Accrued Income	16,721	21,462
Other	504	434
Total Receivables	<u>311,102</u>	<u>279,361</u>
Total Assets	<u>25,198,648</u>	<u>23,558,032</u>
Liabilities		
Payable Upon Return of Securities Loaned	182,647	186,855
Payable to Brokers for Collateral Held	58,895	30,663
Unrealized Losses on Foreign Exchange Contracts	29,938	15,970
Futures Contracts, at Fair Value	6,765	63
Swaps, at Fair Value	11,281	23,771
Options Written, at Fair Value	2,177	775
Payables:		
Investment Securities Purchased	484,124	449,638
Other	42,182	20,153
Total Payables	<u>526,306</u>	<u>469,791</u>
Total Liabilities	<u>818,009</u>	<u>727,888</u>
Net Position Restricted for Beneficiaries	<u>\$24,380,639</u>	<u>\$22,830,144</u>

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

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Statements of Changes in Net Position

Years Ended August 31, 2020 and 2019

(in thousands)

Additions	<u>2020</u>	<u>2019</u>
Investment Income:		
Net Increase in Fair Value of Investments	\$ 2,020,855	\$ 787,185
Interest	62,265	83,792
Dividends	66,295	65,655
Income Distributions from Private Investment Funds	64,587	97,429
Securities Lending Income	1,015	1,225
Total Investment Income	<u>2,215,017</u>	<u>1,035,286</u>
Less Investment Expenses:		
Investment Management Fees	69,824	46,588
UTIMCO Management Fee	25,422	22,500
Custodial Fees and Expenses	2,035	2,361
Analytical and Risk Measurement Fees	410	149
Accounting Fees	335	328
Background Check Fees	164	282
Consulting Fees	152	249
Legal Fees	103	169
Foreign Tax Consulting and Filing Fees	85	67
Other Expenses	21	47
Total Investment Expenses	<u>98,551</u>	<u>72,740</u>
Net Investment Income	<u>2,116,466</u>	<u>962,546</u>
Contributions from PUF Lands	<u>770,972</u>	<u>1,026,115</u>
Total Additions	<u>2,887,438</u>	<u>1,988,661</u>
Deductions		
Administrative Expenses:		
PUF Lands Expenses	25,384	21,497
UT System Oversight Fee	169	167
Total Administrative Expenses	<u>25,553</u>	<u>21,664</u>
Distributions to Available University Fund	1,311,390	1,014,000
Total Deductions	<u>1,336,943</u>	<u>1,035,664</u>
Change in Net Position	1,550,495	952,997
Net Position Restricted for Beneficiaries, Beginning of Year	<u>22,830,144</u>	<u>21,877,147</u>
Net Position Restricted for Beneficiaries, End of Year	<u><u>\$ 24,380,639</u></u>	<u><u>\$ 22,830,144</u></u>

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

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Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

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

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

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

The PUF financial statements represent the standalone investment activities included within UT System's financial statements. The PUF's inflows are primarily investment income and mineral contributions from the PUF Lands. For standalone purposes, the PUF financial statements are presented as an investment trust fund reporting under 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 accounting policies of the PUF conform to generally accepted accounting principles in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The annual consolidated financial statements of the UT System are prepared in accordance with the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and include the investment activity of the PUF. The accompanying financial statements of the PUF may differ in presentation from the Texas Comptroller of Public Accounts' Annual Financial Reporting Requirements and the UT System standalone financial statements since certain activity is eliminated in consolidation.

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

(C) Management has evaluated subsequent events through October 30, 2020, the date the financial statements were available to be issued. No subsequent events requiring adjustment to, or disclosure in, the financial statements were identified as a result of this evaluation.

Note 2 – Significant Accounting Policies

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

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

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

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

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

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

Physical commodities, specifically gold, were 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 were categorized as Level 1.

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

The fair value of private investment funds, which consist of non-regulated investment funds and various other investment vehicles, are estimated by management using the investment's capital account balance at the closest available reporting date, as communicated by the investment manager, adjusted for

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Notes to Financial Statements (cont.)

contributions and distributions subsequent to the latest available reporting date as well as consideration of any other information, which has been provided by the investment manager or other sources.

Hedge funds, public market investment funds and certain other private placements are fair valued by management based on net asset value information provided by the investment managers as well as other relevant factors as indicated above.

(B) *Foreign Currency Translation* -- The accounting records of the PUF 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 PUF does not isolate that portion of the results of the change in net position resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in the fair value of investments held on the statements of net position. Such fluctuations are included with the net increase in fair value of investments on the statements of changes in net position.

(C) *Investment Income and Investment Expenses* -- Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Dividend and interest income are recorded net of foreign taxes where recovery of such taxes is not assured. Investment income includes net realized and unrealized currency gains and losses recognized between accrual and payment dates on dividend and interest transactions. Investment expenses are recorded on the accrual basis as incurred.

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

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

(F) *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 PUF from time to time uses various derivative instruments, as allowed under The University of Texas System Board of Regents (UT Board) approved derivative investment policy guidelines. Derivative instruments included under these policies include futures, forwards, swaps and 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 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 PUF are used to achieve the following objectives:

- implement investment strategies in a low cost and efficient manner,
- alter the PUF's market (systematic) exposure without trading the underlying cash market securities, through purchases or short sales, or both, of appropriate derivatives,

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

- construct portfolios with risk and return characteristics that could not be created with cash market securities,
- hedge and control risks, or
- facilitate transition trading.

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

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

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

Swaps -- The PUF invests in certain types of swaps to increase or decrease its exposure to long-term interest rates, certain commodity or equity sector returns, market events, and currency fluctuations. Swaps are agreements between two parties to exchange periodic payments on the notional value of the contract multiplied by a stated fixed interest rate versus a stated floating interest rate, or on a commodity or equity sector return versus a specified cost per contract. Swaps are marked to market on a daily basis, and are included, at fair value, on the statements of 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 based on instruments and counterparty. These instruments involve market and/or credit risk in excess of the amount recognized in the statements of 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.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

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

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

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

(I) *Net Position* -- The net position of the PUF is restricted for the benefit of UT System and TAMU System.

PERMANENT UNIVERSITY 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, 2020 and 2019, respectively, as categorized by level of the fair value hierarchy:

	Fair Value Measurements Using			
	Fair Value as of August 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Equity Securities:				
Domestic Common Stock	\$ 1,120,273,567	\$ 1,120,273,567	\$ -	\$ -
Foreign Common Stock	1,726,671,877	1,726,656,129	15,748	-
Other Equities	10,807,173	10,807,173	-	-
Total Equity Securities	2,857,752,617	2,857,736,869	15,748	-
Preferred Stock:				
Domestic Preferred Stock	1,757,474	-	1,757,474	-
Foreign Preferred Stock	47,530,968	47,530,968	-	-
Total Preferred Stock	49,288,442	47,530,968	1,757,474	-
Debt Securities:				
U.S. Government Obligations	854,592,699	546,346,949	308,245,750	-
Foreign Government and Provincial Obligations	699,635,890	-	699,635,890	-
Corporate Obligations	697,777,728	-	697,777,728	-
Other	4,696,493	-	4,696,493	-
Total Debt Securities	2,256,702,810	546,346,949	1,710,355,861	-
Purchased Options	9,937,131	5,737,165	4,199,966	-
Investment Funds:				
Private Investments	264,626,298	-	-	264,626,298
U.S. Equity	1,483,146	1,483,146	-	-
Global Equity	5,418,068	5,418,068	-	-
Emerging Markets	54,040,844	54,040,844	-	-
Fixed Income	146,267,988	146,267,988	-	-
Total Investment Funds	471,836,344	207,210,046	-	264,626,298
Cash Equivalents	696,357,027	696,357,027	-	-
Total Investments by Fair Value Level	6,341,874,371	\$ 4,360,919,024	\$ 1,716,329,049	\$ 264,626,298
Cash	80,447,691			
Investments Funds Fair Valued Using Practical Expedient:				
Hedge Funds	4,585,188,036			
Private Investments	8,850,145,160			
Public Markets	4,745,819,272			
Investments Funds Fair Valued Using Practical Expedient	18,181,152,468			
Total Investments, at Fair Value	\$ 24,603,474,530			

	Fair Value Measurements Using			
	Fair Value as of August 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment Derivatives				
Foreign Exchange Contracts	\$ (4,047,766)	\$ -	\$ (4,047,766)	\$ -
Futures Contracts	840,557	840,557	-	-
Swaps	25,878,687	-	25,878,687	-
Written Options	(2,176,940)	-	(2,176,940)	-
Investment Derivatives	\$ 20,494,538	\$ 840,557	\$ 19,653,981	\$ -

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

	Fair Value Measurements Using			
	Fair Value as of August 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Equity Securities:				
Domestic Common Stock	\$ 776,112,828	\$ 776,112,828	\$ -	\$ -
Foreign Common Stock	1,924,232,099	1,924,216,523	15,576	-
Other Equities	31,144,850	26,409,339	4,735,511	-
Total Equity Securities	2,731,489,777	2,726,738,690	4,751,087	-
Preferred Stock:				
Domestic Preferred Stock	434,880	-	434,880	-
Foreign Preferred Stock	55,017,263	55,017,263	-	-
Total Preferred Stock	55,452,143	55,017,263	434,880	-
Debt Securities:				
U.S. Government Obligations	742,413,869	398,057,316	344,356,553	-
Foreign Government and Provincial Obligations	801,136,831	-	801,136,831	-
Corporate Obligations	605,345,492	-	605,345,492	-
Other	3,589,474	-	3,589,474	-
Total Debt Securities	2,152,485,666	398,057,316	1,754,428,350	-
Purchased Options	4,154,714	1,183,679	2,971,035	-
Convertible Securities	-	-	-	-
Investment Funds:				
Private Investments	257,707,756	-	-	257,707,756
U.S. Equity	34,464,648	34,464,648	-	-
Fixed Income	22,712,457	22,712,457	-	-
Total Investment Funds	314,884,861	57,177,105	-	257,707,756
Physical Commodities - Gold	308,398,106	308,398,106	-	-
Cash Equivalents	973,983,967	973,983,967	-	-
Total Investments by Fair Value Level	6,540,849,234	\$ 4,520,556,126	\$ 1,762,585,352	\$ 257,707,756
Cash	81,759,982			
Investments Funds Fair Valued Using Practical Expedient:				
Hedge Funds	4,355,999,062			
Private Investments	8,434,282,779			
Public Markets	3,613,790,419			
Investments Funds Fair Valued Using Practical Expedient	16,404,072,260			
Total Investments, at Fair Value	\$ 23,026,681,476			
		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)
Investment Derivatives	Fair Value as of August 31, 2019			
Foreign Exchange Contracts	\$ 4,759,728	\$ -	\$ 4,759,728	\$ -
Futures Contracts	64,642	64,642	-	-
Swaps	(3,649,201)	-	(3,649,201)	-
Written Options	(775,498)	-	(775,498)	-
Investment Derivatives	\$ 399,671	\$ 64,642	\$ 335,029	\$ -

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment funds fair valued at net asset value per share or based on the PUF's ownership interest in partners' capital include externally managed funds, limited partnerships, and corporate structures which are generally unrated and may be unregulated. The composition of investment funds that are fair valued using a practical expedient at August 31, 2020 and 2019 is summarized in the tables below as they are included within the asset mix of the PUF.

Investment Funds:	Fair Value as of August 31, 2020	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds:				
Directional				
Redeemable Within One Year	\$ 932,113,925	\$ -	Quarterly to Annually	45 - 90 Days
Redeemable Beyond One Year	1,208,111,789	-	Quarterly to Annually	45 - 120 Days
Nonredeemable	344,540,068	297,840,155	Not Applicable	Not Applicable
Total Directional	<u>2,484,765,782</u>	<u>297,840,155</u>		
Stable Value				
Redeemable Within One Year	951,437,045	-	Monthly to Annually	5 - 100 Days
Redeemable Beyond One Year	931,137,229	-	Quarterly to Annually	45 - 100 Days
Nonredeemable	217,847,980	209,597,494	Not Applicable	Not Applicable
Total Stable Value	<u>2,100,422,254</u>	<u>209,597,494</u>		
Total Hedge Funds	<u>4,585,188,036</u>	<u>507,437,649</u>		
Private Investments (Nonredeemable):				
Private Equity	1,688,171,925	2,040,518,331	Not Applicable	Not Applicable
Emerging Market Equity	1,016,993,226	197,093,998	Not Applicable	Not Applicable
Credit	531,376,430	386,726,259	Not Applicable	Not Applicable
Venture	2,036,408,640	598,043,996	Not Applicable	Not Applicable
Natural Resources	1,362,139,284	417,881,161	Not Applicable	Not Applicable
Infrastructure	654,892,524	429,623,062	Not Applicable	Not Applicable
Real Estate	1,560,163,131	1,371,437,809	Not Applicable	Not Applicable
Total Private Investments	<u>8,850,145,160</u>	<u>5,441,324,616</u>		
Public Markets:				
U.S. Equity				
Redeemable Within One Year	1,030,531,039	-	Daily to Annually	10 - 90 Days
Redeemable Beyond One Year	640,605,574	46,867,309	Annually	90 Days
Total U.S. Equity	<u>1,671,136,613</u>	<u>46,867,309</u>		
Non-U.S. Developed Equity				
Redeemable Within One Year	598,229,532	-	Monthly to Quarterly	6 - 30 Days
Global Developed Public Equity				
Redeemable Within One Year	1,418,752,346	-	Monthly to Quarterly	30 - 60 Days
Redeemable Beyond One Year	69,675,134	-	Monthly	45 Days
Total Global Developed Equity	<u>1,488,427,480</u>	<u>-</u>		
Emerging Market Equity				
Redeemable Within One Year	845,785,087	-	Daily to Semi-Annually	1 - 90 Days
Redeemable Beyond One Year	122,101,749	-	Monthly to Quarterly	60 - 90 Days
Nonredeemable	20,138,811	73,930,809	Not Applicable	Not Applicable
Total Emerging Markets Equity	<u>988,025,647</u>	<u>73,930,809</u>		
Total Public Markets	<u>4,745,819,272</u>	<u>120,798,118</u>		
Total Investment Funds	<u>\$ 18,181,152,468</u>	<u>\$ 6,069,560,383</u>		

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Funds:	Fair Value as of August 31, 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge Funds:				
Directional				
Redeemable Within One Year	\$ 1,134,316,396	\$ -	Monthly to Annually	45 - 90 Days
Redeemable Beyond One Year	1,253,130,635	-	Quarterly to Annually	45 - 120 Days
Nonredeemable	290,501,731	355,101,963	Not Applicable	Not Applicable
Total Directional	<u>2,677,948,762</u>	<u>355,101,963</u>		
Stable Value				
Redeemable Within One Year	943,416,260	-	Monthly to Annually	5 - 65 Days
Redeemable Beyond One Year	549,485,916	-	Quarterly to Annually	45 - 90 Days
Nonredeemable	185,148,124	82,317,300	Not Applicable	Not Applicable
Total Stable Value	<u>1,678,050,300</u>	<u>82,317,300</u>		
Total Hedge Funds	<u>4,355,999,062</u>	<u>437,419,263</u>		
Private Investments (Nonredeemable):				
Private Equity	1,577,296,542	1,325,819,022	Not Applicable	Not Applicable
Emerging Market Equity	1,069,720,880	228,500,117	Not Applicable	Not Applicable
Credit	371,498,621	546,739,642	Not Applicable	Not Applicable
Venture	1,647,557,385	619,758,445	Not Applicable	Not Applicable
Natural Resources	1,515,949,672	367,674,391	Not Applicable	Not Applicable
Infrastructure	484,773,934	362,024,449	Not Applicable	Not Applicable
Real Estate	1,767,485,745	1,349,645,746	Not Applicable	Not Applicable
Total Private Investments	<u>8,434,282,779</u>	<u>4,800,161,812</u>		
Public Markets:				
U.S. Equity				
Redeemable Within One Year	633,397,824	-	Daily to Annually	1 - 90 Days
Redeemable Beyond One Year	506,731,788	105,921,769	Annually	1 - 90 Days
Total U.S. Equity	<u>1,140,129,612</u>	<u>105,921,769</u>		
Non-U.S. Developed Equity				
Redeemable Within One Year	476,744,410	-	Monthly to Quarterly	6 - 30 Days
Global Developed Public Equity				
Redeemable Within One Year	1,076,787,229	-	Monthly to Quarterly	30 - 60 Days
Redeemable Beyond One Year	91,393,039	-	Monthly	60 Days
Total Global Developed Equity	<u>1,168,180,268</u>	<u>-</u>		
Emerging Market Equity				
Redeemable Within One Year	697,108,415	-	Daily to Semi-Annually	1 - 90 Days
Redeemable Beyond One Year	102,043,978	-	Monthly to Quarterly	45 - 60 Days
Nonredeemable	29,583,736	33,366,143	Not Applicable	Not Applicable
Total Emerging Markets Equity	<u>828,736,129</u>	<u>33,366,143</u>		
Total Public Markets	<u>3,613,790,419</u>	<u>139,287,912</u>		
Total Investment Funds	<u>\$ 16,404,072,260</u>	<u>\$ 5,376,868,987</u>		

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The PUF invests in hedge funds through unit interests in investment pools established in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosures represent the PUF's pro-rata share of these investment pool assets. The hedge fund pools are invested in private funds with external investment managers who invest in equity and fixed income securities, including related derivatives, of both domestic and international issuers. These investment managers may invest in both long and short securities and may utilize leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the investment manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. There are certain risks associated with these private funds, some of which include investment manager risk, market risk, and liquidity risk, as well as the risk of utilizing leverage in the portfolios. The hedge fund pools have committed \$1,316,518,693 of future funding to various hedge fund investments as of August 31, 2020 of which the PUF's pro-rata portion is \$507,437,649.

The PUF invests in private investments in investment pools created in the name of the UT Board. Amounts presented in the PUF's financial statements and related note disclosures for the years ended August 31, 2020 and 2019, represent the PUF's pro-rata share of these investment pool assets. The private investment pools are generally invested in limited partnerships with external investment managers or general partners who invest primarily in private equity securities. These investments are domestic and international, are illiquid, and typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from underlying fund investments. It is estimated that the underlying assets of the private investments will be liquidated over seven to ten years after initial investment. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk, and investment manager risk. Certain of these investments are held through limited liability companies, of which UTIMCO is the manager. The private investment pools have committed \$8,862,092,209 of future funding to various private market investments as of August 31, 2020 of which the PUF's pro-rata portion is \$5,441,324,616.

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 PUF. Some of these investment managers may invest in both long and short securities and may utilize leverage in their portfolios. Certain funds are subject to a lock-up restriction of typically one to three years before the investment may be withdrawn from the investment manager without significant penalty. The amounts shown as nonredeemable are considered to be illiquid in that they typically become liquid over multi-year periods when and if the fund managers distribute proceeds realized from the underlying fund investments and the timing cannot be estimated. Certain of these investments are held through limited liability companies of which UTIMCO is the manager. 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 \$215,703,390, of which the PUF's pro-rata portion is \$120,798,118, have been committed to certain public market funds as of August 31, 2020.

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

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

Note 4 – Investment Risk

The investment risk disclosure that follows relates to the PUF'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 PUF's investments in hedge funds, private investments, and public market funds are discussed in Note 3.

(A) Credit Risk

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The PUF's investment policy does not provide specific requirements or limitations with regards to investment ratings. Per GASB Statement No. 40 (GASB 40), *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. GASB 40 also provides that securities with split ratings, or a different rating assignment between NRSROs, are disclosed using the rating indicative of the greatest degree of risk. The following table presents each applicable investment type grouped by rating at August 31, 2020 and 2019:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,		Rating
	2020	2019	
Investments:			
U.S. Government Guaranteed			
U.S. Government Guaranteed	\$ 212,929,167	\$ -	AAA
U.S. Government Guaranteed	345,047,810	401,319,770	AA
Total U.S. Government Guaranteed	<u>557,976,977</u>	<u>401,319,770</u>	
U.S. Government Non-Guaranteed:			
U.S. Agency	70,105,651	198,981,009	AA
U.S. Agency Asset Backed	225,959,006	140,894,011	AA
U.S. Agency Asset Backed	-	372,468	A
U.S. Agency Asset Backed	551,065	-	BA/BB
U.S. Agency Asset Backed	-	846,611	B
Total U.S. Government Non-Guaranteed	<u>296,615,722</u>	<u>341,094,099</u>	
Total U.S. Government	<u>854,592,699</u>	<u>742,413,869</u>	
Corporate Obligations:			
Domestic	36,384,521	25,814,208	AAA
Domestic	42,978,056	32,965,388	AA
Domestic	191,314,053	189,819,792	A
Domestic	210,455,291	171,682,503	BAA/BBB
Domestic	17,958,368	9,431,280	BA/BB
Domestic	2,134,000	641,764	B
Domestic	2,801,162	1,859,148	CAA/CCC
Domestic	209,691	314,571	CA/CC
Domestic	49,200	56,150	D
Domestic	1,950,261	1,404,224	Not Rated
Foreign	56,006,798	50,710,704	AAA
Foreign	5,740,610	14,439,065	AA
Foreign	48,618,871	40,639,395	A
Foreign	58,182,756	57,373,876	BAA/BBB
Foreign	16,404,594	4,409,962	BA/BB
Foreign	4,605,980	3,782,971	B
Foreign	1,983,516	491	Not Rated
Total Corporate Obligations	<u>697,777,728</u>	<u>605,345,492</u>	
Foreign Government and Provincial Obligations	101,857,412	141,178,756	AAA
Foreign Government and Provincial Obligations	117,113,985	80,617,895	AA
Foreign Government and Provincial Obligations	171,383,622	152,619,909	A
Foreign Government and Provincial Obligations	176,661,295	215,438,530	BAA/BBB
Foreign Government and Provincial Obligations	39,488,874	65,439,823	BA/BB
Foreign Government and Provincial Obligations	93,130,702	145,841,918	Not Rated
Total Foreign Government and Provincial Obligations	<u>699,635,890</u>	<u>801,136,831</u>	
Other Debt Securities	-	352,969	AAA
Other Debt Securities	3,777,775	2,308,725	AA
Other Debt Securities	143,104	668,393	A
Other Debt Securities	775,614	259,387	BAA/BBB
Total Other Debt Securities	<u>4,696,493</u>	<u>3,589,474</u>	
Total Debt Securities	<u>\$ 2,256,702,810</u>	<u>\$ 2,152,485,666</u>	
Other Investment Funds			
Debt	\$ 23,775,288	\$ 22,712,457	BA/BB
Debt	122,492,700	-	Not Rated
Total Other Investments - Debt	<u>\$ 146,267,988</u>	<u>\$ 22,712,457</u>	
Cash Equivalents - Money Market Funds	\$ 696,357,027	\$ 973,983,967	AAA
Cash	80,447,691	81,759,982	Not Rated
Total Cash and Cash Equivalents	<u>\$ 776,804,718</u>	<u>\$ 1,055,743,949</u>	
Net Deposit with Brokers for Derivative Contracts:			
U.S. Government Guaranteed	\$ 12,608,201	\$ 541,144	AA
Cash	(40,734,065)	(7,048,480)	Not Rated
Total Net (Payable to)/Deposit with Brokers for Derivative Contracts	<u>\$ (28,125,864)</u>	<u>\$ (6,507,336)</u>	

(B) Concentrations of Credit Risk

The PUF's investment policy statement contains the limitation that no more than 5% of the market value of fixed income securities may be invested in corporate or municipal bonds of a single issuer. As of August 31, 2020 and 2019, the PUF does not hold any direct investments in any one issuer of corporate or municipal bonds that is 5% or more of the market value of the PUF's fixed income investments.

(C) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the PUF will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the PUF will not be able to recover the fair value of its investment or collateral securities that are in the possession of another party. Texas State Statutes and the PUF's investment policy statements do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2020 and 2019, the PUF does not have any deposits or investments that are exposed to custodial credit risk.

(D) Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the 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 PUF is measured by monitoring the modified duration of the overall investment portfolio. Modified duration estimates the sensitivity of the PUF's investments to changes in interest rates. The PUF has no specific policy statement limitations with respect to its overall modified duration.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The following table summarizes the PUF's modified duration in years by investment type at August 31, 2020 and 2019:

Investment Type	August 31,			
	2020		2019	
	Fair Value	Modified Duration	Fair Value	Modified Duration
Investments:				
U.S. Government Guaranteed:				
U.S. Treasury Bills	\$ 63,979	-	\$ 108,472,148	0.41
U.S. Treasury Bonds and Notes	181,386,359	3.54	271,400,752	10.44
U.S. Treasury Inflation Protected	364,896,611	8.25	18,184,416	11.02
U.S. Agency Asset Backed	11,630,028	3.99	3,262,454	2.11
Total U.S. Government Guaranteed	<u>557,976,977</u>	6.63	<u>401,319,770</u>	7.68
U.S. Government Non-Guaranteed:				
U.S. Agency	70,105,651	2.39	198,981,009	2.88
U.S. Agency Asset Backed	226,510,071	2.97	142,113,090	2.25
Total U.S. Government Non-Guaranteed	<u>296,615,722</u>	2.84	<u>341,094,099</u>	2.62
Total U.S. Government	<u>854,592,699</u>	5.31	<u>742,413,869</u>	5.36
Corporate Obligations:				
Domestic	506,234,603	8.74	433,989,028	5.02
Foreign	191,543,125	4.42	171,356,464	6.14
Total Corporate Obligations	<u>697,777,728</u>	7.56	<u>605,345,492</u>	5.34
Foreign Government and Provincial Obligations	<u>699,635,890</u>	7.40	<u>801,136,831</u>	4.09
Other Debt Securities	<u>4,696,493</u>	8.12	<u>3,589,474</u>	7.66
Total Debt Securities	<u>2,256,702,810</u>	6.66	<u>2,152,485,666</u>	4.88
Other Investment Funds - Debt	<u>146,267,988</u>	5.52	<u>22,712,457</u>	7.50
Cash and Cash Equivalents	<u>776,804,718</u>	0.08	<u>1,055,743,949</u>	0.08
Total	<u>\$ 3,179,775,516</u>	5.00	<u>\$ 3,230,942,072</u>	3.33
Net Deposit with Brokers for Derivative Contracts:				
U.S. Government Guaranteed:				
U.S. Treasury Bonds and Notes	\$ 4,233,262	3.41	\$ 541,144	2.27
U.S. Treasury Bills	8,374,939	0.61	-	-
Cash	(40,734,065)	-	(7,048,480)	-
Total Net (Payable to)/Deposit with Brokers for Derivative Contracts	<u>\$ (28,125,864)</u>	-	<u>\$ (6,507,336)</u>	-

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

The PUF may invest in various mortgage backed securities, such as collateralized mortgage backed obligations. The PUF also may invest in investments that have floating rates with periodic coupon changes in market rates, zero coupon bonds and stripped Treasury and Agency securities created from coupon securities. No percentage of holdings limitations are specified in the investment policy statements regarding these types of securities. As of August 31, 2020 and 2019, the PUF's investments include the following investments that are highly sensitive to interest rate changes:

Collateralized mortgage obligations which are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows will affect the fair value of these securities. These securities amounted to \$46,394,935 and \$35,328,478 as of August 31, 2020 and 2019, 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 \$237,408,145 and \$144,311,429 as of August 31, 2020 and 2019, respectively.

Asset backed securities which are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligee 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 \$13,888,697 and \$10,814,494 as of August 31, 2020 and 2019, respectively.

(F) *Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the PUF's non-U.S. dollar investments. There are no limitations on investments in non-U.S. dollar denominated bonds or common stocks in relation to the PUF's total fixed income and non-U.S. equity exposures in the PUF'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 PUF's non-U.S. dollar investments at August 31, 2020 and 2019:

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Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2020	2019
Foreign Common Stock:		
Australian Dollar	\$ 3,608,319	\$ 2,904,716
Brazilian Real	127,588,195	218,729,060
Canadian Dollar	3,576,005	4,948,095
Chilean Peso	123,597	1,745,330
Chinese Yuan Renminbi	440,212,094	337,769,181
Colombian Peso	-	218,997
Czech Koruna	-	340,255
Danish Krone	4,429,449	10,517,704
Egyptian Pound	2,417,422	7,514,034
Euro	131,171,845	140,663,285
Hong Kong Dollar	121,685,711	113,934,559
Hungarian Forint	1,502,040	2,151,934
Indian Rupee	33,793,021	47,267,706
Indonesian Rupiah	8,830,122	19,448,315
Japanese Yen	246,483,036	214,123,007
Malaysian Ringgit	5,682,822	12,989,873
Mexican Peso	11,740,024	61,174,322
Norwegian Krone	12,386,061	12,270,670
Peruvian Nuevo Sol	48,189	59,066
Philippine Peso	431,429	1,107,394
Polish Zloty	2,817,269	7,025,150
Qatari Riyal	439,046	2,214,680
Saudi Riyal	-	1,607,834
Singapore Dollar	-	8,484,289
South African Rand	13,757,440	22,375,964
South Korean Won	154,215,349	191,185,744
Sri Lankan Rupee	-	1,746,238
Swedish Krona	10,757,498	4,510,590
Swiss Franc	24,351,264	17,953,434
Taiwan Dollar	63,901,312	89,931,489
Thai Baht	3,627,524	14,366,686
Turkish Lira	14,461,044	24,917,190
UK Pound	68,886,918	82,143,120
United Arab Emirates Dirham	5,470,394	19,197,462
Vietnamese Dong	-	10,861,605
Total Foreign Common Stock	<u>1,518,394,439</u>	<u>1,708,398,978</u>
Other - Equity Securities:		
Chinese Yuan Renminbi	-	2,016,889
Malaysian Ringgit	-	9,799
Taiwan Dollar	-	5,334
Total Other - Equity Securities	<u>-</u>	<u>2,032,022</u>
Foreign Preferred Stocks:		
Brazilian Real	24,661,132	36,216,430
Colombian Peso	-	121,202
Euro	267,001	-
South African Rand	43,179	62,688
South Korean Won	22,559,656	18,616,942
Total Foreign Preferred Stock	<u>47,530,968</u>	<u>55,017,262</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2020	2019
Foreign Government and Provincial Obligations:		
Australian Dollar	\$ 37,045,835	\$ 27,442,978
Brazilian Real	20,647,143	41,661,088
Canadian Dollar	43,889,329	49,177,846
Chinese Yuan Renminbi	22,688,992	-
Colombian Peso	27,044,147	31,966,918
Euro	149,352,200	158,046,583
Hungarian Forint	-	5,150,828
Indonesian Rupiah	26,042,956	22,599,577
Israeli Shekel	529,252	-
Japanese Yen	129,654,325	168,410,790
Malaysian Ringgit	26,161,433	30,526,365
Mexican Peso	85,926,822	105,773,085
New Zealand Dollar	1,146,178	372,876
Norwegian Krone	4,797,906	9,125,704
Peruvian Sol	3,998,009	6,223,830
Polish Zloty	7,637,774	38,644,856
Romanian Leu	5,043,276	3,377,723
Russian Ruble	2,751,082	336,285
Singapore Dollar	36,684,824	30,024,301
South African Rand	18,841,731	22,990,786
South Korean Won	3,762,427	4,302,262
UK Pound	18,282,206	10,568,820
Total Foreign Government and Provincial Obligations	671,927,847	766,723,501
Corporate Obligations:		
Australian Dollar	817,187	730,742
Canadian Dollar	177,559	204,712
Danish Krone	34,035,033	28,472,929
Euro	24,209,236	16,435,751
Indian Rupee	502	491
South African Rand	-	1,161,136
UK Pound	24,197,034	22,696,768
Total Corporate Obligations	83,436,551	69,702,529
Purchased Options:		
Australian Dollar	-	17
Brazilian Real	682,606	96,435
Canadian Dollar	19,759	-
Euro	7,892,591	3,057,337
Japanese Yen	-	2,860
Swiss Franc	96,755	235,092
Total Purchased Options	8,691,711	3,391,741
Investment Funds-Emerging Markets:		
Brazilian Real	13,253,741	11,438,858
Private Investments:		
Australian Dollar	80,563,735	88,109,235
Canadian Dollar	115,532,795	156,894,225
Euro	295,419,164	228,000,744
Swedish Krona	10,271,726	-
UK Pound	62,663,205	57,454,939
Total Private Investments	564,450,626	530,459,143

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2020	2019
Cash and Cash Equivalents:		
Australian Dollar	\$ 45,351	\$ 27,733
Brazilian Real	9,614,970	4,008,731
Canadian Dollar	5,012,118	181,991
Chilean Peso	-	16,625
Chinese Yuan Renminbi	35,284,133	14,475,080
Colombian Peso	3,231	453,901
Czech Koruna	46,000	28,885
Danish Krone	14,006	(81,943)
Egyptian Pound	1,194,617	5,426
Euro	1,781,122	1,623,349
Hong Kong Dollar	173,917	1,423,265
Hungarian Forint	40,323	34,986
Indian Rupee	459,156	267,220
Indonesian Rupiah	87,567	82,439
Israeli Shekel	270	128
Japanese Yen	3,482,342	12,956,914
Malaysian Ringgit	30,756	64,094
Mexican Peso	77,100	594,290
New Zealand Dollar	740	684
Norwegian Krone	351	534,792
Peruvian Nuevo Sol	-	4,763
Philippine Peso	4,480	9,853
Polish Zloty	57,446	241,466
Qatari Riyal	18,459	154,838
Romanian Leu	-	75
Russian Ruble	21,773	7
Singapore Dollar	10,702	16,659
South African Rand	871,372	642,692
South Korean Won	4,059,425	4,146,729
Swedish Krona	15,693	26,330
Swiss Franc	(254,797)	11,122
Taiwan Dollar	391,479	808,094
Thai Baht	(26)	34,147
Turkish Lira	11,894	68,014
UK Pound	1,442,713	(476,227)
United Arab Emirates Dirham	41,170	22,735
Total Cash and Cash Equivalents	<u>64,039,853</u>	<u>42,409,887</u>
Written Options:		
Australian Dollar	-	(23,466)
Brazilian Real	(109,540)	(306,206)
Canadian Dollar	(56,623)	-
Euro	(103,537)	-
Japanese Yen	-	(2,257)
Total Written Options	<u>(269,700)</u>	<u>(331,929)</u>

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Investment Type	August 31,	
	2020	2019
Swaps :		
Australian Dollar	\$ 39,400	\$ 4,112,521
Canadian Dollar	908,560	690,274
Chinese Yuan Renminbi	24,590	158,366
Czech Koruna	20,804	20,672
Euro	310,480	10,138,719
Israeli Shekel	113,113	230,364
Japanese Yen	(112,065)	235,775
Mexican Peso	(6,578)	9,820
New Zealand Dollar	-	2,188
Polish Zloty	44,362	29,388
South African Rand	53,731	22,438
South Korean Won	146,520	232,952
Swedish Krona	49,266	62,989
Swiss Franc	(704)	-
UK Pound	(1,759,904)	(1,298,030)
Total Swaps	<u>(168,425)</u>	<u>14,648,436</u>
Futures:		
Australian Dollar	332,078	-
Brazilian Real	(61,389)	-
Canadian Dollar	(368,105)	-
Euro	(1,469,943)	(36,014)
Japanese Yen	6,432	-
UK Pound	891,818	-
Total Futures	<u>(669,109)</u>	<u>(36,014)</u>
Total	<u>\$ 2,970,618,502</u>	<u>\$ 3,203,854,414</u>

(G) Counterparty (Credit) Risk

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

The PUF had gross counterparty exposure as of August 31, 2020 for options, swaps, and foreign exchange contracts shown in the following table:

	Notional		Fair Value		Counterparty Rating
	Assets	Liabilities	Assets	Liabilities	
Options	\$ 52,519,653	\$ 4,858,785	\$ 2,704,347	\$ 14,046	AA
Options	64,862,282	25,773,618	4,049,231	168,832	A
Swaps	137,171,605	115,587,451	7,338,194	2,101,858	AA
Swaps	472,954,979	68,073,819	28,751,552	2,700,050	A
Foreign Exchange Contracts	114,247,081	223,572,193	2,780,957	7,184,794	AA
Foreign Exchange Contracts	792,867,792	1,097,222,250	23,109,519	22,753,448	A
			<u>\$ 68,733,800</u>	<u>\$ 34,923,028</u>	

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

The PUF had gross counterparty exposure as of August 31, 2019 for options, swaps, and foreign exchange contracts shown in the following table:

	Notional		Fair Value		Counterparty Rating
	Assets	Liabilities	Assets	Liabilities	
Options	\$ 48,360,941	\$ -	\$ 2,671,838	\$ -	AA
Options	10,684,903	14,564,875	87,871	75,608	A
Swaps	34,416,893	7,321,305	3,584,353	2,246,773	AA
Swaps	188,715,525	400,626,794	12,511,479	15,584,321	A
Foreign Exchange Contracts	334,724,230	134,443,826	7,381,676	1,676,915	AA
Foreign Exchange Contracts	897,563,446	837,263,652	13,347,956	14,292,989	A
			<u>\$ 39,585,173</u>	<u>\$ 33,876,606</u>	

As of August 31, 2020 and 2019, the PUF 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 PUF to minimal counterparty credit risk since they are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees them against default. Therefore, they are not presented in the table above.

Counterparty risk for swaps, options and foreign exchange contracts which are traded over-the-counter is mitigated by having master netting arrangements between the PUF and its counterparties, and by the posting of collateral on a daily basis by the counterparty to the PUF to cover the PUF's exposure to a counterparty above the limits set in place in each master netting agreement. Collateral posted by counterparties is held by the PUF in one of its accounts at the PUF's custodian bank. As of August 31, 2020 and 2019, the PUF held \$58,894,506 and \$30,663,499 respectively, of collateral related to derivative instruments other than futures, and had on deposit with brokers \$20,958,562 and \$22,757,163, respectively, as collateral related to derivative instruments other than futures.

(H) COVID-19

Certain impacts to public health conditions particular to the coronavirus (COVID-19) outbreak that occurred may have a significant impact on the valuation of the PUF's investment. The extent of the impact to the PUF will depend on future developments, including the duration and spread of the outbreak, the restrictions and advisories, the effects on the financial markets, and the effects on the economy overall, all of which are highly uncertain and cannot be predicted.

Note 5 – Securities Lending

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

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

following business day. The fair value of securities loaned, and the fair value of collateral held are as follows at August 31, 2020 and 2019:

<u>Securities on Loan</u>	<u>2020 Fair Value</u>	<u>2019 Fair Value</u>	<u>Type of Collateral</u>	<u>2020 Fair Value of Collateral</u>	<u>2019 Fair Value of Collateral</u>
U.S. Government	\$ 1,586,194	\$ 51,748,652	Cash	\$ 1,618,609	\$ 53,092,228
Corporate Bonds	61,193,165	45,946,893	Cash	62,710,496	47,093,547
Common Stock	113,912,355	82,483,148	Cash	117,363,777	86,668,972
Sovereign Debt	931,655	-	Cash	954,180	-
Total	<u>\$ 177,623,369</u>	<u>\$ 180,178,693</u>	Total	<u>\$ 182,647,063</u>	<u>\$ 186,854,747</u>
U.S. Government	\$ 20,228,197	\$ 48,689,831	Non-Cash	\$ 20,645,883	\$ 49,690,957
Corporate Bonds	544,874	-	Non-Cash	557,871	-
Common Stock	101,837,207	111,372,620	Non-Cash	104,182,584	115,016,698
Total	<u>\$ 122,610,278</u>	<u>\$ 160,062,451</u>	Total	<u>\$ 125,386,338</u>	<u>\$ 164,707,655</u>

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

The PUF's pro-rata share of collateral pool investments, rating by NRSRO, and weighted average maturity at August 31, 2020 and 2019 is shown in the following table:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Description	2020			2019		
	Fair Value	Rating	Weighted Average Maturity In Days	Fair Value	Rating	Weighted Average Maturity In Days
Repurchase Agreements	\$ 110,478,744	No Rating Available	1	\$ 116,753,304	No Rating Available	3
Agencies	2,006,664	AA		-	-	
Agencies	5,642,110	A		-	-	
Total Agencies	<u>7,648,774</u>		1	-	-	
Commercial Paper	15,983,922	A	82	5,075,909	P	58
Floating Rate Notes	25,274,313	AA		37,131,899	AA	
Floating Rate Notes	18,034,890	A		27,933,761	A	
Total Floating Rate Notes	<u>43,309,203</u>		41	<u>65,065,660</u>		40
Interest Bearing Notes	459,361	AAA		-	-	
Interest Bearing Notes	1,043,249	AA		-	-	
Interest Bearing Notes	1,623,587	A		-	-	
Total Interest Bearing Notes	<u>3,126,197</u>		67	-	-	
Certificates of Deposit	3,059,995	A	12	-	-	
Other Receivables/Payables	(959,772)	Not Rated		(40,126)	Not Rated	
Total Collateral Pool Investment	<u>\$ 182,647,063</u>		19	<u>\$ 186,854,747</u>		17

The following tables reflect fair value measurements of collateral pool investments as of August 31, 2020 and 2019, respectively, as categorized by level of the fair value hierarchy:

	Fair Value Measurements Using			
	Fair Value as of August 31, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Repurchase Agreements	\$ 110,478,744	\$ -	\$ 110,478,744	\$ -
Agencies	7,648,774	-	7,648,774	-
Commercial Paper	15,983,922	-	15,983,922	-
Floating Rate Notes	43,309,203	-	43,309,203	-
Interest Bearing Notes	3,126,197	-	3,126,197	-
Certificates of Deposit	3,059,995	-	3,059,995	-
Total by Fair Value Level	<u>183,606,835</u>	<u>\$ -</u>	<u>\$ 183,606,835</u>	<u>\$ -</u>
Other Receivables/Payables	(959,772)			
Total Collateral Pool Investments	<u>\$ 182,647,063</u>			

	Fair Value Measurements Using			
	Fair Value as of August 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Repurchase Agreements	\$ 116,753,304	\$ -	\$ 116,753,304	\$ -
Commercial Paper	5,075,909	-	5,075,909	-
Floating Rate Notes	65,065,660	-	65,065,660	-
Total by Fair Value Level	<u>186,894,873</u>	<u>\$ -</u>	<u>\$ 186,894,873</u>	<u>\$ -</u>
Other Receivables/Payables	(40,126)			
Total Collateral Pool Investments	<u>\$ 186,854,747</u>			

Collateral pool investments are uninsured, and are held by the PUF's securities lending agent, in its name, on behalf of the PUF, except for the investments in repurchase agreements which are held in the securities lending agent's name by a third-party custodian not affiliated with the PUF or the borrower

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

As of August 31, 2020 and 2019, the PUF had no credit risk exposure to borrowers because the amounts the PUF owed to borrowers exceeded the amounts the borrowers owed the PUF.

There were no significant violations of legal or contractual provisions, no borrower or securities lending agent default losses, and no recoveries of prior period losses during the years ended August 31, 2020 and 2019.

Note 6 – Written Options

The following table discloses the fair values of the PUF's written call option contracts outstanding as of August 31, 2020 and 2019:

Type	Fair Value at August 31, 2020		Fair Value at August 31, 2019	
	Assets	Liabilities	Assets	Liabilities
Equity	\$ -	\$ 415,381	\$ -	\$ 278,185
Currency	-	75,947	-	38,188
Commodity	-	1,513,160	-	-
Interest Rate Swap	-	54,102	-	-
Other	-	2,471	-	113,380
	<u>\$ -</u>	<u>\$ 2,061,061</u>	<u>\$ -</u>	<u>\$ 429,753</u>

The fair values are included on the statements of net position as options written, at fair value. The changes in fair value of open call options were decreases in the amounts of \$1,140,713 and \$221,573 for the years ended August 31, 2020 and August 31, 2019, respectively, which are included in the net increase in fair value of investments on the statements of changes in net position.

The following table discloses the fair values of the PUF's written put option contracts as of August 31, 2020 and 2019:

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Type	Fair Value at August 31, 2020		Fair Value at August 31, 2019	
	Assets	Liabilities	Assets	Liabilities
	Currency	\$ -	\$ 1,493	\$ -
Equity	-	82,004	-	58,392
Interest Rate Swap	-	25,117	-	250,935
Credit Default Swap	-	-	-	60
Other	-	7,265	3,017	2,015
	<u>\$ -</u>	<u>\$ 115,879</u>	<u>\$ 3,017</u>	<u>\$ 348,762</u>

The fair values are included on the statements of net position as options written, at fair value. The changes in fair value of open put options for the years ended August 31, 2020 and 2019 were increases in the amounts of \$616,227 and \$175,091, respectively, which are included in the net increase in fair value of investments on the statements of changes in net position.

Note 7 – Swaps

The following table discloses the notional amounts and the fair values of the types of outstanding swap contracts as of August 31, 2020:

Type	Notional Value	Fair Value at August 31, 2020	
		Assets	Liabilities
Interest Rate	\$ 428,185,017	\$ 4,224,274	\$ 6,161,948
Equity	688,316,310	32,331,347	4,463,726
Fixed Income	30,941,967	396,759	70,370
Credit Default	17,950,685	5,627	379,775
Currency	8,720,255	42,931	46,340
Volatility	11,188,010	128,706	79,576
Inflation	8,801,490	30,021	79,243
Total		<u>\$ 37,159,665</u>	<u>\$ 11,280,978</u>

The change in fair value of open swap positions for the year ended August 31, 2020 was an increase in the amount of \$25,369,334, which is included in the net increase in fair value of investments on the statements of changes in net position.

The following table discloses the notional amount and the fair values of the types of outstanding swap contracts as of August 31, 2019:

Type	Notional Value	Fair Value at August 31, 2019	
		Assets	Liabilities
Interest Rate	\$ 1,224,715,070	\$ 6,864,095	\$ 5,292,647
Equity	540,579,493	2,962,596	7,812,807
Fixed Income	5,400,000	-	492,989
Credit Default	90,245,250	1,542,844	998,904
Currency	17,640,650	8,752,549	8,905,525
Volatility	2,900,000	-	268,413
Total		<u>\$ 20,122,084</u>	<u>\$ 23,771,285</u>

The change in fair value of open swap positions for the year ended August 31, 2019 was a decrease in the amount of \$4,934,132, which is included in the net increase in fair value of investments on the statements of changes in net position.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Note 8 – Futures Contracts

The changes in fair value of open futures contracts for the years ended August 31, 2020 and 2019 were increases in the amounts of \$18,203,166 and \$1,477,668, respectively, which are included in the net increase in fair value of investments on the statements of changes in net position. The PUF had \$9,810,080 and \$1,399,000 on deposit with brokers for collateral as margin for the futures contracts as of August 31, 2020 and 2019, respectively. Short futures may be used by the PUF to hedge the PUF's interest rate or currency risk associated with security positions.

Futures contracts are traded on several different exchanges around the world. The daily cash settlements made by the investment manager for some of these open contracts are made on a net basis to each respective exchange. The fair value, for August 31, 2020 and 2019, 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 \$17,362,608 and \$1,413,026 as of August 31, 2020 and 2019, respectively.

The following discloses the type, notional value, and fair values for futures contracts as of August 31, 2020:

Contract	Notional Value at August 31, 2020		Fair Value at August 31, 2020	
	Long	Short	Assets	Liabilities
Commodities	\$ 32,283,478	\$ -	\$ 3,467,033	\$ -
Domestic Fixed Income	118,437,804	129,860,005	1,610,548	1,463,437
Foreign Fixed Income	112,869,270	115,676,890	2,463,437	2,755,017
Domestic Equities	197,290,425	5,217,177	53,298	2,157,776
Foreign Equities	25,291,107	11,692,382	11,129	388,658
Total	\$ 486,172,084	\$ 262,446,454	\$ 7,605,445	\$ 6,764,888

The following discloses the type, notional value, and fair values for futures contracts as of August 31, 2019:

Contract	Notional Value at August 31, 2019		Fair Value at August 31, 2019	
	Long	Short	Assets	Liabilities
Domestic Fixed Income	\$ 257,048,492	\$ -	\$ 100,656	\$ -
Foreign Fixed Income	288,840,198	66,893,117	26,730	62,744
Total	\$ 545,888,690	\$ 66,893,117	\$ 127,386	\$ 62,744

Note 9 – Foreign Exchange Contracts

The tables below summarize by currency the contractual amounts of the PUF's foreign exchange contracts at August 31, 2020 and 2019. Foreign currency amounts are translated at exchange rates as of August 31, 2020 and 2019. The "Net Buy" amounts represent the U.S. dollar equivalent of net commitments to purchase foreign currencies, and the "Net Sell" amounts represent the U.S. dollar equivalent of net commitments to sell foreign currencies.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy August 31, 2020	Net Sell August 31, 2020	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2020	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2020
Australian Dollar	\$ -	\$ 34,501,378	\$ 894,008	\$ 1,729,139
Brazil Real	-	6,946,744	274,292	177,270
Canadian Dollar	-	14,877,942	524,911	927,414
Chilean Peso	12,262,853	-	295,424	30,572
Chinese Yuan Renminbi	-	22,976,007	239,751	948,148
Colombian Peso	-	6,752,748	386,712	13,972
Czech Koruna	10,982,712	-	591,283	-
Danish Krone	-	34,716,061	9,036	1,827,946
Egyptian Pound	-	1,119,868	-	5,894
Euro	-	259,803,025	3,655,715	8,900,179
Hong Kong Dollar	1,494,424	-	33,098	39,408
Hungarian Forint	11,544,538	-	5,706	68,273
Indonesian Rupiah	-	12,350,954	212,620	246,865
Israeli Shekel	111,125	-	41,579	51,828
Japanese Yen	-	218,059,755	5,566,747	620,546
Malaysian Ringgit	-	927,858	2,387	28,503
Mexican Peso	-	51,279,354	298,359	1,538,497
New Zealand Dollar	-	37,802,498	459,139	1,180,237
Norwegian Krone	5,294,655	-	4,690,524	2,552,323
Peruvian Sol	-	15,683,638	113,404	155,487
Polish Zloty	14,251,970	-	1,183,906	707,641
Qatari Riyal	-	15,655	-	63
Romanian Leu	-	5,180,097	-	106,958
Russian Ruble	13,449,497	-	27,372	86,645
Singapore Dollar	-	36,224,861	-	526,607
South African Rand	-	20,644,768	57,380	693,425
South Korean Won	18,577,251	-	113,285	74,062
Swedish Krona	24,723,208	-	2,834,194	635,319
Swiss Franc	-	29,437,342	51,047	712,361
Taiwan Dollar	-	888,145	14,633	5,553
Thailand Baht	-	15,628,784	24,757	124,586
Turkish Lira	488,575	-	16,995	815
United Arab Emirates Dirham	-	18,924	-	2
UK Pound	-	35,946,152	3,272,212	5,221,704
	\$ 113,180,808	\$ 861,782,558	\$ 25,890,476	\$ 29,938,242

The change in fair value of open foreign exchange contracts for the year ended August 31, 2020 was a decrease in the amount of \$4,044,612, which is included in the net increase in fair value of investments on the statements of changes in net position.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Currency	Net Buy August 31, 2019	Net Sell August 31, 2019	Unrealized Gains on Foreign Currency Exchange Contracts August 31, 2019	Unrealized Losses on Foreign Currency Exchange Contracts August 31, 2019
Argentina Peso	\$ -	\$ -	\$ 12,729	\$ 94,061
Australian Dollar	-	14,171,441	261,201	293,004
Brazilian Real	-	22,931,764	1,829,967	681,695
Canadian Dollar	-	46,746,938	389,213	324,573
Chilean Peso	15,383,307	-	4,670	620,361
Chinese Yuan Renminbi	-	3,798,629	213,593	240,607
Colombian Peso	-	5,667,246	832,890	148,385
Czech Koruna	4,722,746	-	-	251,944
Danish Krone	-	38,102,901	634,559	35,989
Euro	-	315,957,844	6,270,656	850,178
Hong Kong Dollar	-	6,313,023	59,214	27,055
Hungarian Forint	-	18,469,935	692,268	122,046
Indian Rupee	-	26,544	312,312	132,830
Indonesian Rupiah	-	9,590,735	140,265	77,208
Israeli Shekel	-	211,152	3,277	-
Japanese Yen	-	284,755,619	75,427	6,064,111
Malaysian Ringgit	-	1,398,803	14,725	1
Mexican Peso	-	55,973,341	2,155,890	212,922
New Zealand Dollar	-	11,344,687	791,393	383,954
Norwegian Kroner	9,810,274	-	829,394	1,247,538
Peruvian Sol	-	20,190,139	254,652	18,018
Polish Zloty	-	12,841,583	791,189	353,483
Qatari Riyal	-	154,838	-	590
Romanian Leu	-	3,345,493	158,925	43,739
Russian Ruble	4,945,891	-	-	85,456
Singapore Dollar	-	35,026,685	369,115	95,864
South African Rand	-	24,943,830	420,645	248,255
South Korean Won	17,270,612	-	198,956	625,360
Swedish Krona	27,150,049	-	341,404	1,491,789
Swiss Franc	-	23,663,243	286,377	335,660
Taiwan Dollar	-	6,332,443	7,309	56,313
Thai Baht	-	24,831,773	-	236,719
UK Pound	-	48,340,943	2,377,417	570,196
	\$ 79,282,879	\$ 1,035,131,572	\$ 20,729,632	\$ 15,969,904

The change in fair value of open foreign exchange contracts for the year ended August 31, 2019 was an increase in the amount of \$4,759,896 which is included in the net increase in fair value of investments on the statements of changes in net position.

Note 10 – Purchase Agreements

UTIMCO, as investment manager of the funds under the control and management of the UT Board, entered into a security purchase agreement with the UT Board. The agreement commits the funds under management, including the PUF, to purchase up to \$3,849,140,000 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 the funds may be required to provide for the amount noted.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

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

Note 11 – Distributions to the Available University Fund

The Texas Constitution allows for (a) distributions to the AUF from the “total return” on PUF investments, including income return as well as capital gains (realized and unrealized) and (b) the payment of PUF expenses from PUF assets. The Texas Constitution directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted annual distributions to the AUF and preserves the real value of the PUF investments over the long term. Accordingly, distributions to the AUF in any given fiscal year are subject to the following: (1) A minimum amount equal to the amount needed to pay debt service on PUF bonds; (2) No increase from the preceding year (except as necessary to pay debt service on PUF bonds) unless the purchasing power of PUF investments for any rolling 10-year period has been preserved; (3) A maximum amount equal to seven percent of the average net fair market value of PUF’s net position in any fiscal year, except as necessary to pay debt service on PUF bonds. Distributions from the PUF to the AUF for the years ended August 31, 2020 and 2019, were \$1,311,390,000 and \$1,014,000,000, respectively. The UT Board has approved an amount of \$1,112,265,000 for the PUF distribution to the AUF for the year ended August 31, 2021.

Note 12 – Fees and Expenses

The PUF incurs investment management fees from various external managers of the PUF. The fees, generally assessed quarterly, are based on a percentage of the market value of investments held by each individual investment manager and currently range from 0.23% to 1.50%. In addition to the investment management fees, the PUF may pay performance-based management fees for investment performance in excess of certain defined benchmarks as provided for in the managers’ contracts. The investment management fees presented in the statements of changes in net position represent only those paid directly from the PUF, and do not include fees incurred and charged by general partners in private investments, by mutual fund managers, and 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 PUF for the years ended August 31, 2020 and 2019, were \$69,823,618 and \$46,587,547 respectively.

UTIMCO assesses the PUF a management fee to cover the costs of managing the PUF investments and providing day-to-day operations. These fees are based on a budget prepared by management and approved by the UT Board. The fees assessed for the years ended August 31, 2020 and 2019, were \$25,421,875 and \$22,500,436, respectively.

Custodial fees and expenses are assessed by the financial institution which holds the PUF’s assets. Fees are based on the number of accounts, market value of the PUF, and transaction activity in accordance with the contractual agreement with the institution. Additional fees are assessed for performance measurement, risk measurement and on-line communication services per the contractual agreement. The fees assessed for the years ended August 31, 2020 and 2019, were \$2,034,537 and \$2,361,439, respectively.

Accounting fees, in the amounts of \$335,381 and \$328,444, were incurred by the PUF during the years ended August 31, 2020 and 2019, respectively, for external and UT System internal audit services.

PERMANENT UNIVERSITY FUND

Notes to Financial Statements (cont.)

Consulting fees, in the amounts of \$152,253 and \$248,642, respectively, for the years ended August 31, 2020 and 2019 were incurred for investment strategy and other investment consulting services.

Background check fees are incurred as part of the due diligence efforts undertaken as part of the hiring of investment managers. Fees in the amounts of \$163,625 and \$282,065 were incurred for the years ended August 31, 2020 and 2019, respectively.

Analytical and risk measurement fees, in the amounts of \$410,532 and \$149,134, were also incurred during the years ended August 31, 2020 and 2019, respectively, to maintain a sophisticated risk measurement system for the PUF.

The PUF incurs legal fees associated with the review of new investment manager agreements and with due diligence efforts undertaken as part of the hiring of new investment managers. For the years ended August 31, 2020 and 2019, fees incurred were \$103,180 and \$169,428, respectively.

Foreign tax consulting and filing fees are incurred by the PUF for investment managers domiciled in certain foreign countries and for those that invest in securities issued in certain foreign countries. Fees in the amounts of \$84,794 and \$66,634 were incurred for the years ended August 31, 2020 and 2019, respectively.

The PUF is assessed a fee by UT System to cover expenses related to the management of the PUF Lands. The fees assessed for the years ended August 31, 2020 and 2019, were \$25,384,412 and \$21,496,814, respectively. Fees are also assessed to cover costs associated with UT System personnel in their efforts to provide assistance to the UT Board and the Chancellor of the UT System in their oversight responsibilities of UTIMCO. Fees in the amounts of \$168,740 and \$166,758 were charged to the PUF for the years ended August 31, 2020 and 2019, respectively.

PERMANENT UNIVERSITY FUND

Supplemental Schedule

Schedule of Changes in Cost of Investments and Investment Income

Year Ended August 31, 2020

(in thousands)

	Beginning Cost	Purchases	Sales, Maturities & Redemptions	Gains (Losses)	Reclas	Effects of Pooled Account Rebalancing Activity ***	Ending Cost	Investment Income
Equity Securities								
Domestic Common Stock	\$ 670,933	\$ 1,376,400	\$ (1,265,706)	\$ 103,663	\$ (8,695)	\$ 22,232	\$ 898,827	\$ 8,014
Foreign Common Stock	1,784,458	1,374,408	(1,945,873)	54,068	6,977	69,288	1,343,326	42,752
Other	27,433	43,313	(65,452)	1,057	1,515	472	8,338	966
Total Equity Securities	<u>2,482,824</u>	<u>2,794,121</u>	<u>(3,277,031)</u>	<u>158,788</u>	<u>(203)</u>	<u>91,992</u>	<u>2,250,491</u>	<u>51,732</u>
Preferred Stock								
Domestic Preferred Stock	400	1,292	-	-	-	-	1,692	28
Foreign Preferred Stock	52,187	36,884	(50,821)	(731)	-	1,535	39,054	977
Total Preferred Stock	<u>52,587</u>	<u>38,176</u>	<u>(50,821)</u>	<u>(731)</u>	<u>-</u>	<u>1,535</u>	<u>40,746</u>	<u>1,005</u>
Debt Securities								
U. S. Government Obligations	722,870	4,669,703	(4,510,117)	30,405	-	(74,417)	838,444	11,214
Foreign Government and Provincial Obligations	836,547	892,495	(905,123)	(19,051)	-	(95,373)	709,495	22,518
Corporate Obligations	584,452	369,191	(261,737)	4,377	203	(48,284)	648,202	18,413
Other	3,449	1,600	(541)	(36)	-	26	4,498	124
Total Debt Securities	<u>2,147,318</u>	<u>5,932,989</u>	<u>(5,677,518)</u>	<u>15,695</u>	<u>203</u>	<u>(218,048)</u>	<u>2,200,639</u>	<u>52,269</u>
Purchased Options	<u>6,186</u>	<u>19,961</u>	<u>(10,486)</u>	<u>(5,167)</u>	<u>-</u>	<u>166</u>	<u>10,660</u>	<u>(16)</u>
Investment Funds								
Hedge Funds	3,678,812	1,711,226	(1,764,623)	287,788	-	-	3,913,203	4
Private Markets	7,503,964	1,773,307	(1,542,514)	487,883	-	-	8,222,640	64,587
U.S. Equity	897,265	500,692	(271,500)	57,623	-	(1,195)	1,182,885	2,085
Non-U.S. Developed Equity	303,138	292,540	(204,539)	84,540	-	(629)	475,050	-
Global Developed Equity	836,465	365,722	(317,515)	190,605	-	(528)	1,074,749	13
Emerging Markets Equity	721,612	197,502	(263,335)	96,058	-	(757)	751,080	9,193
Fixed Income	20,393	123,216	(270)	(515)	-	(1,779)	141,045	2,090
Total Investment Funds	<u>13,961,649</u>	<u>4,964,205</u>	<u>(4,364,296)</u>	<u>1,203,982</u>	<u>-</u>	<u>(4,888)</u>	<u>15,760,652</u>	<u>77,972</u>
Physical Commodities								
Gold Bullion	276,267	-	(332,889)	56,622	-	-	-	-
Cash and Cash Equivalents								
Money Market Funds and Cash Held at State	1,056,634	-	(318,878) *	44,302 **	-	(7,071)	774,987	10,328
Other	-	-	-	-	-	-	-	873
Total Investment in Securities	<u>\$ 19,983,465</u>	<u>\$ 13,749,452</u>	<u>\$ (14,031,919)</u>	<u>\$ 1,473,491</u>	<u>\$ -</u>	<u>\$ (136,314)</u>	<u>\$ 21,038,175</u>	<u>\$ 194,163</u>

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

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

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