



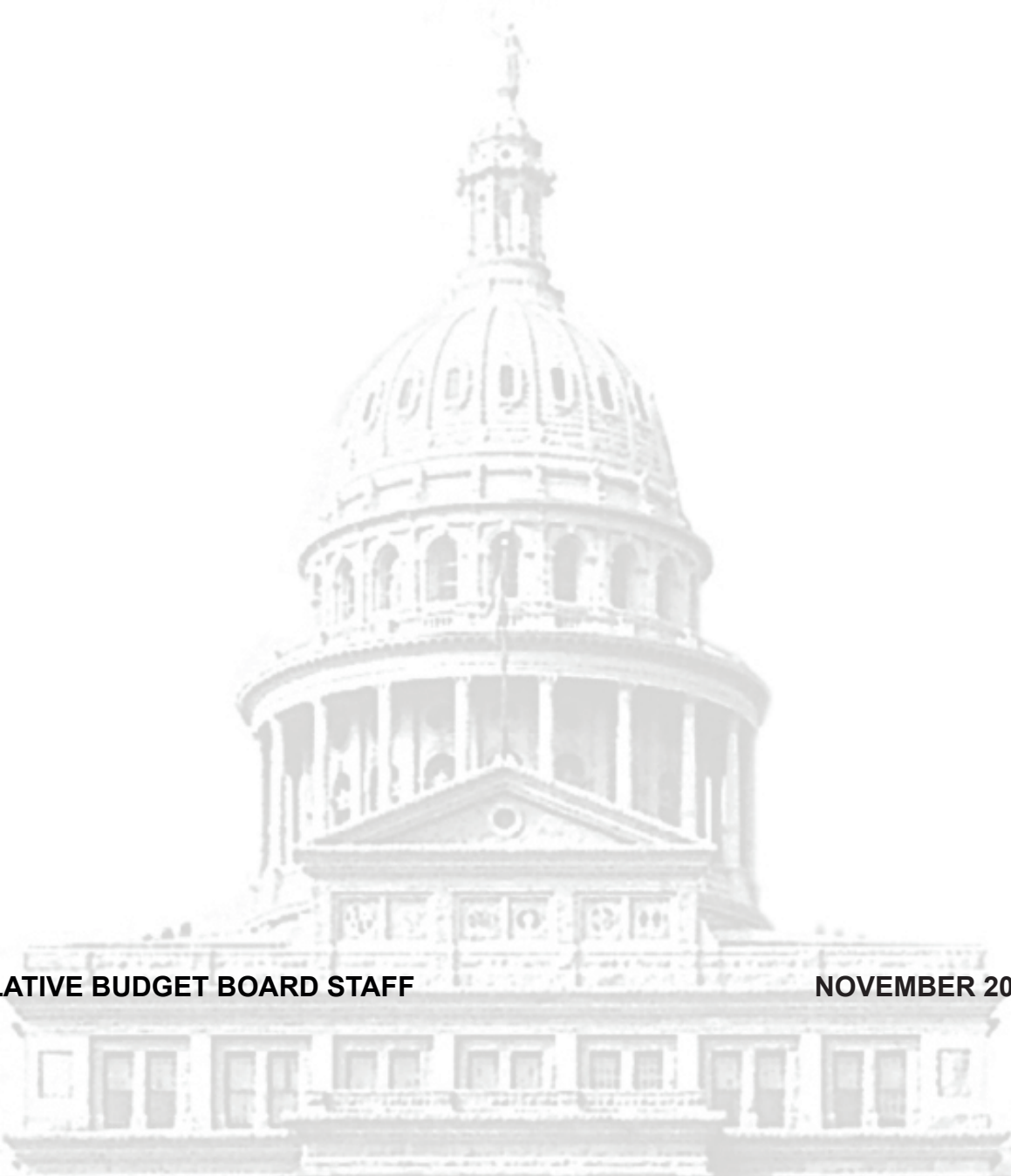
## LEGISLATIVE BUDGET BOARD

# Annual Report on Major State Investment Funds

**Fiscal Year 2012**

**LEGISLATIVE BUDGET BOARD STAFF**

**NOVEMBER 2013**



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# **Annual Report on Major State Investment Funds**

**Fiscal Year 2012**

**Legislative Budget Board Staff**

**November 2013**

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## EXECUTIVE SUMMARY

The fiscal year 2012 *Annual Report on Major State Investment Funds* presents the financial performance for Texas' major investment funds. The report includes the risk-adjusted returns for the funds, as well as other performance and background information for each of the funds. The investing agencies or institutions of higher education provided all the information in this report (see attachments in Appendix D). The only information the Legislative Budget Board (LBB) staff calculated is the risk-adjusted return and the five-year average total fund rate of return. The report does not include recommendations regarding portfolio allocations or current management practices. It is intended as an information resource only.

### INVESTMENT ENVIRONMENT

Each of the major state investment funds covered in this report earned positive returns during fiscal year 2012. Fiscal year 2012 marked the third consecutive year the funds experienced a favorable investment climate. The funds have now recovered most, if not all, of the value lost during the 2008-09 financial crisis and subsequent global recession. Major contributors to these strong returns included improving labor market conditions, an acceleration of growth in economic output, moderate core inflation, low interest rates, and a recovering housing market. Mitigating factors to the positive conditions included uncertainty over future U.S. fiscal policy, investor fear over the continuing sovereign debt crisis and weak economic conditions in the Euro zone, and a mid fiscal year oil price spike.

Domestic equity markets posted their second consecutive fiscal year of double digit returns in 2012. The continued accommodative monetary policy of the Federal Reserve Bank and a strong U.S. economy both combined to increase investor demand for equities. U.S. real gross domestic product increased by 2.8 percent in calendar year 2012, the fastest pace in seven years. Despite increasing economic growth and easy money policies, price inflation remained modest, with the CPI-U increasing by 2.2 percent during fiscal year 2012, within the target range of the Federal Reserve Bank. Labor markets also continued to improve over the course of the fiscal year, with the unemployment rate falling from 9.0 percent to 8.1 percent. In addition, employers added 2.1 million jobs during the fiscal year; however, the total number of U.S. non-farm payroll jobs still remains 4.6 million below the 2008 pre-recession peak. The Federal Reserve held the federal funds rate in a range of 0 to 25 basis points, the same level it has been since December 2008 and announced an extension of their target time rate for this level from mid 2013 to late 2014. Consequently, most interest rates in the U.S. remained near historic lows, with the rate on 10 year Treasury debt and on the U.S. 30 year fixed rate mortgage average falling to 1.6 percent and 3.6 percent, respectively by the end of the fiscal year. Finally, the value of the U.S. dollar, as measured by Trade Weighted

U.S. Dollar Index, increased modestly by 5.8 percent, but generally traded in a fairly tight range throughout fiscal year 2012.

The European sovereign debt crisis continued to adversely affect markets for the third consecutive year. In October 2011, European Union officials announced plans to cut the value of outstanding Greek debt in half and increase the size of the European Financial Stability Facility (Europe's "bailout" fund) to over one trillion Euros. While this temporarily calmed investors, in late 2011 yields on both Spanish and Italian government debt began to rapidly increase, before falling in the latter half of the fiscal year. Ongoing developments in European government debt markets have and will continue to have an adverse affect on the fund's investment environment in the near term future. Similarly, ongoing political gridlock in the U.S. over future fiscal policy (aka the "fiscal cliff") had depressing effect on financial markets in the latter half of fiscal year 2012 as investors began to fear a situation similar to the August 2011 debt ceiling negotiations, where potential failure of politicians to come to an agreement led to high equity market volatility and the worst monthly performance of stocks since the 2008 financial market collapse.

**Figure 1** charts the closing price of the S&P 500 index throughout fiscal year 2012, while **Figure 2** displays the values of several key financial indicators at the beginning and close of the fiscal year.

**FIGURE 1  
STANDARD AND POOR INDEX  
FISCAL YEAR 2012**



SOURCE: St. Louis Federal Reserve Economic Database.

**FIGURE 2  
FINANCIAL MARKET INDICATORS  
FISCAL YEAR 2012**

MARKET	INDICATOR	8/31/2011	8/31/2012	CHANGE
Domestic Equity	S&P 500	1,218.89	1,406.58	15.4%
Domestic Equity	DJIA	11,613.53	13,090.84	12.7%
Domestic Equity	NASDAQ	2,579.46	3,066.96	18.9%
International Equity	MSCI EAFE	1,523.58	1472.5	(3.4%)
International Equity	MSCI World	1211.22	1279.21	5.6%
Emerging Markets Equity	MSCI Emerging Markets	1,033.15	947.32	(8.3%)
U.S. Treasuries	10 Year Yield	2.23	1.57	(66 bps)
U.S. Corp Debt	BofA Merrill Lynch US Corp Master Total Return Index	2,183.58	2402.45	10.0%
U.S. Dollar	Fed Trade Weighted U.S. Dollar Index: Broad (1997 = 100)	94.96	100.47	5.8%
Cash Equivalent	Annualized Yield 90 day T-Bill	0.02%	0.09%	7 bps
Oil Price	Brent Crude Spot (\$)	116.48	113.93	(2.2%)
Price Inflation	CPI-U (fiscal year average)	223.4	228.3	2.2%

NOTE: Financial market indexes are presented on a price return basis.

SOURCE: Federal Reserve Bank of St. Louis: FRED Database.

## ENDING MARKET VALUE

The ending market value of the major investment funds for fiscal year 2012 was \$181.4 billion, \$7.4 billion, or 4.2 percent, more than the value of the funds at the end of fiscal year 2012. The funds and their ending market values are shown in **Figure 3**.

**FIGURE 3**  
**ENDING MARKET VALUE OF MAJOR INVESTMENT FUNDS**  
**FISCAL YEAR 2012**

FUND	VALUE (IN BILLIONS)
Teacher Retirement System Pension Trust Fund	\$111.1
Permanent School Fund – TEA	\$25.6
Permanent School Fund – GLO	\$3.2
Employees Retirement System Pension Trust Fund	\$22.8
Permanent University Fund	\$13.5
Permanent Health Fund	\$1.0
Tobacco Settlement Permanent Trust Fund	\$2.1
Texas Guaranteed Tuition Plan Fund	\$1.3
Permanent Public Health Fund	\$0.4
National Research University Fund	\$0.6
<b>Total Investment Funds</b>	<b>\$181.4</b>

NOTE: PSF – GLO ending market value is Year Ending June 30, 2012.  
SOURCE: Investing agencies and UTIMCO.

## RATES OF RETURN

The average rate of return for the funds in 2012 was 5.98 percent and ranged from 2.6 percent to 12.2 percent as shown in **Figure 4** shows.

The total fund rate of return used in this report is the gross time-weighted rate of return for all investments of each fund. The time weighted rate is calculated before related investment expenses are deducted, and is adjusted to eliminate the effect of timing of cash flows due to contributions and withdrawals. The five-year average rate of return is calculated using a geometric average of the annual rates of return for the five-year period.

The annual rates of return reflect both income earned and change in fund value, without consideration of the risk of fund investments. **Figure 5** shows the average rates of return over five years.

**FIGURE 4**  
**MAJOR INVESTMENT FUNDS TIME WEIGHTED GROSS**  
**RETURN**  
**FISCAL YEAR 2012**

FUND	RATE OF RETURN	
	TIME WEIGHTED	BENCHMARK
Teacher Retirement System Pension Trust Fund	7.69%	8.72%
Permanent School Fund – TEA	9.44%	8.87%
Permanent School Fund – GLO	12.20%	10.96%
Employees Retirement System Pension Trust Fund	8.22%	8.11%
Permanent University Fund	3.44%	3.27%
Permanent Health Fund	3.22%	3.27%
Tobacco Settlement Permanent Trust Fund	2.82%	0.56%
Texas Guaranteed Tuition Plan Fund	7.31%	N/A
Permanent Public Health Fund	2.80%	0.56%
National Research University Fund	2.61%	0.56%

NOTES:

- (1) Benchmark Adjusted Gross Returns were calculated by the agencies or institutions and are identified in the background information provided for each fund in Appendix B.
- (2) Each fund has different investment objectives and strategies, some required by law, that affect its benchmarks and performance.
- (3) PSF-GLO rates of return are based on Year Ending June 30, 2012.

SOURCE: Investing agencies and UTIMCO.

## RISK-ADJUSTED RETURN

The risk-adjusted return is a tool used to compare the performance of funds that have different types and proportions of assets, and quantifies a fund's return relative to its risk. The Sharpe ratio determines the risk-adjusted return for each fund. (The calculation of the Sharpe ratio is explained below.) As **Figure 6** shows, the ratios range from 0.045 to 0.247 percent.

A risk-adjusted return is a single statistic that reflects both the return and volatility of returns over time. A generally accepted measure for computing the risk-adjusted return is the "Sharpe ratio," developed by Nobel Laureate William Sharpe. The Sharpe ratio is often used to rank the risk-adjusted performance of various portfolios over the same period of time. The results of the Sharpe ratio indicate the amount of return earned per unit of risk.

**FIGURE 5  
AVERAGE ANNUAL RATES OF RETURN  
FISCAL YEARS 2008 TO 2012**

FUND	RATE OF RETURN
Teacher Retirement System Pension Trust Fund	2.81%
Permanent School Fund – TEA	2.79%
Permanent School Fund – GLO	1.25%
Employees Retirement System Pension Trust Fund	2.97%
Permanent University Fund	2.66%
Permanent Health Fund	2.43%
Tobacco Settlement Permanent Trust Fund	0.68%
Texas Guaranteed Tuition Plan Fund	2.17%
Permanent Public Health Fund	0.57%
National Research University Fund	N/A

NOTE: Each fund has different investment objectives and strategies, some required by law, that affect its benchmarks and performance. PSF-GLO rates of return are based on a Year Ending June 30 2008 to 2012. The average annual rate of return was determined using the time-weighted rate of return provided by the agencies. SOURCE: Investing agencies and UTIMCO.

**FIGURE 6  
RISK-ADJUSTED RETURN  
FISCAL YEARS 2008 TO 2012**

FUND	RATE OF RETURN (SHARPE RATIO)
Teacher Retirement System Pension Trust Fund	0.234
Permanent School Fund – TEA	0.227
Employees Retirement System Pension Trust Fund	0.246
Permanent University Fund	0.247
Permanent Health Fund	0.225
Tobacco Settlement Permanent Trust Fund	0.056
Texas Guaranteed Tuition Plan Fund	0.198
Permanent Public Health Fund	0.045
National Research University Fund	N/A

NOTE: The PSF-GLO invests solely in real assets; therefore, it is not appropriate to use the GLO’s RAR as measured by the Sharpe Ratio in comparison to the other funds. SOURCE: The rates of return used in the Sharpe Ratio calculations are the monthly rates of return provided by the investing agencies and UTIMCO.

The formula for the Sharpe ratio follows:

$$\frac{\left( \begin{array}{c} \text{Portfolio's} \\ \text{Total Return} \end{array} \right) - \left( \begin{array}{c} \text{"Risk-free" Rate of} \\ \text{90-day Treasury Bills} \end{array} \right)}{\left( \begin{array}{c} \text{Standard Deviation of} \\ \text{the Portfolio's Return Over Time} \end{array} \right)}$$

For example, a portfolio with an average annualized return of 10 percent over the past five years, the growth of which consistently, year after year, fell within a tight range of 7 percent to 12 percent, would reflect a higher (better) risk-adjusted return than another portfolio that averaged the same 10 percent annualized return, but varied wildly year to year (“higher volatility”), with returns ranging from losses of 20 percent to extraordinary gains of 50 percent. Risk-adjusted returns should only be calculated for a minimum period of three years because, for a single year, the statistic is unreliable. For purposes of this report, the Sharpe ratio is constructed for a five-year period of returns.

The Sharpe ratio is a figure used for comparative purposes, and does not reflect different investment objectives and restrictions, which legitimately produce different investment strategies and results for different funds.

The total return amounts used in the calculations were provided by the entities responsible for investing the funds. Each fund provided 60 monthly rates of return that were used to calculate the fund’s return and standard deviation. The risk-free rate used for the calculation is the average of the monthly annualized yield of the 90-day Treasury Bill throughout the respective fiscal year. All rates come from the Federal Reserve Economic Database.

**USE OF EXTERNAL MANAGERS/ADVISORS FOR INVESTMENTS**

Each of the funds varies in its use of external managers or advisors to invest its assets. **Figure 7** shows the portion of assets managed internally and externally for fiscal year 2012.

**RATES OF RETURN FOR DOMESTIC EQUITY INVESTMENTS**

Each of the funds has a significant amount invested in domestic equity investments. The benchmark for this asset group is the Standard & Poor’s 500 Composite Index. The S&P 500 Composite Index is the investment industry’s standard for measuring the performance of actual portfolios. It is a market-value-weighted index of 500 large-cap stocks



**FIGURE 7  
PORTION OF ASSETS MANAGED INTERNALLY AND  
EXTERNALLY  
FISCAL YEAR 2012**

FUND	INTERNAL	EXTERNAL
Teacher Retirement System Pension Trust Fund	76.7%	23.3%
Permanent School Fund – TEA	64.2%	35.8%
Permanent School Fund – GLO	17.0%	83.0%
Employees Retirement System Pension Trust Fund	72.5%	27.5%
Permanent University Fund	10.8%	89.2%
Permanent Health Fund	8.6%	91.4%
Tobacco Settlement Permanent Trust Fund	0.0%	100.0%
Texas Guaranteed Tuition Plan Fund	0.0%	100.0%
Permanent Public Health Fund	0.0%	100.0%
National Research University Fund	0.0%	100.0%

NOTE: The UT-PHF assets are invested in the University of Texas System General Endowment Fund (GEF). The above percentages reflect the allocation of the GEF assets. The PSF-GLO percentages reflect the management of real assets only.

SOURCE: Investing agencies and UTIMCO.

that are traded on either the New York Stock Exchange or the NASDAQ National Market System. In fiscal year 2012, the rate of return for the Standard & Poor's 500 Composite Index was 15.40 percent. In addition to domestic equities, the funds invested varying proportions of their funds assets in global equities and private equity. Rates of returns for these asset classes can be found in each funds appendix.

**Figure 8** shows the rates of returns for domestic equity investments for fiscal year 2012. If applicable, the rates are shown for investments managed by external managers and for investments managed internally.

**FIGURE 8  
RATES OF RETURNS FOR DOMESTIC EQUITY INVESTMENTS  
FISCAL YEAR 2012**

BENCHMARKS		
Standard & Poor's 500 Index	15.40%	
FUND	INTERNAL	EXTERNAL
Teacher Retirement System Pension Trust Fund	N/A	N/A
Permanent School Fund – TEA	17.32%	N/A
Permanent School Fund – GLO	N/A	N/A
Employees Retirement System Pension Trust Fund	17.28%	17.18%
Permanent University Fund	N/A	1.09%
Permanent Health Fund	N/A	1.72%
Tobacco Settlement Permanent Trust Fund	N/A	7.60%
Texas Guaranteed Tuition Plan Fund	N/A	17.00%
Permanent Public Health Fund	N/A	7.60%
National Research University Fund	N/A	7.60%

NOTE: N/A = funds that do not have domestic equity investments for the category shown. The UT-PHF assets are invested in the University of Texas System General Endowment Fund (GEF). The above percentages reflect the return of the GEF assets.

SOURCE: Investing agencies and UTIMCO.

## ACRONYMS

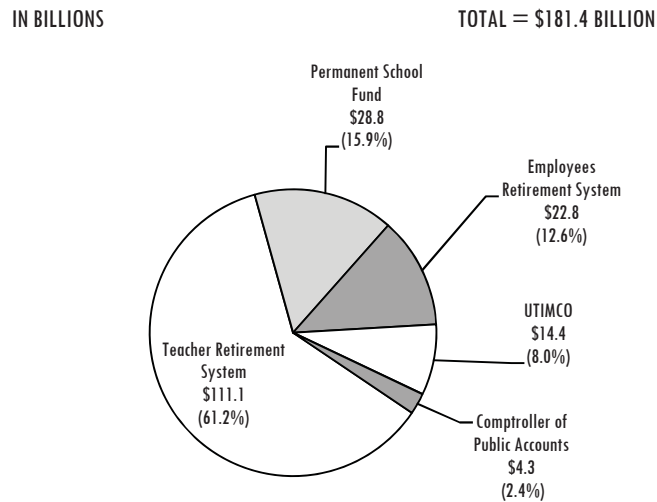
Acronyms used throughout this report follow:

- The University of Texas System – UT
- Texas Education Agency – TEA
- General Land Office – GLO
- State Board of Education – SBOE
- School Land Board – SLB
- Employees Retirement System – ERS
- Teacher Retirement System – TRS
- Comptroller of Public Accounts – CPA
- Permanent School Fund – PSF
- Permanent University Fund – PUF
- Permanent Health Fund – PHF
- Tobacco Settlement Fund – TSF
- Texas Guaranteed Tuition Plan Fund – TGTF
- Permanent Public Health Fund – PPHF
- National Research University Fund - NRUF



# ALL MAJOR FUNDS

**FIGURE 9  
ENDING MARKET VALUE  
FISCAL YEAR 2012**

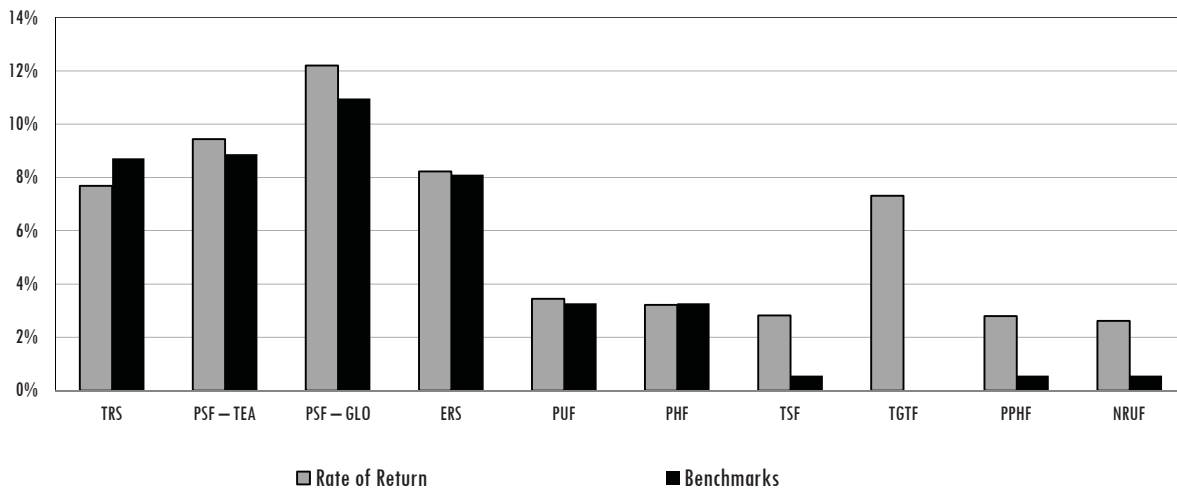


**NOTES:**

- (1) UTIMCO amounts included the PUF and PHF.
- (2) Permanent School Fund amounts include both the TEA and GLO controlled portion.
- (3) CPA amounts include the TSF, the TGTP, the PPHF, and the NRUF.

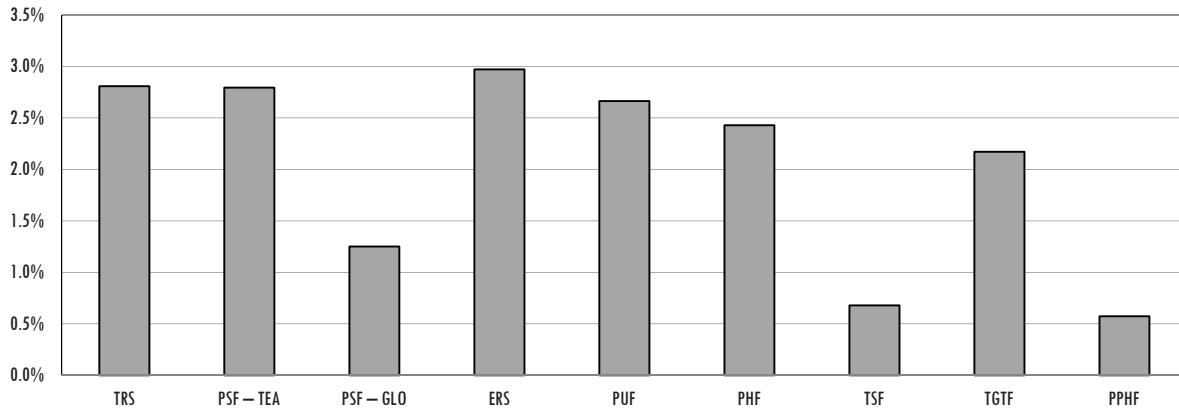
SOURCES: Investing agencies and UTIMCO.

**FIGURE 10  
RATES OF RETURN AND BENCHMARKS  
FISCAL YEAR 2012**



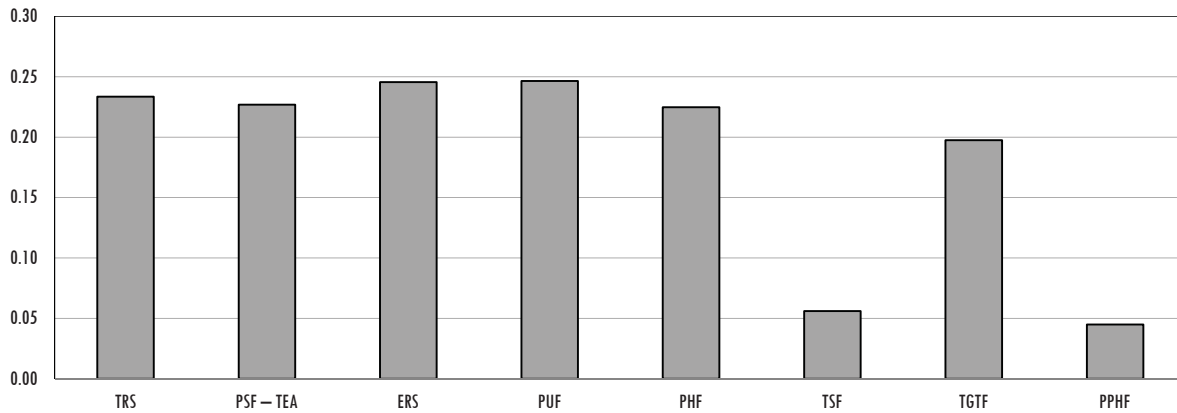
NOTE: The TGTP did not provide a fiscal year 2012 Benchmark ROR.  
SOURCES: Investing agencies and UTIMCO.

**FIGURE 11**  
**AVERAGE TOTAL FUND RATES OF RETURN, FIVE-YEAR PERIOD**  
**FISCAL YEARS 2008 TO 2012**



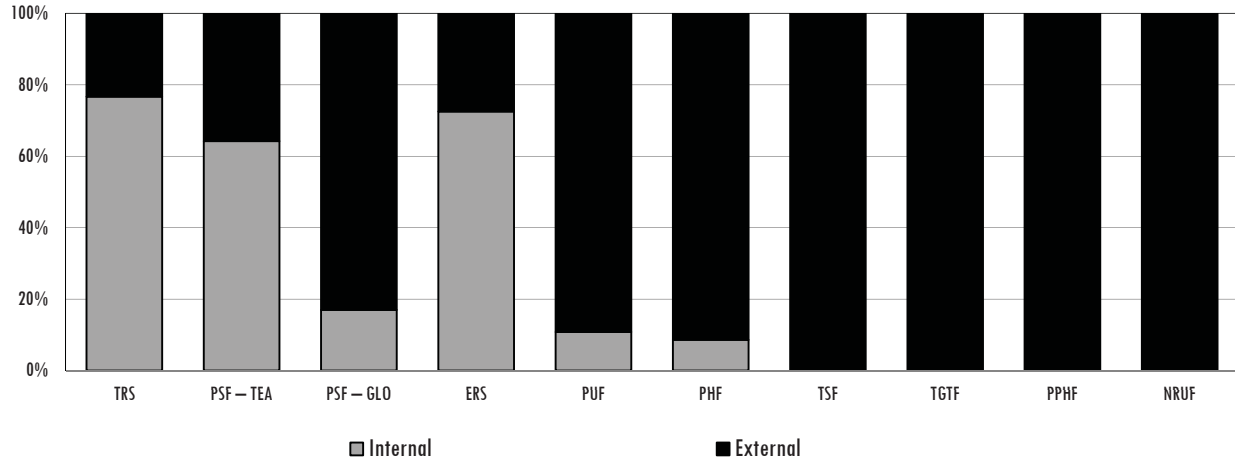
SOURCES: Investing agencies and UTIMCO.

**FIGURE 12**  
**RISK ADJUSTED RATES OF RETURN, FIVE-YEAR PERIOD**  
**FISCAL YEARS 2008 TO 2012**



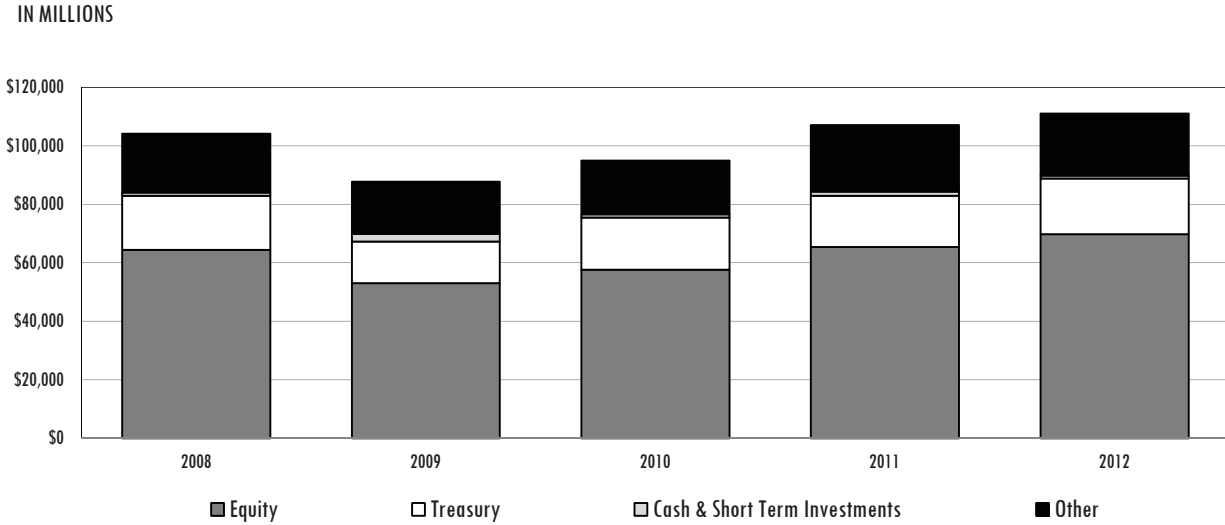
SOURCES: Investing agencies and UTIMCO.

**FIGURE 13**  
**PERCENTAGE OF ASSETS INTERNALLY AND EXTERNALLY MANAGED**  
**FISCAL YEAR 2012**



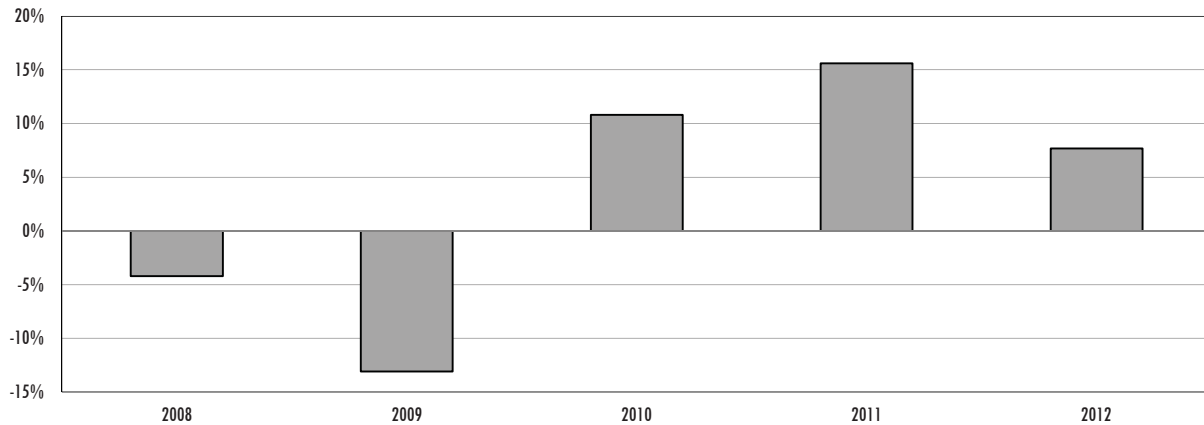
SOURCES: Investing agencies and UTIMCO.

**FIGURE 14**  
**TRS PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES (\$ MILLIONS)**  
**FISCAL YEARS 2008 TO 2012**



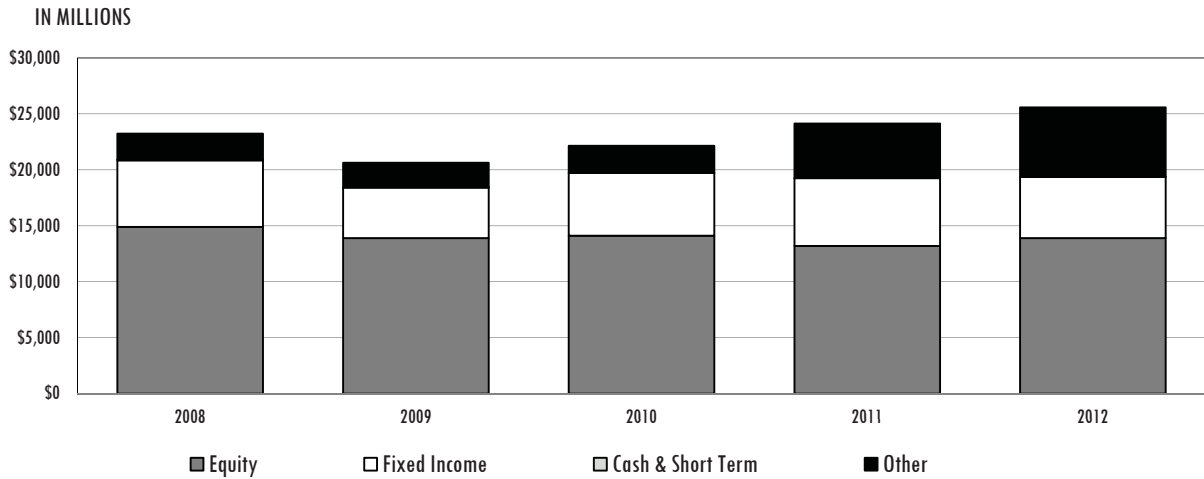
NOTE: Other investments include Hedge Funds, Absolute Return, Real Assets, Commodities, and REITs.  
 SOURCES: Investing agencies and UTIMCO.

**FIGURE 15**  
**TRS ANNUAL TOTAL RATES OF RETURN**  
**FISCAL YEARS 2008 TO 2012**



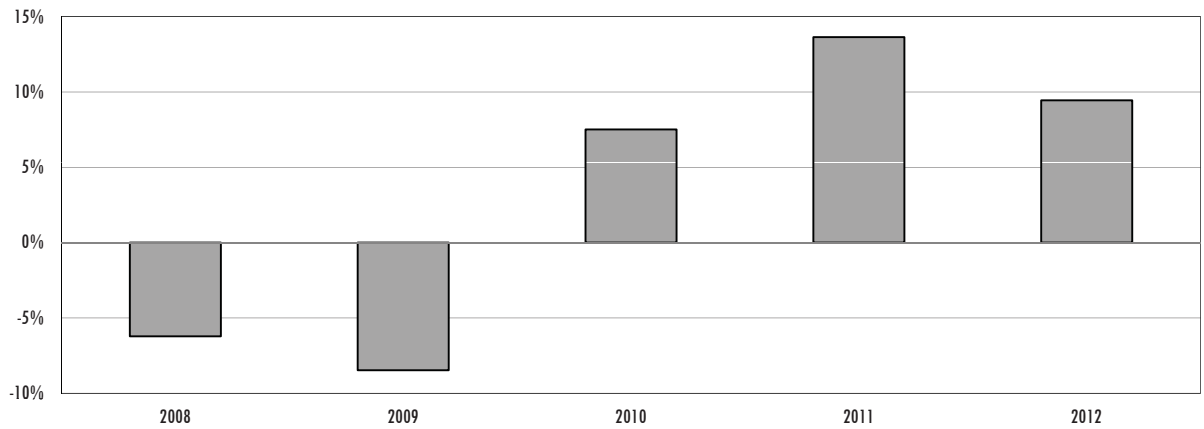
SOURCES: Investing agencies and UTIMCO.

**FIGURE 16**  
**PSF – TEA PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES**  
**FISCAL YEARS 2008 TO 2012**



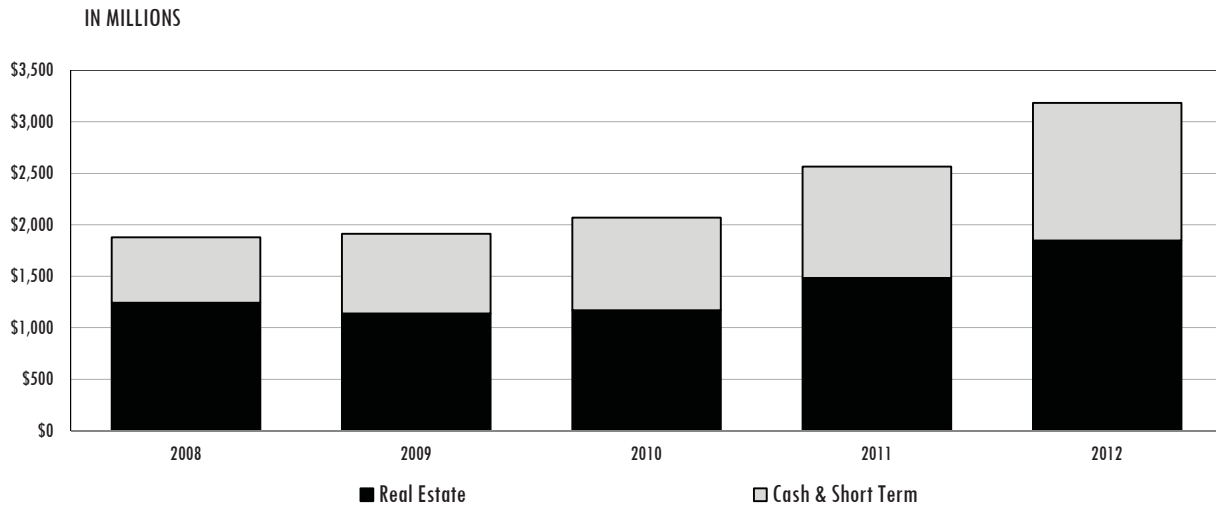
SOURCES: Investing agencies and UTIMCO.

**FIGURE 17**  
**PSF – TEA ANNUAL TOTAL RATES OF RETURN**  
**FISCAL YEARS 2008 TO 2012**



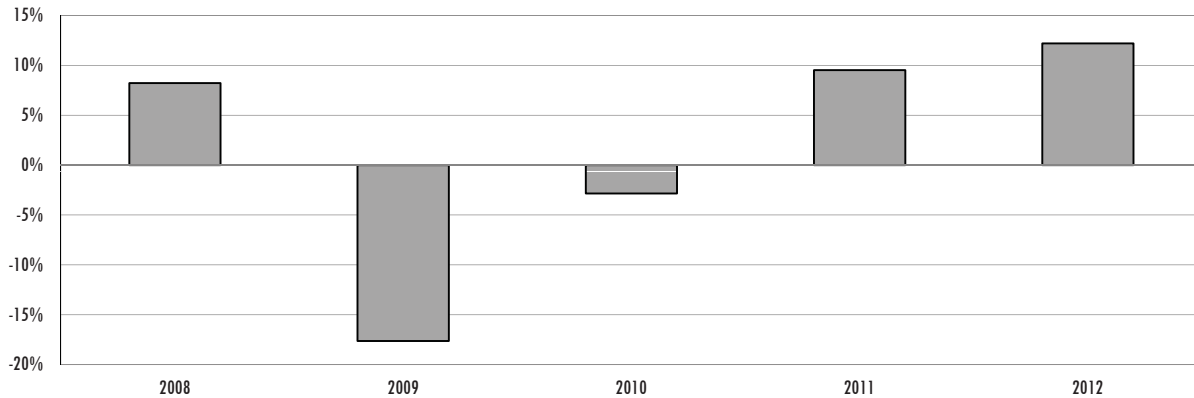
SOURCES: Investing agencies and UTIMCO.

**FIGURE 18**  
**PSF – GLO PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES**  
**FISCAL YEARS 2008 TO 2012**



SOURCES: Investing agencies and UTIMCO.

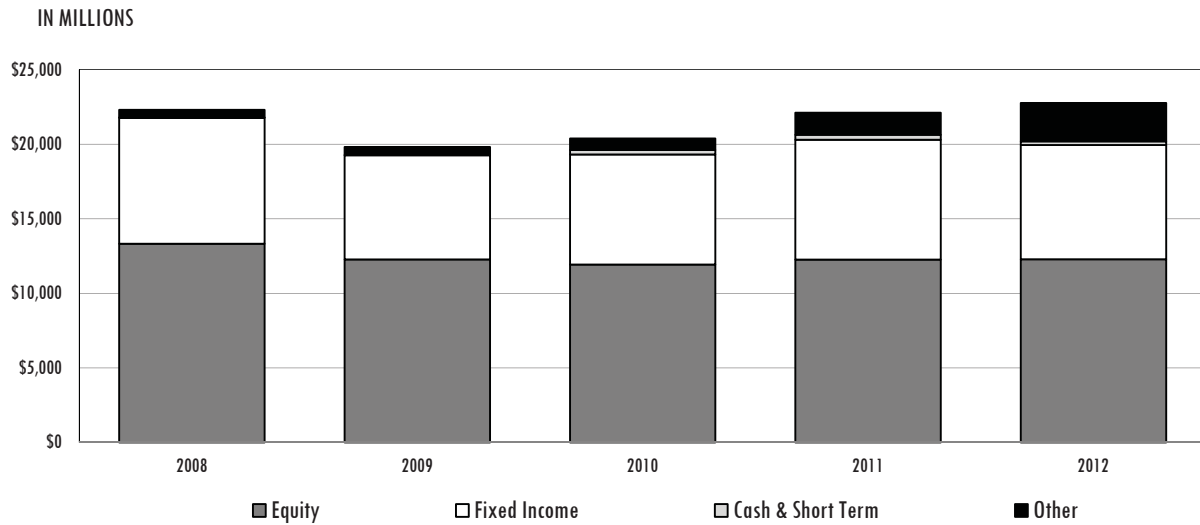
**FIGURE 19**  
**PSF – GLO ANNUAL TOTAL RATES OF RETURN**  
**FISCAL YEARS 2008 TO 2012**



SOURCES: Investing agencies and UTIMCO.

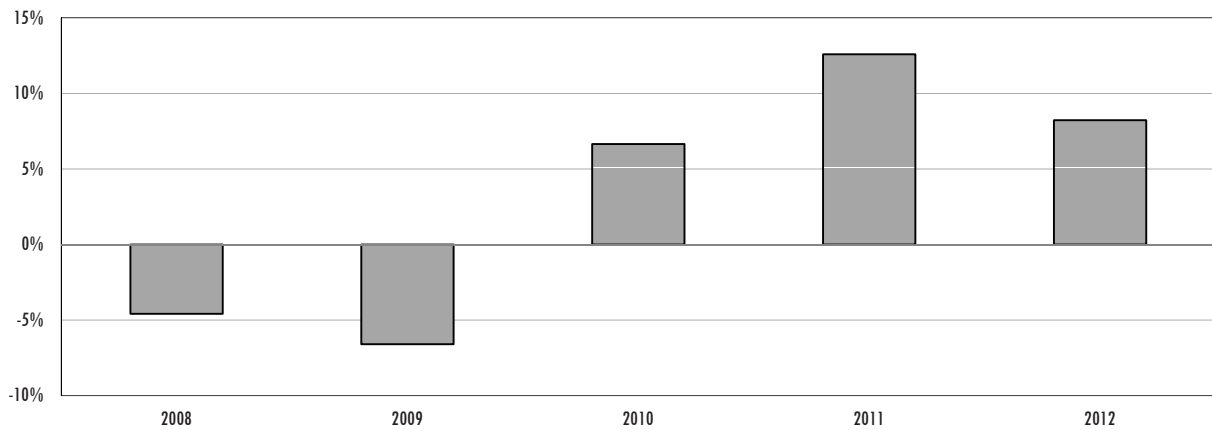


**FIGURE 20**  
**ERS PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES**  
**FISCAL YEARS 2008 TO 2012**



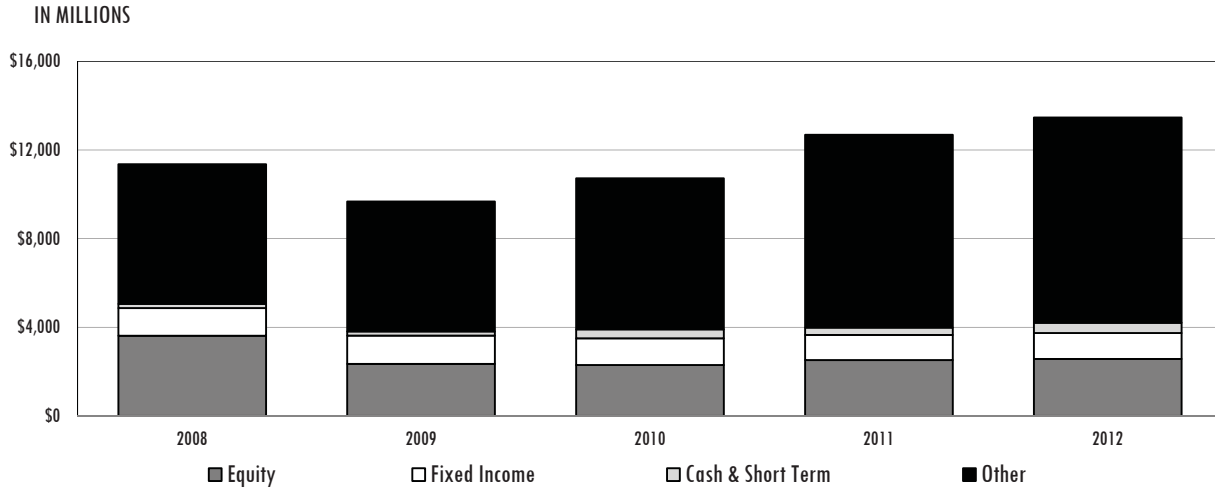
SOURCES: Investing agencies and UTIMCO.

**FIGURE 21**  
**ERS ANNUAL TOTAL RATES OF RETURN**  
**FISCAL YEARS 2008 TO 2012**



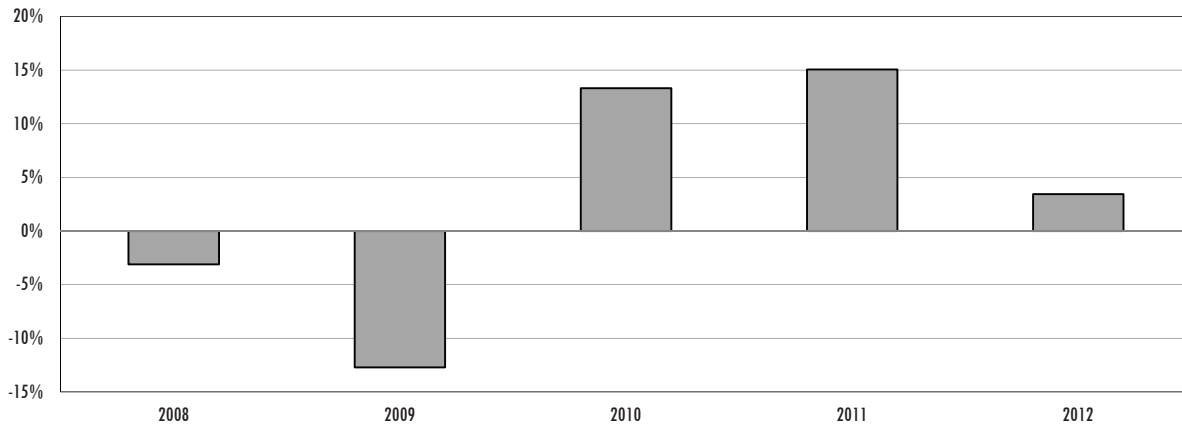
SOURCES: Investing agencies and UTIMCO.

**FIGURE 22**  
**PUF PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES**  
**FISCAL YEARS 2008 TO 2012**



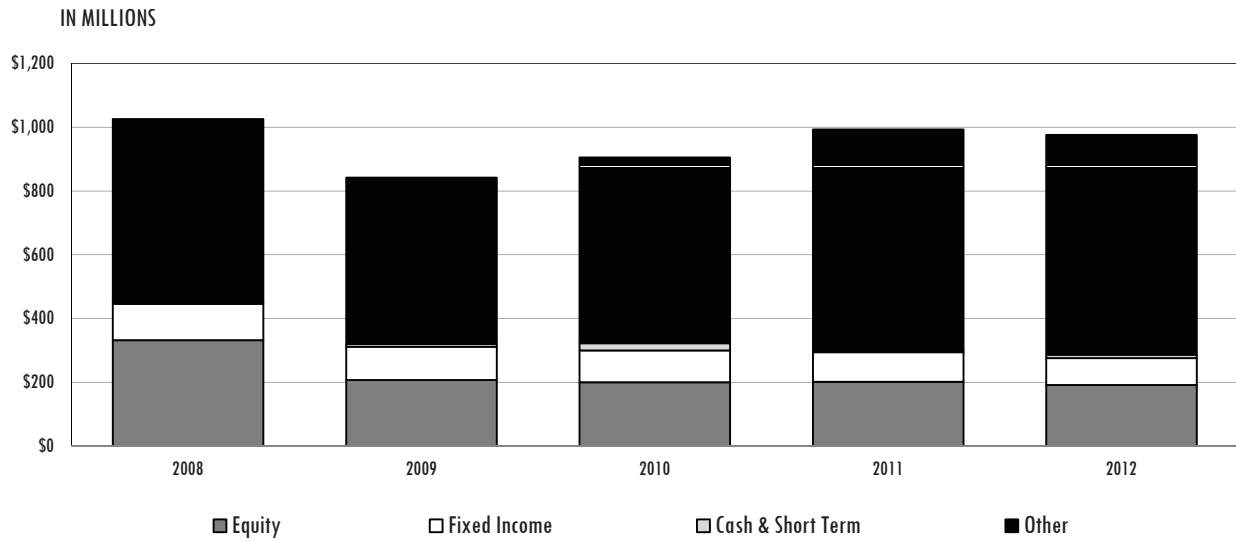
SOURCES: Investing agencies and UTIMCO.

**FIGURE 23**  
**PUF ANNUAL TOTAL RATES OF RETURN**  
**FISCAL YEARS 2008 TO 2012**



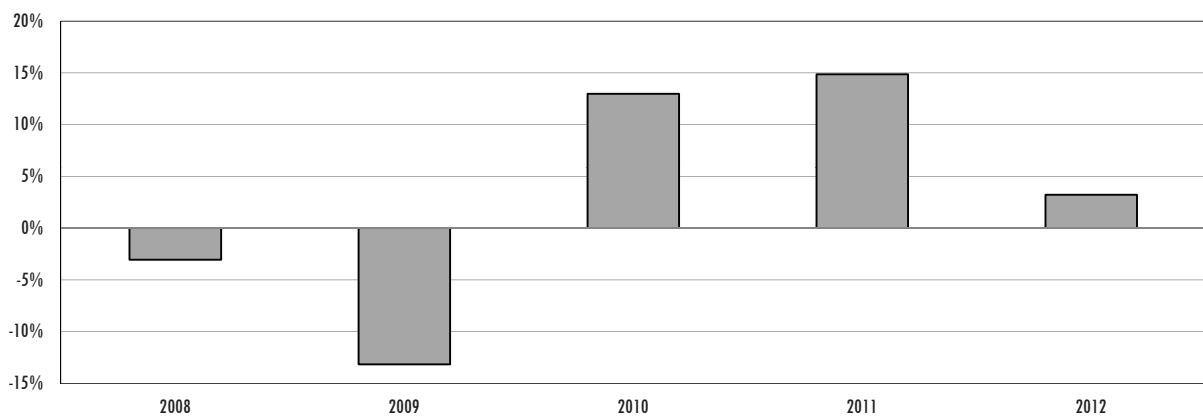
SOURCES: Investing agencies and UTIMCO.

**FIGURE 24**  
**PHF PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES**  
**FISCAL YEARS 2008 TO 2012**



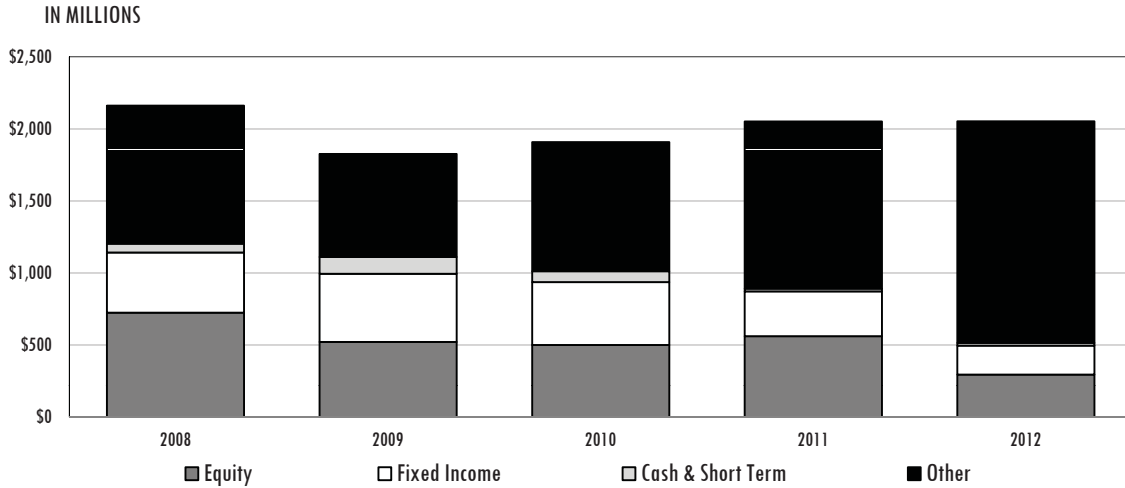
SOURCES: Investing agencies and UTIMCO.

**FIGURE 25**  
**PHF ANNUAL TOTAL RATES OF RETURN**  
**FISCAL YEARS 2008 TO 2012**



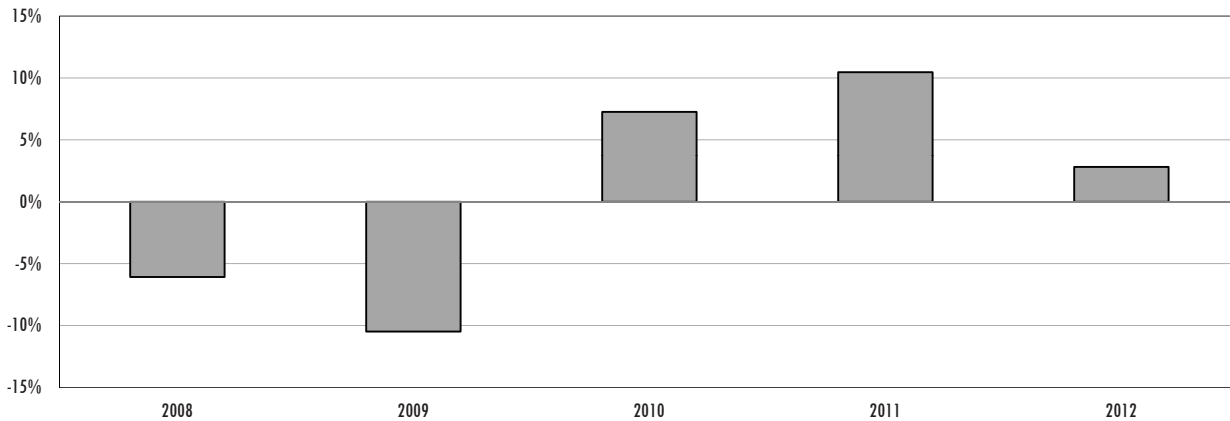
SOURCES: Investing agencies and UTIMCO.

**FIGURE 26**  
**TSF PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES**  
**FISCAL YEARS 2008 TO 2012**



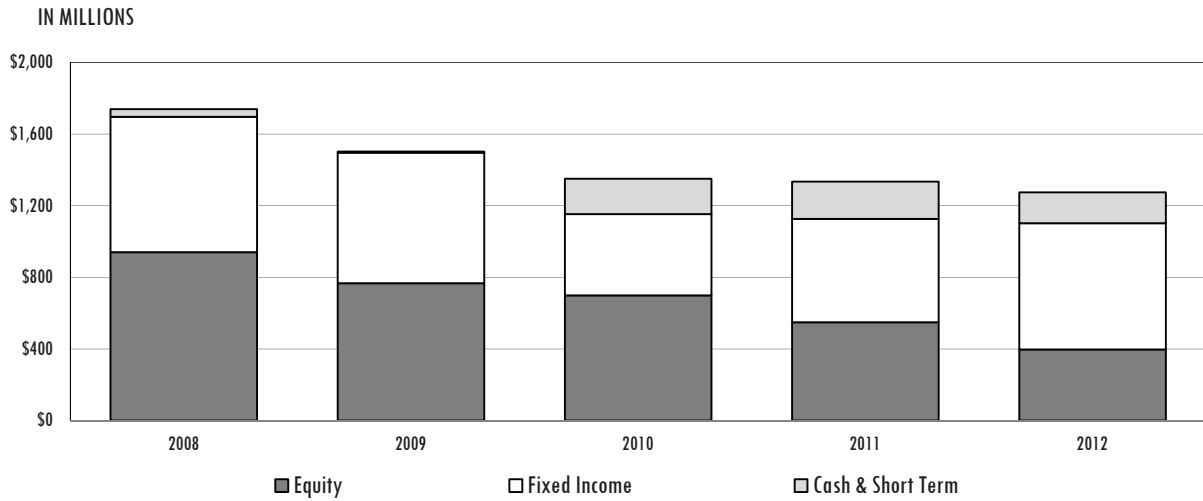
SOURCES: Investing agencies and UTIMCO.

**FIGURE 27**  
**TSF ANNUAL TOTAL RATES OF RETURN**  
**FISCAL YEARS 2008 TO 2012**



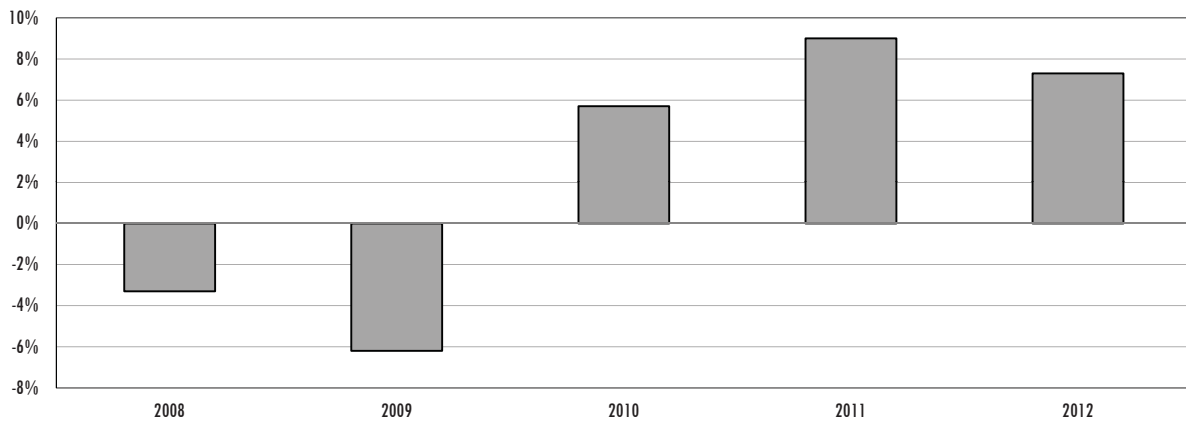
SOURCES: Investing agencies and UTIMCO.

**FIGURE 28**  
**TGTF PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES**  
**FISCAL YEARS 2008 TO 2012**



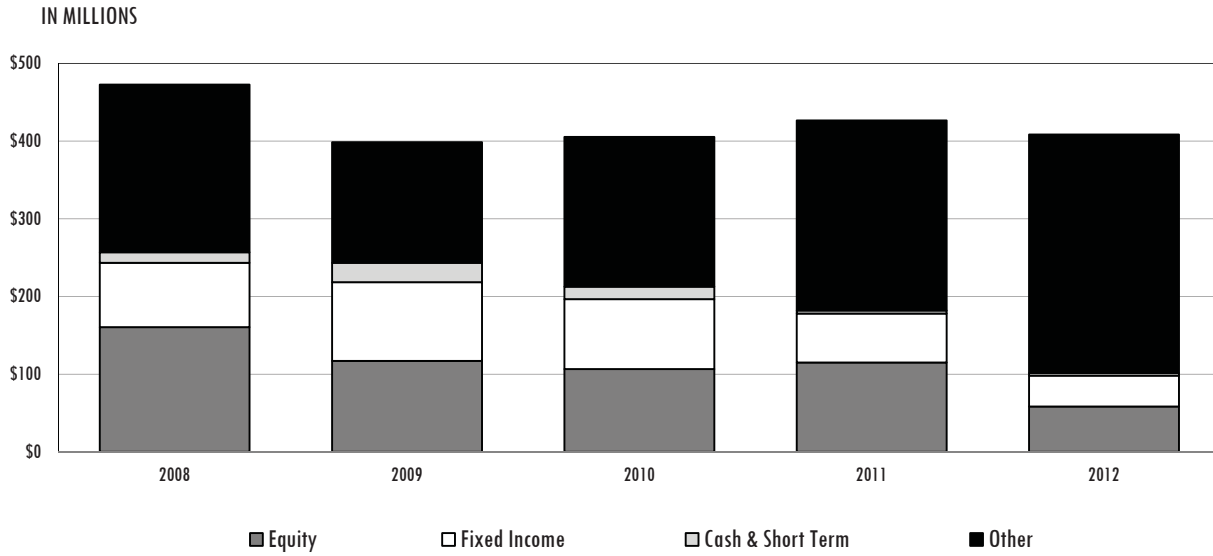
SOURCES: Investing agencies and UTIMCO.

**FIGURE 29**  
**TGTF ANNUAL TOTAL RATES OF RETURN**  
**FISCAL YEARS 2008 TO 2012**



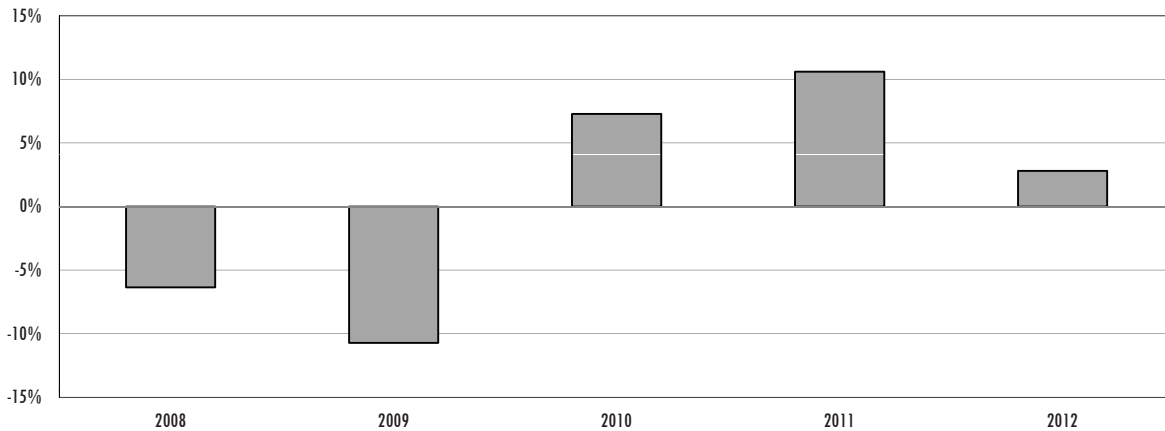
SOURCES: Investing agencies and UTIMCO.

**FIGURE 30**  
**PPHF PORTFOLIO DIVERSIFICATION ENDING MARKET VALUES**  
**FISCAL YEARS 2008 TO 2012**



SOURCES: Investing agencies and UTIMCO.

**FIGURE 31**  
**PPHF ANNUAL TOTAL RATES OF RETURN**  
**FISCAL YEARS 2008 TO 2012**



SOURCES: Investing agencies and UTIMCO.

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## APPENDIX A. AUTHORIZING STATUTE

SECTION 1. Chapter 322, Government Code, is amended by adding Section 322.014 to read as follows:

Sec. 322.014. REPORT ON MAJOR INVESTMENT FUNDS.

- (a) In this section, “state investment fund” means any investment fund administered by or under a contract with any state governmental entity, including a fund:
  - (1) established by statute or by the Texas Constitution; or
  - (2) administered by or under a contract with:
    - (A) a public retirement system as defined by Section 802.001, Government Code, that provides service retirement, disability retirement, or death benefits for officers or employees of the state;
    - (B) an institution of higher education as defined by Section 61.003, Education Code; or
    - (C) any other entity that is part of state government.
- (b) The board shall evaluate and publish an annual report on the risk-adjusted performance of each state investment fund that in the opinion of the board contains a relatively large amount of assets belonging to or administered by the state. The board in its report shall:
  - (1) compare the risk-adjusted performance of the funds; and
  - (2) examine the risk-adjusted performance, within and among the funds, of similar asset classes and comparable portfolios within asset classes.
- (c) Each state governmental entity that administers a state investment fund and each person that administers a state investment fund under contract shall provide the board with the information the board requests regarding the performance of the fund.
- (d) The board shall publish the annual report in a format and using terminology that a person without technical investment expertise can understand.





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## APPENDIX B. MAJOR STATE INVESTMENT FUNDS

### TEACHER RETIREMENT SYSTEM – PENSION TRUST FUND

#### **FUND PURPOSE**

The Teacher Retirement System of Texas (TRS) administers a defined benefit plan that is a qualified pension trust fund under Section 401(a) of the Internal Revenue Code. The pension trust fund provides service and disability retirement, as well as death and survivor benefits, to eligible employees of public school districts and institutions of higher education in Texas and their beneficiaries.

#### **FUND CONTRIBUTIONS**

Member contributions, state contributions, reporting entity contributions, member reinstatements, and investment income increased the fund's value in fiscal year 2012. The state constitution requires the legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent but not more than 10 percent of the aggregate annual compensation of all members of the system during that fiscal year. In fiscal year 2012 the member contribution rate was 6.4 percent. The state contribution rate in fiscal year 2012 was 6.0 percent, a decrease of 0.644 percent from the fiscal year 2011 contribution rate.

Fiscal year 2012 total contributions decreased \$7,102 million, or 36.7 percent, over fiscal year 2011 contributions, due mostly to a \$6,790 million decrease in investment income. In fiscal year 2012 member contributions were \$2.2 billion, state and federal/private contributions were \$1.7 billion, reporting entity contributions were \$378 million, and member reinstatements were \$126 million. In fiscal year 2012 investment income resulted in a gain of \$7,847 million to the fund.

#### **FUND DISTRIBUTIONS**

Deductions from the fund are predominantly retirement, death, and survivor benefits. During fiscal year 2012, the fund paid \$7,726 million for benefits, \$381 million for members refunding their accounts, and \$104 million for other expenses (net of investing activity expenses). In fiscal year 2012 fund distributions totaled \$8,211 million.

#### **INVESTMENT OBJECTIVE**

The board governs the investment process by adopting investment policies and objectives, which define the fund's strategic investment initiatives, and by monitoring performance to measure the results of both tactical and

strategic investment strategies. The total investment portfolio is structured to achieve a long-term rate of return that exceeds the assumed actuarial rate of return adopted by the board; exceeds the long-term rate of inflation by an annualized 5 percent; and exceeds a composite index composed of the respective long-term normal asset mix weighting of the major asset classes, operating within the defined risk parameters for the various asset classes. Investment decisions must adhere to the "prudent person" standard. In fiscal year 2008, the board reviewed and adjusted the investment policy to achieve the long-term targeted rate of return of 8 percent. This resulted in a shift to a more diversified investment strategy, which included a change in asset allocation, replacing benchmarks, and development of TRS LABS; a program launched by the Investment Management Division, that aims to continually improve TRS investment management through leadership.

#### **INVESTMENT AND OVERSIGHT RESPONSIBILITY**

The TRS Board of Trustees holds system assets in trust and oversees the investment of the system's funds in accordance with applicable constitutional and statutory provisions. The board is composed of nine trustees who are appointed by the governor to staggered terms of six years. Three trustees are direct appointments. Two trustees are appointed from a list prepared by the State Board of Education. Two trustees are appointed by the governor from the three public school district active member candidates nominated for each position by employees of public school districts. One trustee is appointed from the three higher education active member candidates nominated by employees of institutions of higher education. One trustee is appointed from the three retired member candidates nominated by retired TRS members. A majority of the board is required to have financial expertise, and is assisted by outside investment consultants and internal and external legal counsel. Appointments are subject to confirmation by the Senate. Board member terms expire August 31 of odd numbered years.

#### **PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED**

According to TRS, internal staff manages 77 percent of TRS assets; the remaining 23 percent are managed externally. External management of funds began in August of 2008.

**TEACHER RETIREMENT SYSTEM – PENSION TRUST FUND (CONTINUED)****INVESTMENT COSTS**

The cost of investing the funds for the fiscal year 2012 was \$260 million, or 23 basis points (0.23 percent) of the net assets held in trust for pension benefits at the end of fiscal year 2012. The investment cost consists of \$35 million in direct internal cost and \$113 million in indirect internal cost. According to TRS, direct investment expenses included salaries and operating costs of the investment division. Indirect costs included fees for services such as accounting, purchasing, legal and supplies and security. External investment costs include fees paid to external managers and do not include transaction costs on investments and were \$111 million in fiscal year 2012. Prior year investment costs were \$183 million, or 0.17 percent, of the net assets.

**PERFORMANCE BENCHMARKS**

TRS provided the following benchmarks for fiscal year 2012 (**Figure B1**).

**ACTIONS OF EIGHTY-SECOND LEGISLATURE**

The Eighty-second Legislature, Regular Session, 2011, passed several bills that affect TRS. Among the more significant legislation are House Bill 1061, House Bill 2561, Senate Bill 1667, and Senate Bill 1669.

The enactment of House Bill 1061 broadens the investment authority of the TRS Board of Trustees by authorizing the use of derivatives in its investment portfolio. The bill also authorizes the use of external managers to invest up to 30 percent of the TRS fund and allows for an increase in hedge funds allocations from 5 percent to 10 percent; both provisions expire September 1, 2019.

The enactment of House Bill 2561 establishes a standardized school year of September 1 through August 31 for determining service credit and creditable compensation, beginning with the 2012–13 school year.

The enactment of Senate Bill 1667 allows the state contribution to the Teacher Retirement System Trust Fund for public education and higher education retirement to be less than contributions of active members for the fiscal ending August 31, 2012, and allows the state contribution to the TRS-Care retiree insurance program to be less than 1.0 percent of total active payroll for fiscal year ending August 31, 2013.

**FIGURE B1**  
**TEACHER RETIREMENT SYSTEM – PENSION TRUST FUND**  
**PERFORMANCE BENCHMARKS**  
**FISCAL YEAR 2012**

BENCHMARK NAME	ASSET CLASS	2012 RATE OF RETURN
MSCI USA Large Cap	US Large Cap	17.69%
MSCI USA Small Cap	US Small Cap	14.34%
MSCI Emerging Markets	Emerging Markets	(5.80%)
MSCI EAFE + Canada Equity	Non-US Developed Equity	(0.68%)
State Street Private Equity Index	Private Equity	7.32%
BC Long Treasury Index	US Long Treasuries	19.09%
LIBOR + 200 bps	Absolute Return	2.48%
Citigroup 90-day T-Bill	Cash Equivalents	0.06%
BC US TIPS Index	US TIPS	8.29%
NCRIEF ODCE	Real Assets	13.59%
Goldman Sachs Commodity Index	Commodities	0.45%
MSCI US REITS	REITS	20.17%
HFRI Conservative	Stable Value Hedge Funds	0.03%
HFRI Composite	Directional Hedge Funds	(0.83%)

SOURCE: Teacher Retirement System.

The enactment of Senate Bill 1669 repeals former exceptions that allowed service retirees to work on a full-time basis without loss of annuities in certain circumstances. The bill allows service retirees who retired before January 1, 2011 to work in Texas public education in any capacity without loss of monthly annuities. The bill allows any amount of work without loss of annuity only if the retiree has been separated from service with all Texas public education institutions for 12 full consecutive months immediately after retiring.

## PERMANENT SCHOOL FUND – TEXAS EDUCATION AGENCY

### **FUND PURPOSE**

The Permanent School Fund (PSF) was created expressly for the benefit of funding Texas public schools. A total return distribution, which was 4.2 percent of average market value in fiscal year 2012, along with 25 percent of the state's motor fuel tax revenues are transferred to the Available School Fund (ASF). Monies from the fund are distributed to local public school districts based on the average daily attendance of public school students.

### **FUND CONTRIBUTIONS**

Proceeds from the sale of PSF land, royalty, and other earnings generated by the PSF land are added annually to the fund by the General Land Office (GLO), which manages the real estate assets. In addition to these deposits GLO transfers an authorized amount set by the State Land Board (SLB) each year to the Texas Education Agency (TEA). According to TEA \$250 million was added to the PSF during fiscal year 2012.

### **FUND DISTRIBUTIONS**

The Fund calculates its annual distribution to the Available School Fund (ASF) using a total return methodology, established by Constitutional amendment in 2003. Distribution rates are set by a two-thirds (2/3) vote of the State Board of Education (SBOE). If the SBOE does not set the rate before the start of the next Legislative session, then the Legislature will set the distribution rate. The distribution rate cannot exceed 6.0 percent of the total market value and the total distribution over the past ten years cannot exceed the total return for the same period. The distribution rate is set at 4.2 percent for fiscal year 2012. In fiscal year 2012, \$1,021 million was transferred to the Available School Fund.

### **INVESTMENT OBJECTIVE**

The investment objective, according to TEA, is long term and focused on fairly balancing the benefits between current and future generations while preserving the real per capita value of the PSF. Investment decisions adhere to the "prudent person" rule and asset class allocations are adjusted accordingly to meet the investment objectives of the Fund.

### **INVESTMENT AND OVERSIGHT RESPONSIBILITY**

The Texas Constitution assigns control of PSF assets to the SBOE while administrative duties related to the PSF reside with the Commissioner of Education and TEA staff. SBOE

members are elected from 15 single-member districts with the Governor designating the chairman. No members are required to have experience in investment management. The SBOE appoints a Committee of Investment Advisors ("CIA") to provide independent review of the Fund's investment policies, procedures, and nature of investments. Each member of the SBOE appoints a single member to the CIA and these advisors serve at the pleasure of the SBOE member that appointed them.

### **PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED**

According to TEA, approximately 35.8 percent of PSF assets were externally managed in fiscal year 2012. Independent firms are used to invest funds, provide custodial and accounting services, provide securities lending services, advise on asset allocation, and evaluate investment performance. TEA reports external managers are used to manage international equities and absolute return investments.

### **INVESTMENT COSTS**

According to TEA, the cost of administrating the fund was \$13.2 million, or 5 basis points (0.05 percent) of the ending fund balance for fiscal year 2012. This includes \$12.7 million of internal investment expenses and \$540,000 of external investment expenses. In addition to standard investment salaries, costs, and allocated agency overhead, TEA reports investment expenses included costs associated with accounting, information technology, compliance and support staff; as well as fees paid for external management. Prior year investment costs were \$12.5 million or 0.05 percent of the fund balance.

### **PERFORMANCE BENCHMARKS**

The following benchmarks were provided by TEA for fiscal year 2012 (**Figure B2**).

An allocation index is calculated for each class of investments (fixed income and equity securities) to measure the overall performance. The allocation index is the weighted average rate of return of each of the above indices.

**PERMANENT SCHOOL FUND – TEXAS EDUCATION AGENCY (CONTINUED)**

**FIGURE B2  
PERMANENT SCHOOL FUND PERFORMANCE  
BENCHMARKS  
FISCAL YEAR 2012**

<b>BENCHMARK NAME</b>	<b>ASSET CLASS</b>	<b>2012 RATE OF RETURN</b>
Custom Target Policy	Total Fund	8.87%
Total Equity	Total Equity	10.88%
Domestic Equity	Domestic Equity	17.13%
S&P 500 Index	Domestic Equity	17.99%
S&P 1000 Index	Domestic Equity	13.97%
MSCI All Ctry World Ex US Net	Intl Equity	(1.91%)
BC Aggregate Bond Index	Fixed Income	5.78%
Total Absolute Return <sup>1</sup>	Absolute Return	0.14%
Real Estate <sup>2</sup>	Real Estate	10.39%
Private Equity <sup>3</sup>	Private Equity	5.43%
Risk Parity <sup>4</sup>	Risk Parity	13.34%
Real Return <sup>5</sup>	Real Return	8.29%

## NOTES:

- (1) Custom benchmark based on HFRI.
- (2) Custom benchmark based on NCREIF.
- (3) Custom benchmark based on actual returns.
- (4) Custom benchmark consists of 60% S&P 500 Index and 40% Barclays Capital US Aggregate Bond Index.
- (5) Consists of 100% Barclays Capital U.S Treasury US TIPS Index.

SOURCE: Texas Education Agency.

**ACTIONS OF EIGHTY-SECOND LEGISLATURE**

On November 8, 2011, Texas voters approved Proposition 6, a constitutional amendment which increases the base amount used in calculating the distribution rate from the PSF to the ASF by adding certain discretionary real assets and cash in the Fund that is managed by the State Land Board. While the amendment provided for an increase in the base for the calculation, no new resources were provided for deposit to the PSF. The new calculation base is required to be used to determine all payments to the ASF from the PSF beginning with the 2012–13 biennium.

The changes approved by the voters also provided authority to the State Land Board to determine at its sole discretion whether to transfer each year from PSF assets to the ASF an amount not to exceed \$300 million.

## PERMANENT SCHOOL FUND – GLO

### FUND PURPOSE

The School Land Board (SLB) and the Commissioner of the Texas General Land Office (GLO) possess the authority to manage the state-owned lands dedicated to the Permanent School Fund (PSF). The funds are managed through the Real Estate Special Fund Account (RESFA) and can be used to acquire real assets as well as protect, maintain and enhance the value of the public school land. The real assets portfolio of the PSF is limited by statute to no more than 15 percent of the fund's total market value.

### FUND CONTRIBUTIONS

Contributions to the RESFA include revenue from school land sales, oil and gas royalties, surface damage fees, return of capital on real assets investments, mineral lease bonus payments, and various other sources. According to GLO \$756.7 million was added to the RESFA in fiscal year 2012.

### FUND DISTRIBUTIONS

The RESFA distribution to the PSF is authorized annually by the SLB. According to GLO in fiscal year 2012 \$250.0 million was distributed to the PSF.

### INVESTMENT OBJECTIVE

The primary investment objective, according to the GLO and the SLB, is to pursue a long-term strategy of investing in a variety of real assets to produce gross total returns that exceed the returns on the blended composite benchmark shown in **Figure B3**. Investment decisions must adhere to the “prudent investor standard.”

### INVESTMENT AND OVERSIGHT RESPONSIBILITY

The Permanent School Fund real estate investment portfolio is managed through a combined effort of the SLB, the Investment Advisory Committee (IAC), TXGLO staff, and external fund managers including a real assets investment advisor. The SLB is comprised of the Land Commissioner, an appointee of the Governor and an appointee of the Attorney General. The IAC is comprised of the GLO Deputy Commissioner of Funds Management, the General Counsel, the Deputy Commissioner of Asset Management, the Chief Clerk and a member of the SLB.

### PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED

According to the GLO, approximately 83 percent of the PSF real estate assets were externally managed in fiscal year 2012. External investment managers manage a portfolio of real assets in limited partnerships. The internally managed portfolio includes direct commercial real estate investments in areas where GLO is the only investor including raw land, industrial, and some mixed-use investments. GLO indicated 100 percent of their cash and short term securities are externally managed by the comptroller, as required by statute.

### INVESTMENT COSTS

According to the GLO, total investment expenses for the year ending June 30, 2012 were \$23.2 million or 73 basis points (0.73 percent) of the ending fund balance. This amount includes \$2.2 million for direct internal costs, \$0.4 million in indirect internal expenses, and \$20.5 million for external costs. Internal investment expenses include cost for personnel and operating expenses relating to portfolio management, fees for legal services, procurement, and financial reporting. External expenses include management and incentive fees per limited partnership agreements. Investment costs for year ending June 30, 2011 were \$15.9 million, or 0.62 percent of the fund balance.

### PERFORMANCE BENCHMARKS

The benchmark shown in **Figure B3** has been identified by the GLO for year ending June 30, 2012.

**FIGURE B3**  
**PERMANENT SCHOOL FUNDS — GENERAL LAND OFFICE**  
**PERFORMANCE BENCHMARKS**  
**FISCAL YEAR 2012**

BENCHMARK NAME	2012 RATE OF RETURN
50/50 Blended Composite of:	10.96%
NFI-All Open End Funds Index	
CPI Index-All Urban Consumers + 74.10707 bp quarterly	

SOURCE: General Land Office.

**PERMANENT SCHOOL FUND – GLO (CONTINUED)*****ACTIONS OF EIGHTY-SECOND LEGISLATURE***

House Joint Resolution 109, Eighty-second Legislature, Regular Session, proposed a constitutional amendment, which was approved by voters on November 8, 2011. Proposition 6 provides that discretionary real asset investments and cash in the State Treasury derived from property belonging to the PSF be included in the PSF market value calculation for purposes of the total return distribution made from the PSF to the Available School Fund (ASF). This provision is projected to result in approximately \$75 million per fiscal year in additional funds being transferred from the PSF to the ASF in each fiscal year of the 2012–13 biennium. In addition, the resolution provides a provision that allows GLO to distribute up to \$300 million per fiscal year in revenue derived from PSF land or properties directly to the Available School Fund, whereas previously GLO could only make contributions to the corpus of the PSF, with distributions from the PSF to the ASF being solely based on a distribution percentage set by the State Board of Education.

## EMPLOYEES RETIREMENT SYSTEM – PENSION TRUST FUND

### **FUND PURPOSE**

The Employees Retirement System of Texas was created by the Texas Legislature in 1947 and is administered in accordance with the Texas Constitution. The System provides a retirement and disability pension plan for State employees, law enforcement and custodial officers, elected state officials and two classes of judges. The system administers the trust funds with a fiduciary obligation to the members and retirees of the System who are its beneficiaries. The Employees Retirement System of Texas Plan (ERS), the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), the Judicial Retirement System of Texas Plan One (JRSI), and the Judicial Retirement System of Texas Plan II (JRS II) are single employer defined benefit pension plans. For investment purposes the trust funds are joined but separate accounting records are maintained.

### **FUND CONTRIBUTIONS**

Member and state contributions are made to the trust funds as a percent of compensation set by state law. For ERS the constitution provides that the state contribution may not be less than 6 percent nor more than 10 percent and the member contribution may not be less than 6 percent. The state contribution rate for fiscal year 2012 set by the Eighty-second Legislature, Regular Session, 2011 was 6.0 percent. The fiscal year 2012 member contribution rate was set at 6.5 percent.

Members of the LECOS are also members of the ERS. The member contribution rate to LECOS was 0.5 percent in fiscal year 2012 and there was no state contribution made in fiscal year 2012.

JRS I is a pay as you go plan and there is no trust fund to receive contributions. Member contributions of 6 percent are deposited as unappropriated receipts in the states general revenue fund. Annuity payments and refunds for this plan are appropriated each biennium therefore the fund has no invested assets. Contributions to JRS II are set by general law and the state appropriations act. In fiscal year 2012, the member contribution rate was 6.0 percent and the state contribution rate was set at 6.0 percent.

According to ERS, total fund contributions in fiscal year 2012 were \$844.8 million.

### **FUND DISTRIBUTIONS**

Distributions from the pension trust fund are based on benefit payments owed and according to ERS, equaled \$1,884.7 million in fiscal year 2012.

### **INVESTMENT OBJECTIVE**

The primary investment objective, outlined by ERS in the CAFR, is to earn a rate of return that ensures payments due to members and their beneficiaries at a reasonable cost to the members of the retirement plan and the taxpayers. The investment policy is structured around maximizing return while maintaining the safety of principal, reducing risk through diversification, and managing costs associated with implementation. The Board of Trustees sets a long-term asset allocation target which is adjusted to meet the needs of the plan and the beneficiaries. Investment decisions must adhere to the duty of care as set forth in Sec. 815.307 of the Government Code.

### **INVESTMENT AND OVERSIGHT RESPONSIBILITY**

The Board of Trustees of ERS has general responsibility for investment decisions. Six members serve on the board: three members are elected by participating state employees, one member is appointed by the governor, one is appointed by the chief justice of the Supreme Court, and one member is appointed by the speaker of the House of Representatives. The board selects external investment managers and appoints an investment advisory committee. The committee members are investment professionals who are required to meet, at least quarterly, to review ERS investments. An independent consultant is also retained to evaluate and analyze investment results.

### **PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED:**

According to ERS, approximately 72.5 percent of the agency's invested funds were invested by internal staff in fiscal year 2012. For the remaining 27.5 percent, staff receives counsel from various fund advisors.

### **INVESTMENT COSTS**

According to ERS, the cost of investing the funds was \$58.1 million, or 26 basis points (0.26 percent) of the ending fund balance for fiscal year 2012. This includes \$30.97 million in direct internal expenses and \$27.17 million in external investment expenses. Internal investment costs included

**EMPLOYEES RETIREMENT SYSTEM – PENSION TRUST FUND (CONTINUED)**

expenses for materials and supplies, rentals, salaries and wages, professional fees and services, and other operating expenses. External investment expenses do not include investment consulting fees. Prior year investment costs were \$63.2 million or 0.29 percent of the fund balance.

**PERFORMANCE BENCHMARKS**

The benchmarks shown in **Figure B4** were provided by ERS for fiscal year 2012.

**ACTIONS OF EIGHTY-SECOND LEGISLATURE**

The Eighty-second Legislature, Regular Session, 2011, passed Senate Bill 1664, which is the ERS Omnibus Bill. One provision included in that legislation is the requirement that ERS assess a monthly \$30 tobacco user premium differential to GBP participating tobacco users and begin covering tobacco cessation prescription drugs by January 1, 2012. These were recommendations made in the Texas State Government Effectiveness and Efficiency report, “Implement a Tobacco User Surcharge on Employees Retirement System

Health Premiums.” Senate Bill 1664 also provides for an assessment of an employer enrollment fee in an amount not to exceed a percentage of total base payroll as determined in the General Appropriations Act for all general state agencies and institutions of higher education participating in the GBP to be deposited in the insurance trust fund. In addition, Article IX, Section 18.09 of the 2012–13 GAA identifies the 1.0 percent contribution for group health insurance from all general state agencies and institutions of higher education participating in the GBP.

**FIGURE B4**  
**EMPLOYEES RETIREMENT SYSTEM — PENSION TRUST FUND**

BENCHMARK NAME	ASSET CLASS	2012 RATE OF RETURN
S&P 500	Large Cap	18.00
S&P 600	Small Cap	16.90
S&P 400 Mid Cap	Mid Cap	12.75
S&P 1500/S&P 500 Blend	<b>Domestic Equity</b>	17.52
MSCI Europe	Europe International	1.44
MSCI Pacific	Asia International	(2.49)
MSCI Canada	International Canada	(5.73)
MSCI EAFE	International Global	(0.04)
MSCI Emerging Markets	Emerging Markets	(5.80)
MSCI EAFE/MSWI ACWI ex US Blended	<b>International Equity</b>	(1.92)
Barclays Capital Aggregate	Investment Grade	5.78
Barclays Capital US High Yield Corp/2% Cap Blend	High Yield	13.89
Barclays Capital Universal/Floating Fixed Income	<b>Fixed Income Total</b>	6.44
FTSE EPRA/NAREIT US	Domestic REIT	19.96
FTSE EPRA/NAREIT US Global ex US	International REIT	6.84
FTSE EPRA/NAREIT Blended Global Real Estate	<b>Global Real Estate</b>	12.57
91 Day U.S. Treasury Bill	Unallocated Cash	0.06
<b>Total Fund Policy Benchmark</b>	<b>GLOBAL TOTAL</b>	<b>8.11</b>

SOURCE: Employees Retirement System.



## UNIVERSITY OF TEXAS SYSTEM – PERMANENT UNIVERSITY FUND

### **FUND PURPOSE**

The Permanent University Fund (PUF) is a public endowment established by the Texas Constitution in 1876. The PUF contributes to the support of most institutions in the University of Texas System (UT System) and the Texas A&M University System. Distributions from the PUF as well as all surface lease income are deposited in the Available University Fund (AUF) for the benefit of the eligible institutions.

### **FUND CONTRIBUTIONS**

Mineral and other incomes are added annually to the fund. According to the UT System, \$954.5 million in income earned by PUF lands were contributed to the PUF during fiscal year 2012. This represents a 6.6 percent increase from the 2011 contribution of \$895.6 million.

### **FUND DISTRIBUTIONS**

The PUF is a total return fund and amounts from both income as well as changes in asset values may be distributed. PUF distributions are designed to provide a predictable, stable stream of distributions and ensure the inflation adjusted value of distributions is maintained over time. The UT System Board has established an annual distribution to the Available University Fund of 4.75 percent of the prior three years average net asset value of the PUF. However for fiscal year 2012, due to a record year of PUF Lands' lease sales and the constrained state budget for the current biennium, the UT Board increased the annual distribution to an amount equivalent to 5.50% of the trailing twelve quarters' average net asset value of the PUF. According to the UTIMCO, \$575.5 million was distributed to the AUF in fiscal year 2012, an increase of 13.6 percent from the fiscal year 2011 distribution of 506.4.

### **INVESTMENT OBJECTIVE**

According to the UTIMCO, the primary investment objective shall be to preserve the purchasing power of fund assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of the PUF after all expenses. The objective is dependent on the ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital

markets under perform the rate of inflation. Investment decisions must adhere to the "prudent investor" rule.

### **INVESTMENT AND OVERSIGHT RESPONSIBILITY**

The Texas Constitution assigns responsibility for managing the PUF's lands and investment to the UT System Board of Regents. The PUF's investment manager is the University of Texas Investment Management Company (UTIMCO). UTIMCO is the first external management corporation formed by a public university. The UTIMCO Board of Directors includes three members of the UT System Board, the chancellor of the UT System, and five outside investment professionals.

### **PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED**

According to the UT System, approximately 89.2 percent of the PUF assets were externally managed in fiscal year 2012.

### **INVESTMENT COSTS**

According to the UT System, total investment expenses were \$39.6 million, or 29 basis points (0.29 percent) of the ending fund balance in fiscal year 2012. This amount includes \$4.4 million for direct internal costs, \$4.5 million for indirect internal costs, and \$30.7 million for external expenses in fiscal year 2012. The investment expenses included costs for management fees and fees related to custodial, auditing, consulting, performance, and risk management. Investment costs for the previous fiscal year were \$45.9 million or 0.36 percent of the fund balance.

### **PERFORMANCE BENCHMARKS**

The Endowment Policy Portfolio return is the total index or benchmark return for the PUF. This return is the sum of the weighted benchmark return for each asset class comprising the endowment policy portfolio.

The UT System provided the following benchmark return for PUF. The benchmark below represents the PUF investment policy for the fiscal year ended August 31, 2012.

PUF Policy Benchmark 3.27%

### **ACTIONS OF EIGHTY-SECOND LEGISLATURE**

House Bill 2825, Eighty-second Legislature, Regular Session, 2011, changed the composition of the governing board for

**UNIVERSITY OF TEXAS SYSTEM – PERMANENT UNIVERSITY FUND (CONTINUED)**

the University of Texas Investment Management Company, the firm investing and managing the PUF and other endowments, to require two appointees representing the Texas A&M University System. Further, House Bill 2825 requires at least one of the TAMU appointees and all of the remaining appointees to have knowledge and expertise in investments.

## UNIVERSITY OF TEXAS SYSTEM – PERMANENT HEALTH FUND

### **FUND PURPOSE**

The Permanent Health Fund (PHF) is a collection of public endowments to support research and other programs at higher education institutions. The consolidated fund includes the Permanent Health Fund for Higher Education, Permanent Funds for Health-related Institutions, and the University of Texas at El Paso. The Permanent Fund for Higher Education Nursing, Allied Health and Other Health Related Programs, and the Permanent Fund for Minority Health Research and Education were transferred to the Comptroller of Public Accounts (CPA) during fiscal year 2002. The endowments were created with proceeds from the comprehensive tobacco settlement between the State and the tobacco industry.

### **FUND CONTRIBUTIONS**

Initially \$890 million of endowment corpus was transferred on August 30, 1999, and another \$25 million was transferred during fiscal year 2000. The Permanent Fund for Higher Education Nursing, Allied Health and Other Health Related Programs, and the Permanent Fund for Minority Health Research and Education, totaling \$88.2 million, were transferred to the CPA during fiscal year 2002. No contributions have been made since then.

### **FUND DISTRIBUTIONS**

The PHF is a total return fund, and distributions from both income as well as capital gains may be distributed. The University of Texas (UT) System Board initially established an annual distribution of 4.5 percent of the beginning value of the PHF. Distributions are increased annually by the average inflation rate, measured by the Consumer Price Index (C.P.I.), provided that the distribution rate remains within a range of 3.5 percent to 5.5 percent of the fund's market value. According to the UT System, \$46.0 million was transferred to eligible institutions during fiscal year 2012.

### **INVESTMENT OBJECTIVE**

According to the UTIMCO, the primary investment objective is to preserve the purchasing power of PHF assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate, plus the annual expected expense. The current target rate is 5.2%.

### **INVESTMENT AND OVERSIGHT RESPONSIBILITY**

The Seventy-sixth Legislature, 1999, designated the UT System Board of Regents as the administrators of the fund. The UT System Board of Regents designated the University of Texas Investment Management Company (UTIMCO) as the investment manager. UTIMCO is the first external management corporation formed by a public university. The UTIMCO Board of Directors includes three members of the UT System Board, the chancellor of the UT System, and five outside investment professionals. The Long Term Fund (LTF) and the PHF are invested in shares of the General Endowment Fund (GEF), an internal mutual fund managed by UTIMCO.

### **PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED**

The PHF assets are invested in the UT System GEF. According to the UT System, 91.4 percent of the GEF assets were externally managed in fiscal year 2012.

### **INVESTMENT COSTS**

According to the UT System, total investment expenses for fiscal year 2012 were \$2.5 million, or 26 basis points (0.26 percent) of the ending fund balance. This amount includes \$0.4 million in direct internal investment expenses \$0.5 million in indirect internal investment expenses, and a \$1.6 million allocation from the GEF. The investment expenses included costs for management fees, custodian services and audit fees. Investment costs for fiscal year 2011 were \$3.3 million, or 0.33 percent of the fund balance.

### **PERFORMANCE BENCHMARKS**

The PHF assets are invested in the GEF. The Endowment Policy Portfolio return is the total index or benchmark return for the GEF. This return is the sum of the weighted benchmark return for each asset class comprising the endowment policy portfolio.

The UT System provided the following benchmark return for the PHF in fiscal year 2012:

PHF Policy Benchmark 3.27%

## COMPTROLLER OF PUBLIC ACCOUNTS – TOBACCO SETTLEMENT PERMANENT TRUST FUND

### **FUND PURPOSE**

The Tobacco Settlement Permanent Trust (TSF) is an endowment to support counties with unreimbursed healthcare expenditures. The Seventy-sixth Legislature, 1999, created the endowment with proceeds from the comprehensive tobacco settlement between the State and the tobacco industry. Although the Comptroller of Public Accounts (CPA) manages the investments, the endowment is classified as a private purpose trust fund.

### **FUND CONTRIBUTIONS**

The initial contribution of tobacco settlement proceeds was made on March 1, 2000. According to the CPA, \$1.683 billion was contributed to the fund through fiscal year 2003. No additional contributions are anticipated.

### **FUND DISTRIBUTIONS**

The TSF is a total return fund and distributions may be made from both income as well as growth in asset values. The investment advisory committee (described below) has approved, and the CPA has adopted, a distribution rule set forth in Title 34, Part 1, Chapter 18, Section 18.2 of the Texas Administrative Code. The rule is designed to meet the investment objective of the trust (described below). According to the CPA, \$50.0 million was distributed during fiscal year 2012.

### **INVESTMENT OBJECTIVE**

The primary investment objective, according to the CPA, is to provide a predictable, stable stream of distributions and to preserve the purchasing power of fund assets and annual distributions by earning an average annual total return, after inflation, of 5.0 percent over rolling ten-year periods or longer. Investment decisions must adhere to the “prudent investor” rule.

### **INVESTMENT AND OVERSIGHT RESPONSIBILITY**

The CPA, through the Texas Treasury Safekeeping Trust Company, is responsible for management and oversight of the fund. An investment advisory committee composed of members from participating entities advises the CPA and approves rules governing the CPA’s duties and responsibilities for the investment of and distributions from the fund. The advisory committee is composed of 11 appointed members. The comptroller appoints one member. One member is

appointed by the political subdivision that, in the year preceding the appointment, received the largest annual distribution paid from the account. The political subdivision that received the second largest annual distribution paid from the account appoints one member. Four members are appointed by the Texas Conference of Urban Counties from subdivisions that received the third through the twelfth largest annual distributions in the preceding year. The County Judges and Commissioners Association of Texas, the North and East Texas County Judges and Commissioners Association, the South Texas County Judges and Commissioners Association, and the West Texas County Judges and Commissioners Association each appoint one member.

### **PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED**

According to the CPA, 100 percent of the fund’s assets are externally managed.

### **INVESTMENT COSTS**

According to the CPA, total investment expenses for fiscal year 2012 were \$6.1 million, or 30 basis points (0.30 percent) of the ending fund balance. This amount includes \$4.3 million for direct internal costs and \$1.8 million for external costs. Internal and external investment expenses included costs for salaries, consulting and auditing services, IT systems, compliance monitoring, overhead, risk management services, reporting and investment accounting, and management services. The investment costs for fiscal year 2011 were \$6.2 million or 0.30 percent of the fund balance.

### **PERFORMANCE BENCHMARKS**

The CPA provided the breakdown of the policy benchmark (**Figure B5**). The total fund benchmark was 0.56 percent in fiscal year 2012.

## COMPTROLLER OF PUBLIC ACCOUNTS – TOBACCO SETTLEMENT PERMANENT TRUST FUND (CONTINUED)

**FIGURE B5**  
**COMPTROLLER OF PUBLIC ACCOUNTS – TOBACCO SETTLEMENT PERMANENT TRUST FUND PERFORMANCE BENCHMARKS**  
**FISCAL YEAR 2012**

STRATEGY	TARGET %	BENCHMARK	2012 RETURN OF BENCHMARK
<b>Fixed Income</b>	<b>35%</b>	Allocation Range: 20%-50%	0.58%
Global Fixed Income	10%	9% Barclays Capital Multiverse Bond Index; % 90-Day T-bill	0.07%
Alternative Fixed Income	20%	HFRI FOF: Conservative Index	0.02%
Private Debt	5%	Thomson Reuters Venture Economics Pooled Average – Custom weighted by vintage year	8.90%
<b>Equity</b>	<b>45%</b>	Allocation Range: 30%-60%	(0.79%)
Global Public Equity	15%	MSCI All Country World Index	6.09%
Hedged Equity	20%	HFRI FOF: Strategic Index	(1.60%)
Private Equity	10%	Thomson Reuters Venture Economics Pooled Average – Custom weighted by vintage year	(5.31%)
<b>Real Assets</b>	<b>20%</b>	Allocation Range: 10%-30%	0.97%
Stable Value Real Estate	5%	NCREIF Townsend Core Index	9.01%
Enhanced Real Estate	5%	Index market weighted blend of NCREIF Townsend Value Added & Opportunistic Indices	9.66%
Global Inflation Protected Securities	3%	Barclays Capital World Inflation Linked Index	4.81%
Natural Resources	7%	5% Dow Jones UBS Commodity Index; 1% MSCI Energy Index 1% MSCI Materials Index	(9.10%)
<b>All Asset Strategies</b>	<b>0%</b>	0%-10%	N/A
Risk Parity, Tactical Asset Allocation, Multi-strategy	0%	Total Endowment Benchmark	

SOURCE: Comptroller of Public Accounts.

## TEXAS GUARANTEED TUITION PLAN FUND

### **FUND PURPOSE**

The Texas Guaranteed Tuition Plan (formerly the Texas Tomorrow Fund) is a fully guaranteed prepaid tuition program, which began in January 1996. Currently the Texas Prepaid Higher Tuition Board has closed the Texas Guaranteed Tuition Plan Fund for enrollment. The plan currently accepting enrollment, The Texas Tuition Promise Fund, went into effect September 1, 2008. The Board's plan manager, OFI Private Investments, Inc., has invested the assets of the plan in accordance with the investment policy statement adopted by the Board.

### **FUND CONTRIBUTIONS**

Existing member contributions are added annually to the Texas Guaranteed Tuition Plan fund. In fiscal year 2012 contributions totaled \$8.6 million in tuition contract payments and \$660 thousand in fees and other revenue. Investment income resulted in a gain of \$92.1 million to the fund in fiscal year 2012. According to the TGTP, contributions combined with the changes in future contract benefits and investment income resulted in a fund increase of \$81.6 million in fiscal year 2012.

### **FUND DISTRIBUTIONS**

According to the TGTP, \$143.4 million was distributed to colleges for tuition payments during fiscal year 2012. An additional \$1.6 million was distributed for administrative expenses and \$14.3 million was refunded to contract purchasers. In fiscal year 2012 fund distributions totaled \$82.1 million.

According to the Texas Guaranteed Tuition Plan's 2012 Actuary's Report on Program Soundness, the liabilities of the Plan exceed the value of assets as of August 31, 2011, by \$643.7 million. The funded ratio of the plan is 68.8%. Based on actuarial assumptions for expected income and disbursements, TGTP is projected to run out of cash to pay benefits in fiscal year 2020.

### **INVESTMENT OBJECTIVE**

According to the TGTP, the investment objective is to accumulate sufficient funds to fully meet current and future obligations to fund participants. To meet this goal, the board has developed four general objectives: preserve the purchasing power of the fund by achieving investment earnings in excess of inflation; protect the fund principal from market value

erosion; keep return volatility low by employing prudent fund diversification; and invest assets in compliance with the "prudent person" standard.

### **INVESTMENT AND OVERSIGHT RESPONSIBILITY**

The Texas Prepaid Higher Education Tuition Board directs the investment policies that are carried out by investment managers. The board is chaired by the Comptroller and includes two members appointed by the Governor and four members appointed by the Lieutenant Governor. At least two of the Lieutenant Governor's appointees are from a list of persons recommended by the speaker of the House of Representatives.

### **PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED**

According to the TGTP, 100 percent of the fund's assets are externally managed.

### **INVESTMENT COSTS**

According to the TGTP, the costs of investing the fund for fiscal year 2012 were \$1.7 million, or 14 basis points (0.14 percent) of the ending fund balance. This amount consists entirely of external investment expenses and includes securities lending fees. The investment costs for fiscal year 2011 were \$2.4 million or 0.18 percent of the fund balance.

### **PERFORMANCE BENCHMARKS**

The TGTP provided the following benchmarks for fiscal year 2012 (**Figure B6**).

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**TEXAS GUARANTEED TUITION PLAN FUND (CONTINUED)**

**FIGURE B6**  
**TEXAS GUARANTEED TUITION PLAN FUND PERFORMANCE BENCHMARKS**  
**FISCAL YEAR 2012**

<b>BENCHMARK NAME</b>	<b>ASSET CLASS</b>	<b>2012 RATE OF RETURN</b>
Dow Jones U.S. Total Stock Market Index	U.S. Equity	17.1%
S&P 500 Index	U.S. Equity	18.0%
Russell 1000 Growth Index	U.S. Equity	17.4%
Russell 1000 Value Index	U.S. Equity	17.3%
Russell 2000 Index	U.S. Equity	13.4%
MSCI EAFE Index	Non-U.S. Equity	0.0%
MSCI All Country Ex-U.S. Local Net	Non-U.S. Equity	5.1%
Barclays Capital Aggregate Bond Index	Fixed Income	5.8%
Barclays Capital Corporate High Yield Bond Index	Fixed Income	13.9%
Citigroup WGBI	Fixed Income	0.0%
S&P Leveraged Loan Index	Fixed Income	10.5%
Barclays Capital U.S. TIPS Index	Fixed Income	8.3%
T-Bills	Cash	0.0%

SOURCE: Comptroller of Public Accounts.

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## COMPTROLLER OF PUBLIC ACCOUNTS – PERMANENT PUBLIC HEALTH FUND

### **FUND PURPOSE**

The Permanent Public Health Fund (PPHF) is a collection of public endowments to support state-administered health-related programs. The consolidated fund includes the Permanent Tobacco Education and Enforcement Fund, the Permanent Children and Public Health Fund, the Permanent EMS and Trauma Care Fund, the Permanent Rural Health Facility Capital Fund, and the Permanent Small Urban Hospitals Funds. The endowments were created with proceeds from the comprehensive tobacco settlement between the State and the tobacco industry.

### **FUND CONTRIBUTIONS**

Initially, \$475 million of tobacco settlement proceeds were contributed in fiscal year 2000. No additional tobacco proceeds have been added to the fund.

### **FUND DISTRIBUTIONS**

The PPHF is a total return fund and distributions may be made from both income as well as growth in asset values. The annual distributions are determined by the Comptroller of Public Accounts (CPA). Annual distributions, paid quarterly, are calculated as 4.5 percent of the twenty-quarter moving-average value of the PPHF as of June 30 for the following fiscal year. The annual distributions may not exceed 7 percent of the average net fair market value of the investment assets of the fund. According to the CPA, \$28.2 million was distributed during fiscal year 2012. Of this amount, \$20.4 million was distributed to the Texas Department of Health to fund the relevant programs and \$7.8 million was distributed to CPRIT to pay debt service.

### **INVESTMENT OBJECTIVE**

The primary investment objective, according to the CPA, is to provide a predictable, stable stream of distributions and to preserve the purchasing power of each fund's assets and annual distributions by earning an average annual total return, after inflation, of 5 percent over rolling ten-year periods or longer. Investment decisions must adhere to the "prudent investor" rule.

### **INVESTMENT AND OVERSIGHT RESPONSIBILITY**

The CPA, through the Texas Treasury Safekeeping Trust Company, is responsible for management and oversight of the fund.

### **PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED**

According to the CPA, 100 percent of the fund assets are externally managed.

### **INVESTMENT COSTS**

According to the CPA, the costs of administrating the fund for fiscal year 2012 were \$1.2 million, or 30 basis points (0.30 percent) of the ending fund balance. Internal and external investment expenses included costs for consulting, auditing, IT systems, compliance monitoring, overhead, risk management, reporting, investment accounting, investment management, and fees paid to money managers and custodians. Investment costs for fiscal year 2011 were \$1.3 million or 0.31 percent of the fund balance.

### **PERFORMANCE BENCHMARKS**

The CPA provided the following benchmarks for fiscal year 2012 (**Figure B7**). The total fund benchmark was 0.56 percent in fiscal year 2012.

### **ACTIONS OF EIGHTY-SECOND LEGISLATURE**

Article 28 of SB 1, Eighty-second Legislature, First Called Session, 2011 expanded the permissible uses of three of the public endowments in the Permanent Public Health Fund. The Legislature may now appropriate money from the Permanent Fund for Health and Tobacco Education and Enforcement, the Permanent Fund for Children & Public Health, and the Permanent Fund for EMS & Trauma Care to pay the principal of or the interest on a bond issued on behalf of the Cancer Prevention and Research Institute of Texas (CPRIT). The 82nd Legislature appropriated \$39.0 million from the Permanent Fund for Health and Tobacco Education and Enforcement, \$19.5 million from the Permanent Fund for Children & Public Health, and \$19.5 million from the Permanent Fund for EMS & Trauma Care to pay for CPRIT debt service in the 2012–13 biennium.



**COMPTROLLER OF PUBLIC ACCOUNTS – PERMANENT PUBLIC HEALTH FUND (CONTINUED)**

**FIGURE B7**  
**CPA – PERMANENT PUBLIC HEALTH FUND PERFORMANCE BENCHMARKS**  
**FISCAL YEAR 2012**

STRATEGY	TARGET %	BENCHMARK	2012 RETURN OF BENCHMARK
<b>Fixed Income</b>	<b>35%</b>	Allocation Range: 20%-50%	0.58%
Global Fixed Income	10%	9% Barclays Capital Multiverse Bond Index; 1% 90-Day T-bill	0.07%
Alternative Fixed Income	20%	HFRI FOF: Conservative Index	0.02%
Private Debt	5%	Thomson Reuters Venture Economics Pooled Average – Custom weighted by vintage year	8.90%
<b>Equity</b>	<b>45%</b>	Allocation Range: 30%-60%	(0.79%)
Global Public Equity	15%	MSCI All Country World Index	6.09%
Hedged Equity	20%	HFRI FOF: Strategic Index	(1.60%)
Private Equity	10%	Thomson Reuters Venture Economics Pooled Average – Custom weighted by vintage year	(5.31%)
<b>Real Assets</b>	<b>20%</b>	Allocation Range: 10%-30%	0.97%
Stable Value Real Estate	5%	NCREIF Townsend Core Index	9.01%
Enhanced Real Estate	5%	Index market weighted blend of NCREIF Townsend Value Added & Opportunistic Indices	9.66%
Global Inflation Protected Securities	3%	Barclays Capital World Inflation Linked Index	4.81%
Natural Resources	7%	5% Dow Jones UBS Commodity Index; 1% MSCI Energy Index 1% MSCI Materials Index	(9.10%)
<b>All Asset Strategies</b>	<b>0%</b>	0%-10%	N/A
Risk Parity, Tactical Asset Allocation, Multi-strategy	0%	Total Endowment Benchmark	

SOURCE: Comptroller of Public Accounts.

## COMPTROLLER OF PUBLIC ACCOUNTS – NATIONAL RESEARCH UNIVERSITY FUND

### **FUND PURPOSE**

On November 3, 2009 Texas voters approved Proposition 4, adding Article VII Section 20 to the Texas Constitution which creates the National Research University Fund (NRUF). Proposition 4 and the enabling legislation, HB 51, 81st Legislature, Regular Session, 2009 also transferred the corpus of the Permanent Higher Education Fund (originally intended to be an endowment fund supporting higher education institutions not eligible for distributions from the Permanent University Fund) to the National Research University Fund. The purpose of the NRUF is to provide a dedicated, independent, and equitable source of funding to enable emerging research universities in Texas to achieve national prominence as major research universities.

### **FUND CONTRIBUTIONS**

On January 1, 2010 all assets from the Permanent Higher Education Fund, \$546.3 million, were transferred to the National Research University Fund. No additional contributions have been made to the NRUF since this date.

### **FUND DISTRIBUTIONS**

The Higher Education Coordinating Board is tasked with developing rules for determining the eligibility of institutions to receive money from the NRUF and certifying in each even numbered year which institutions have satisfied those standards. Article VII, Section 20(f) stipulates that the amount appropriated from the fund in any fiscal year may not exceed 7 percent of the average net fair market value of the investment assets of the fund. Distributions of \$15.8 million were made from the NRUF in fiscal year 2012.

### **INVESTMENT OBJECTIVE**

The investment objective of the NRUF is to earn a long-term annual rate of return of 8 percent to: provide a predictable, stable stream of distributions, ensure that the inflation-adjusted value of distributions is maintained over the long term, and ensure that the inflation-adjusted value of the corpus after distributions is maintained over the long term.

### **INVESTMENT AND OVERSIGHT RESPONSIBILITY**

The CPA, through the Texas Treasury Safekeeping Trust Company, is responsible for management and oversight of the fund.

### **PERCENTAGE OF ASSETS EXTERNALLY MANAGED/ ADVISED**

According to the CPA, 100 percent of the fund assets are externally managed.

### **INVESTMENT COSTS**

According to the CPA, the costs of administrating the fund for fiscal year 2012 were \$1.8 million, or 30 basis points (0.30 percent) of the ending fund balance. Direct internal expenses were \$1.3 million and external investment expenses were \$0.5 million in fiscal year 2012. Internal and external investment expenses included costs for consulting, auditing, IT systems, compliance monitoring, overhead, risk management, reporting, investment accounting, investment management, and fees paid to money managers and custodians. Investment costs for fiscal year 2011 were \$1.8 million or 0.30 percent of the fund balance.

### **PERFORMANCE BENCHMARKS**

The CPA provided the following benchmarks for fiscal year 2012 (**Figure B8**). The total fund benchmark was 0.56 percent in fiscal year 2012.

### **ACTIONS OF EIGHTY-SECOND LEGISLATURE**

HB 1000, 82nd Legislature, Regular Session, 2011 made several changes to the distribution policy of the NRUF. To be eligible to receive NRUF appropriations, an institution must meet two mandatory criteria and four out of six optional criteria. The mandatory criteria are that the institution is designated as an emerging research university within the THECB's Accountability System, and that the institution reported at least \$45 million in restricted research expenditures in each of the preceding two fiscal years. Optional criteria include the following: possession of an endowment fund values in excess of \$400 million; awarding over 200 Doctor of Philosophy degrees per year; having an entering freshman class of high academic achievement; recognition of institution's research capability and scholarly attainment; possession of a high-quality faculty; and possession of high-quality graduate education programs.

The bill also stipulates that the total amount appropriated from the fund for any state fiscal year may not exceed an amount equal to 4.5 percent of the average net market value of the investment assets of the fund for the 12 consecutive state fiscal quarters ending with the last quarter of the preceding state fiscal year.

**COMPTROLLER OF PUBLIC ACCOUNTS – NATIONAL RESEARCH UNIVERSITY FUND  
(CONTINUED)**

**FIGURE B8  
CPA – NATIONAL RESEARCH UNIVERSITY FUND PERFORMANCE BENCHMARKS  
FISCAL YEAR 2012**

<b>STRATEGY</b>	<b>TARGET %</b>	<b>BENCHMARK</b>	<b>2012 RETURN OF BENCHMARK</b>
<b>Fixed Income</b>	<b>35%</b>	Allocation Range: 20%-50%	0.58%
Global Fixed Income	10%	9% Barclays Capital Multiverse Bond Index; 1% 90-Day T-bill	0.07%
Alternative Fixed Income	20%	HFRI FOF: Conservative Index	0.02%
Private Debt	5%	Thomson Reuters Venture Economics Pooled Average – Custom weighted by vintage year	8.90%
<b>Equity</b>	<b>45%</b>	Allocation Range: 30%-60%	(0.79%)
Global Public Equity	15%	MSCI All Country World Index	6.09%
Hedged Equity	20%	HFRI FOF: Strategic Index	(1.60%)
Private Equity	10%	Thomson Reuters Venture Economics Pooled Average – Custom weighted by vintage year	(5.31%)
<b>Real Assets</b>	<b>20%</b>	Allocation Range: 10%-30%	0.97%
Stable Value Real Estate	5%	NCREIF Townsend Core Index	9.01%
Enhanced Real Estate	5%	Index market weighted blend of NCREIF Townsend Value Added & Opportunistic Indices	9.66%
Global Inflation Protected Securities	3%	Barclays Capital World Inflation Linked Index	4.81%
Natural Resources	7%	5% Dow Jones UBS Commodity Index; 1% MSCI Energy Index 1% MSCI Materials Index	(9.10%)
<b>All Asset Strategies</b>	<b>0%</b>	0%-10%	N/A
Risk Parity, Tactical Asset Allocation, Multi-strategy	0%	Total Endowment Benchmark	

SOURCE: Comptroller of Public Accounts.



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## APPENDIX C. GLOSSARY

### **ACTIVE PORTFOLIO STRATEGY**

A money-management approach based on informed, independent investment judgment as opposed to passive management (indexing). It attempts to outperform a benchmark index.

### **ALTERNATIVE INVESTMENTS**

Investment opportunities which have not been identified by traditional public or fixed income capital markets. Also may be defined as private, nontraditional, illiquid investments. Alternative investments are accomplished almost exclusively through private offerings of debt equity interest, and are often made through entities organized as limited partnerships. Examples of alternative investments include international and emerging market stocks, hedge funds, event driven strategies, as well as illiquid equity investments such as venture capital, mezzanine financing, private equity and buy-out investing, real estate, and oil and gas.

### **ASSET ALLOCATION**

The process of diversifying an investment portfolio among asset classes (stocks, bonds, real estate, etc.) to achieve a particular investment objective. Asset allocation is used to anticipate the long-term future direction of markets and to deploy assets in a way that will result in superior performance in the context of acceptable risks. Studies have shown that asset allocation has a far greater effect on investment performance than does the selection of investment managers or the selection of individual securities.

### **BASIS POINT (BP)**

The smallest measure used in quoting investment performance or fees. One basis point is 1/100th of one percent. Thus, 100 basis points equals one percent. A bond's yield that increased from 8.00 percent to 8.50 percent would be said to have risen 50 basis points. A management fee of 25 basis points represents 0.25 percent of value of the assets managed.

### **BENCHMARK**

A reference that serves as a standard by which others may be measured. In the investment environment, the benchmark may be a common economic or financial index, such as the Consumer Price Index or the Standard & Poor's 500 (S&P 500) Index.

### **BONDS**

Contract to pay specified sum of money (the principal or face value) at a specified future date (maturity) plus interest paid at an agreed percentage of the principal. Maturity is usually longer than one year. The relationship between the bondholder and issuer of the bonds is that of creditor and debtor. Thus, the holder has no corporate ownership privileges as stockholders do.

### **BROKER**

A person who acts as an intermediary between a buyer and seller, usually charging a commission.

### **CASH EQUIVALENTS**

Investment instruments have such high liquidity and safety that they are virtually as good as cash. They typically have a short maturity. Examples include a money market fund, Treasury Bills, and investments in a custodian bank's short term investment fund (STIF) or similar fund. Such securities help minimize risk during volatile market periods as well as to provide cash flow.

### **COLLATERALIZED MORTGAGE OBLIGATION (CMO)**

A security created using the underlying cash flows from mortgage-backed securities as collateral. A CMO shifts the uncertainty regarding the exact timing of principal return in a mortgage-backed security. This uncertainty exists because the timing of mortgage-backed principal payments is influenced by changes in interest rates, the current economic climate, and the geographic makeup of loans.

### **COMMON STOCK**

Share in a public company or a privately held firm. Common stockholders typically have voting and dividend rights. In the event of corporate bankruptcy or other liquidation of assets, common stockholders are paid after secured and unsecured creditors, bond holders, and preferred stockholders.

### **CORPUS**

The principal of a fund or estate as distinct from income or interest.

**CREDIT RISK**

The likelihood that a party involved in an investment transaction will not fulfill its obligations. This type of risk is often associated with the issuer of the investment security and is affected by the concentration of deposits or investments in a single instrument or with a single institution.

**CUSTODIAN BANK**

Used by an entity with large investment holdings to hold securities, record transactions, and collect interest or dividends from investments. The custodian bank is sometimes referred to as the primary or master custodian because it obtains the services of subcontractors and agencies to actually hold and trade the securities.

**DERIVATIVES**

A contract or financial arrangement whose value is based on the performance of an underlying financial asset, index, or other investment. Derivatives are available based on the performance of assets, interest rates, currency exchange rates, and various domestic and foreign indexes.

**DIVERSIFICATION**

The spreading of risk by investing in several individual investments or categories of investments, such as stocks, bonds, cash equivalents, and real estate.

**DURATION**

A concept that measures bond price volatility by measuring the “length” of a bond. It is a weighted average term to maturity of the bond’s cash flows, the weights being the present value of each cash flow as a percentage of the bond’s full price. The greater the duration of a bond, the greater its percentage price volatility. In general, duration rises with maturity, falls with the frequency of coupon payments, and falls as the yield rises.

**ENDOWMENT**

Funds given to an entity, such as a college or university, with donor-imposed restrictions that the funds are not to be expended but are to be invested for purpose of producing income.

**EQUITY INVESTMENT**

Ownership interest possessed by shareholders in a corporation.

**EXTERNAL MANAGER**

A person or firm that makes investment portfolio decisions and executes transactions independently, subject to the overall restrictions agreed upon by contract between the fiduciary for the fund and the external manager.

**FIXED INCOME INVESTMENTS**

A security that pays a fixed rate of return in the form of interest or dividends, over a specified period and includes government, corporate, and municipal bonds, preferred stocks, and certain mortgage investments. This asset class is expected to provide regular, predictable income and greater stability of market value than available from equity investments. It is advantageous in times of low inflation, but does not protect holders against erosion of buying power in times of rising inflation because interest or dividend payments do not increase.

**GENERAL PARTNER**

Member of a partnership who is jointly and severally liable for all debts incurred by the partnership; or a managing partner of a limited partnership who is in charge of its operations. A general partner has unlimited liability.

**HEDGE/HEDGING**

A strategy used to offset investment risk. A perfect hedge is one eliminating the possibility of future gain or loss.

**HEDGE FUND**

A hedge fund is typically set up as a private investment partnership that is open to a limited number of investors. The portfolios are typically managed more aggressively and rely on advanced investment strategies to generate high returns. Hedge Funds are not regulated by The Securities and Exchange Commission (SEC)

**INDEMNIFICATION**

An agreement to compensate another party for damage or loss. In securities lending programs, the program administrator may agree to indemnify the lender of securities for any losses caused by the failure of the borrower to return borrowed securities.

**INDEX**

A statistical composite that measures changes in the economy or in financial markets, often expressed in percentage changes from a base period. For example, the Consumer Price Index, which is composed of the prices of key goods and services,

moves up or down as the rate of inflation changes. Other indexes measure the ups and downs of the stock, bond, and other investment markets. Common indexes include the New York Stock Exchange Index, Standard & Poor 500 Index, and the Shearson Lehman Aggregate Bond Index.

#### **INVESTMENT ADVISOR**

A person or service retained by the investing entity to provide investment advice for a fee. The advisors may present economic information such as expected changes in interest rates, current and future national or global economic growth, and other factors that may affect the economy in the future. Investment advisors also present industry information that may affect future decisions in selecting specific securities. The advisor may specialize in a particular kind of investment, such as emerging growth stocks or international stocks.

#### **LARGE / MEDIUM / SMALL CAPS**

Stocks of companies with market capitalization of \$500 million or less are small caps. Such stocks generally represent companies that are less well established, but are often faster growing than mid-caps (market capitalization of \$500 million to \$3-5 billion) or large caps (\$1 billion or more). Small caps are often more volatile than stocks of more well-established companies.

#### **LEVERAGED BUYOUT**

Equity investments in public or private companies that result in the purchase of a significant portion or majority control of the company.

#### **LIQUIDITY**

The ease with which an asset can be converted to money. Also, the ability to buy or sell an asset quickly and in large volume without substantially affecting the price.

#### **MARKET RISK**

The risk that the value of a security will rise or decline as a result of changes in market conditions.

#### **MATURITY**

The date on which a debt's principal is to be repaid.

#### **MEZZANINE FINANCING**

Investment in the subordinated debt of privately owned companies. The debt holder participates in equity appreciation through conversion features such as rights, warrants, or options.

#### **MERRILL LYNCH 90-DAY U.S. TREASURY BILL INDEX**

A benchmark which assumes that treasury bills are bought at the beginning of a period at market value and held to maturity. Upon maturity, it is assumed that additional bills are purchased at market value and again held until maturity. The rollover continues until the end of the period. The calculation includes the sum of the yields earned by the treasury bills.

#### **MODERN PORTFOLIO THEORY**

An investment decision approach that permits an investor to classify, estimate, and control both the kind and the amount of expected risk and return. Portfolio theory quantifies the relationship between risk and return and assumes that investors must be compensated for assuming risk. It departs from traditional security analysis by determining the statistical relationships among securities comprising the overall portfolio rather than analyzing the characteristics of individual investments.

#### **MUTUAL FUND**

Portfolio of securities professionally managed by the sponsoring management company or investment company that issues shares to investors. The major advantages of mutual funds are diversification, professional management, and ownership of a variety of securities with a minimal capital investment.

#### **PASSIVE PORTFOLIO STRATEGY**

A money-management strategy that seeks to match rather than outperform return and risk characteristics of a market segment or index, by mirroring its composition.

#### **PEER GROUP**

One group that is of equal standing with another group. In comparing an investment fund's performance with its peers, the peer group should include other funds with similar characteristics, such as fund size, purpose, and investment restrictions.

#### **PORTFOLIO**

A combined holding of more than one investment. The purpose of a portfolio is to reduce risk by diversification.

#### **PRIVATE INVESTMENTS**

Investment opportunities, which have not been identified by traditional capital markets. Typically more volatile than

traditional securities, private investments require strong due diligence controls.

#### **PRIVATE PLACEMENT**

A securities issuance, which is exempt from registration requirements of the Securities Act of 1933. It generally involves the sale of stocks, bonds, or other investments directly to an institutional investor.

#### **PRUDENT INVESTOR STANDARD**

This standard provides that a board or other fiduciary in making investments, may acquire or retain 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 the assets of the fund rather than a single investment. Generally, this standard assumes that the board or other fiduciary has investment knowledge and expertise, and provides broader investment authority than the prudent person standard.

#### **PRUDENT PERSON STANDARD**

A concept born from the 1830 Massachusetts court decision of *Harvard College v. Armory* that described the duty owned by a trustee to beneficiaries: "All that can be required of a trustee to invest is, that he shall conduct himself faithfully and exercise sound discretion. He is to observe how men of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested."

#### **RISK**

In exchange for a return on investment, the investor may expose assets to possible losses. Risk is the probability or possibility of such losses. Risk is also often defined in terms of market volatility, or standard deviations of returns. The standard deviation is a statistical measure of portfolio risk, which reflects the average deviation of observations from their sample mean. It is used as an estimate of risk because it measures how wide the range of returns typically is. The wider the range of returns, the higher the portfolio risk.

#### **S&P 500**

An index, which measures the performance of the common stock of 500 of the largest U.S. corporations. The S&P 500

represents the aggregate market value changes relative to a base period of 500 stocks primarily traded on the New York Exchange.

#### **S&P 1500**

The S&P 1500 Composite Index, which measures the performance of the top 1500 U.S. companies.

#### **SECURITIES LENDING**

A program in which institutional investors transfer their securities to broker-dealers and other borrowers in exchange for collateral and a promise by the borrower to return the identical securities. The collateral may consist of cash, securities, or letters of credit. The lender agrees to the collateral to the borrower upon maturity of the loan and return of the borrowed securities.

#### **TIME-WEIGHTED RATE OF RETURN**

The total rate of return on an investment adjusted to eliminate the effect of timing of cash flows due to contributions and withdrawals, which are not controllable by investment managers.

#### **TOTAL RETURN**

The annual return on an investment including appreciation and interest or dividends. A "total return fund" is one that is indifferent to whether the return is generated by appreciation or ordinary income because it can spend from both categories.

#### **TRANCHE**

A class into which a multi-class security, such as collateralized mortgage obligation (CMO) is split. The different tranches of a CMO, which may range from a fast-pay class to long-term slow-pay class, are designed to meet different investor objectives for portfolio diversification.

#### **VENTURE CAPITAL**

Venture capital is an important source of financing for start-up companies or other embarking on a new or turnaround ventures that entail some investment risk but offer the potential for above average future profits. Sources of venture capital include wealthy individual investors, subsidiaries of banks and other corporations organize as small business investment companies: groups of investment banks and other financing sources that pool investments in venture capital funds or venture capital limited partnerships. Some venture capital sources invest only at a certain stage of entrepreneurship, such as the start-up or seed money stage,



the first round or second round phases that follow, or at the mezzanine level immediately preceding an initial public offering. In return for taking an investment risk, the venture capitalists are usually rewarded with some combination of profits, preferred stock, royalties on sales, and capital appreciation of common shares.

**VOLATILITY**

The extent to which a security or market tends to rise or fall sharply in price within short-term period.

**YIELD**

The annual return on investment (from dividends or interest) expressed as a percentage of either cost or current price. Yield is one component of return.



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## APPENDIX D. REFERENCES

The following investing agencies and institutions of higher education provided information contained in the Annual Report on Major State Investment Funds.

Teacher Retirement System (TRS)  
Permanent School Fund (PSF – GLO)  
Permanent School Fund (PSF – TEA)  
Employees Retirement System (ERS)  
The University of Texas System (UT System)  
Permanent University Fund (UT – PUF)  
Permanent Health Fund (UT – PHF)  
Comptroller of Public Accounts (CPA)  
Tobacco Settlement Permanent Trust (CPA – TSF)  
Texas Guaranteed Tuition Plan Fund (CPA – TGTF)  
Permanent Public Health Fund (CPA – PHF)  
Permanent Higher Education Fund (CPA – NRUF)

Remittances of original data from agencies and institutions of higher education for this report are attached.



# ORIGINAL DATA FROM AGENCIES AND INSTITUTIONS OF HIGHER EDUCATION

## ATTACHMENT 1. TEACHER RETIREMENT SYSTEM TRUST FUND INPUT WORKSHEET

	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions				
Total Fund	111,066				
	Fiscal Year 2012 Time Weighted Gross Fund Return	Fiscal Year 2012 Time Weighted Net Fund Return	Fiscal Year 2012 Benchmark Adjusted Gross Fund Return		
Total Fund	7.69%	7.58%	8.72%		
	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
Gross Return - Total Fund	7.69%	15.61%	10.81%	(13.09%)	(4.22%)
Gross Return - Public Equity	4.31%	14.51%	6.18%	(16.61%)	(10.69%)
Gross Return - Private Equity	4.07%	24.70%	21.85%	(22.23%)	0.94%
Gross Return - Long Treasuries*	20.04%	5.54%	17.78%	9.44%	22.22%
Gross Return - Hedge Funds	3.19%	3.99%	5.62%	(6.68%)	(2.31%)
Gross Return - Other Absolute Return*	19.52%	6.54%	25.54%	(2.28%)	(20.31%)
Gross Return - Cash & Short-term	2.91%	1.88%	1.24%	(1.94%)	4.51%
Gross Return - TIPS	8.34%	11.18%	10.17%	1.77%	N/A
Gross Return - Real Assets	11.22%	17.64%	0.10%	(34.85%)	(3.98%)
Gross Return - Commodities	(11.03%)	31.64%	2.77%	(47.19%)	N/A
Gross Return - REITS	20.32%	18.81%	31.57%	(30.11%)	N/A

\* in fiscal year 2007 and 2008 Treasuries are part of Other Absolute Return

	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2011 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2010 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions
<b>Portfolio Diversification</b>					
Total Fund	\$111,066	\$107,070	\$94,925	\$87,713	\$104,075
Public Equity	\$56,724	\$54,312	\$49,095	\$47,232	\$58,313
Private Equity	\$13,101	\$11,099	\$8,501	\$5,866	\$6,055
Long Treasuries	\$13,477	\$11,907	\$9,790	\$5,673	\$8,308
Hedge Funds	\$3,936	\$4,324	\$3,948	\$3,575	\$3,998
Other Absolute Return	\$999	\$3,214	\$4,715	\$6,871	\$7,366
Cash & Short-term	\$957	\$1,376	\$1,010	\$2,588	\$1,128

## ATTACHMENT 1. TEACHER RETIREMENT SYSTEM TRUST FUND INPUT WORKSHEET (CONTINUED)

	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2011 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2010 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions
<b>TIPS</b>	\$5,499	\$5,635	\$8,137	\$8,536	\$10,242
<b>Real Assets</b>	\$13,031	\$10,344	\$5,702	\$3,741	\$3,648
<b>Commodities</b>	\$1,155	\$3,323	\$2,069	\$1,697	\$3,214
<b>REITS</b>	\$2,188	\$1,537	\$1,958	\$1,934	\$1,803
	<b>Total Fiscal Year 2012</b>				
<b>Fund Contributions</b>	<b>\$ in millions</b>	NOTES on inputs			
Members	\$2,188.020	Member Contributions			
State	\$1,684.876	State General Fund + Contributions from Federal/Private Funding Sources + Contributions from the State for 415 Excess Benefit Arrangement + 415 Excess Benefit Arrangement from ERS			
Reporting Employers	\$377.523	Included all Reporting Entity related in-flows including Employment after retirement surcharges			
Member Reinstatements	\$125.972	Refundable + non-refundable			
Legislative Appropriations	-	None			
Other	\$16.808	Contributions from ERS for Service Contributions + Misc revenues			
Investment Income	\$7,847.298	Investment Income			
Total Contributions	\$12,240.497				
<b>Fund Distributions</b>	<b>\$ in millions</b>				
Benefits	\$7,726.106	Benefits + 415 Excess Benefit Arrangement + Benefits Paid to ERS for 415 Excess Benefits			
Refunds	\$381.231	Refunds (Active + Death)			
Other	\$104.060	Benefits Paid to ERS for Service Contributions + Administrative Expenses			
Total Distributions	\$8,211.397				
<b>Internal Investment Expenses:</b>	<b>\$ in millions</b>				
Direct	\$35.419				
Indirect	\$113.399				
<b>External Investment Expenses:</b>	<b>\$111.031</b>				
<b>Total Investment Expenses:</b>	<b>\$259.848</b>				
	<b>Year Ending Aug. 31, 2012</b>				
Percentage of Assets Externally Managed	23%				

## ATTACHMENT 2. TEA – PERMANENT SCHOOL FUND INPUT WORKSHEET

	Market Value of Fund				
	Year Ending Aug. 31, 2012 \$ in millions				
Total Fund	\$25,572.3				
	Fiscal Year 2012 Time Weighted Gross Fund Return	Fiscal Year 2012 Benchmark Adjusted Gross Fund Return			
Total Fund	9.44%	8.87%			
	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
Gross Return - Total Fund	9.44%	13.64%	7.51%	(8.47%)	(6.22%)
Gross Return - Equity	11.29%	16.71%	5.50%	(16.68%)	(10.51%)
(For Fiscal Year 2012 only)					
% of Domestic Equity Internally Managed	100.00%	100.00%	100.00%	100.00%	100.00%
Rate of Return for Internally Managed	17.32%	19.29%	6.25%	(18.00%)	(9.91%)
% of Domestic Equity Externally Managed	0.00%	0.00%	0.00%	0.00%	0.00%
Rate of Return for Externally Managed	N/A	N/A	N/A	N/A	N/A
Gross Return- Fixed Income	6.57%	4.58%	11.29%	10.20%	5.40%
Gross Return - Cash & Short-term	N/A	N/A	N/A	N/A	
Gross Return - Absolute Return*	3.69%	4.48%	7.85%	(4.86%)	
Gross Return - Real Estate*	7.38%	15.53%			
Gross Return - Private Equity*	5.43%	20.32%			
Gross Return - Risk Parity*	13.11%				
Gross Return - Real Return*	8.49%				
	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2011 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2010 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions
<b>Portfolio Diversification</b>					
All Equity	\$13,893	\$13,189	\$14,115	\$13,902	\$14,898
All Fixed Income	\$5,470	\$6,071	\$5,603	\$4,527	\$5,940
All Absolute Return	\$2,562				
All Real Estate	\$624				
All Private Equity	\$435				
All Risk Parity	\$1,819				
All Real Return	\$755				

**ATTACHMENT 2. TEA – PERMANENT SCHOOL FUND INPUT WORKSHEET (CONTINUED)**

	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2011 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2010 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions
<b>Portfolio Diversification</b>					
All Other Investments	N/A	\$4,868	\$2,428	\$2,199	\$2,327
All Cash & Short Term Securities	\$14	\$1	\$2	\$6	\$62
<b>Totals:</b>	\$25,572	\$24,131	\$22,146	\$20,628	\$23,165
	<b>Total Fiscal Year 2012</b>				
Fund Contributions	\$250,000,000				
Fund Distributions	\$1,020,886,905				
Internal Investment Expenses:	\$12,702,760				
Direct					
Indirect					
External Investment Expenses:	\$540,000				
<b>Total Investment Expenses:</b>					
	<b>Year Ending Aug. 31, 2012</b>				
<b>Percentage of Assets Externally Managed</b>	35.76%				

## COMMENTS:

\* Rate of Return is Modified Dietz.

Factors currently included in calculation of investment expenses.

1. External Investment Expenses - flat fees of \$45,000 per month for International Equity.
2. Internal Investment Expense includes salaries, overhead, accounting, compliance and technology expenses.
3. Transition Cash included with All Cash and Short Term Securities. This was not included prior to 2012.



### ATTACHMENT 3. TEXAS GENERAL LAND OFFICE – PERMANENT SCHOOL FUND

	<b>Market Value of Fund Year Ending June 30, 2012 \$ in millions</b>				
<b>Total Fund</b>	\$3,183.0				
	<b>Year Ending June 30, 2012 Time Weighted Gross Fund Return</b>	<b>Year Ending June 30, 2012 Benchmark Gross Return</b>			
<b>Total Fund</b>	12.20%	10.96%			
	<b>Fiscal Year 2012</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>	<b>Fiscal Year 2009</b>	<b>Fiscal Year 2008</b>
<b>Gross Return - Total Fund</b>	12.20%	9.52%	(2.85%)	(17.63%)	8.22%
<b>Gross Return - Real Assets</b>	21.16%	16.32%	(5.85%)	(26.53%)	9.45%
<b>% of Real Assets Internally Managed</b>	17.00%	21.00%	37.00%	45.00%	44.00%
<b>Rate of Return for Internally Managed</b>	8.78%	3.07%	(11.21%)	(4.48%)	12.73%
<b>% of Real Assets Externally Managed</b>	83.00%	79.00%	63.00%	55.00%	56.00%
<b>Rate of Return for Externally Managed</b>	24.28%	23.22%	(2.13%)	(39.98%)	5.65%
<b>Gross Return - Fixed Income</b>	N/A	N/A	N/A	N/A	N/A
<b>Gross Return - Cash &amp; Short-term</b>	0.58%	0.90%	1.40%	2.33%	4.53%
<b>Gross Return - All Other</b>	N/A	N/A	N/A	N/A	N/A
<b>Gross Return - Absolute Return</b>	N/A	N/A	N/A	N/A	N/A
<b>Gross Return - Equity Hedge</b>	N/A	N/A	N/A	N/A	N/A
<b>Gross Return - Non-marketable</b>	N/A	N/A	N/A	N/A	N/A
	<b>Market Value of Fund Year Ending June 30, 2012 \$ in millions</b>	<b>Market Value of Fund Year Ending June 30, 2011 \$ in millions</b>	<b>Market Value of Fund Year Ending June 30, 2010 \$ in millions</b>	<b>Market Value of Fund Year Ending June 30, 2009 \$ in millions</b>	<b>Market Value of Fund Year Ending June 30, 2008 \$ in millions</b>
<b>Portfolio Diversification</b>					
<b>All Real Assets</b>	\$1,847.3	\$1,482.8	\$1,168.8	\$1,137.9	\$1,242.8
<b>All Fixed Income</b>					
<b>All Cash &amp; Short Term Securities</b>	\$1,335.7	\$1,082.9	\$901.0	\$775.0	\$634.8
<b>All Other Investments</b>					
<b>Absolute Return</b>					
<b>Equity Hedge</b>					
<b>Non-marketable</b>					
<b>Totals:</b>	\$3,183.0	\$2,565.7	\$2,069.8	\$1,912.9	\$1,877.6

**ATTACHMENT 3. TEXAS GENERAL LAND OFFICE – PERMANENT SCHOOL FUND (CONTINUED)**

	<b>Total Fiscal Year 2012</b>	<b>Total Fiscal Year 2011</b>	<b>Total Fiscal Year 2010</b>	<b>Total Fiscal Year 2009</b>	<b>Total Fiscal Year 2008</b>
<b>Fund Contributions</b>					
Contributions to GLO controlled portion*	\$756,700,405	\$893,607,752	\$573,939,675	\$563,956,583	\$881,533,356
Contributions to TEA controlled portion	\$250,000,000	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000
<b>Fund Distributions</b>					
Distributions to TEA controlled portion	\$250,000,000	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000
Depository interest transferred to TEA	\$0	\$0	\$0	\$0	\$0
<b>Internal Investment Expenses:</b>					
Direct	\$2,229,735	\$3,095,700	\$2,441,285	\$2,687,171	\$1,682,158
Indirect	\$445,947	\$619,140	\$488,257	\$537,434	\$336,432
<b>External Investment Expenses:</b>	\$20,501,254	\$12,167,384	\$10,665,048	\$9,103,710	\$2,058,531
<b>Total Investment Expenses:</b>	\$23,176,936	\$15,882,224	\$13,594,590	\$12,328,315	\$4,077,121
<b>Percentage of Real Assets Externally Managed</b>	83%	79%	63%	55%	56%

\*In addition to oil and gas royalties, also includes return of capital on real assets investments, mineral lease bonus payments, and various other revenue sources.

## ATTACHMENT 4. EMPLOYEES RETIREMENT SYSTEM TRUST FUND INPUT WORKSHEET

	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions (Note 1)				
	Fiscal Year 2012 Time Weighted Gross Fund Return				
	Fiscal Year 2012 Time Weighted Gross Fund Return		Fiscal Year 2012 Benchmark Adjusted Gross Fund Return		
	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
Total Fund	\$22,771.28				
Total Fund	8.22%	8.04%	8.11%		
Gross Return - Total Fund (Note 2)	8.22%	12.58%	6.65%	(6.60%)	(4.58%)
Gross Return - Equity (Note 2)	10.86%	16.25%	4.54%	(16.52%)	(11.62%)
% of Domestic Equity Internally Managed	82.00%	85.00%	87.00%	83.50%	74.92%
Rate of Return for Internally Managed (Note 3)	17.28%	19.96%	6.69%	(18.00%)	(10.1%)
% of Domestic Equity Externally Managed	18.00%	15.00%	13.00%	16.50%	25.08%
Rate of Return for Externally Managed (Note 3)	17.18%	16.81%	1.63%	(21.00%)	(15.35%)
Gross Return - Fixed Income (Note 2)	3.72%	4.70%	9.12%	5.81%	5.40%
Gross Return - Cash & Short-term (Note 2)	0.88%	0.04%	0.11%	(46.88%)	11.16%
Gross Return - All Other (Note 3)	7.67%	20.48%	13.70%	(22.42%)	(15.47%)
	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2011 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2010 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions
<b>Portfolio Diversification</b>					
All Equity	\$12,290.18	\$12,265.00	\$11,931.00	\$12,273.11	\$13,328.38
All Fixed Income	\$7,665.84	\$8,038.00	\$7,391.00	\$6,989.02	\$8,451.83
All Cash & Short Term Securities	\$236.20	\$332.00	\$294.00	\$21.31	\$27.89
All Other Investments	\$2,579.06	\$1,484.00	\$774.00	\$541.90	\$503.32
<b>Totals:</b>	<b>\$22,771.28</b>	<b>\$22,119.00</b>	<b>\$20,390.00</b>	<b>\$19,825.34</b>	<b>\$22,311.42</b>

**ATTACHMENT 4. EMPLOYEES RETIREMENT SYSTEM TRUST FUND INPUT WORKSHEET  
(CONTINUED)**

	<b>Total Fiscal Year 2012</b>
<b>Fund Contributions (Note 4)</b>	\$844.78
<b>Fund Distributions</b>	\$1,884.71
<b>Internal Investment Expenses:</b>	
<b>Direct</b>	\$30.97
<b>Indirect</b>	
<b>External Investment Expenses(Note 5):</b>	\$27.17
<b>Total Investment Expenses:</b>	\$58.14

	<b>Year Ending Aug. 31, 2012</b>
<b>Percentage of Assets Externally Managed</b>	27.5%

Note 1 - Includes the Employees Retirement Funds (Fund 0955), the Law Enforcement and Custodial Officer Supplemental Retirement Fund (Fund 0977), and the Judicial Retirement System Plan Two Fund (Fund 0993)  
 Note 2 - Gross Rate of Returns w/Risk Management. Returns beg. fiscal year 2007 and after are calculated daily and linked.  
 Note 3 - Gross Rate of Returns Ex Risk Management  
 Note 4 - Includes Member & Employer Contributions  
 Note 5 - External Investment Advisor fees doesn't include Inv. Consultant Fees.

## ATTACHMENT 5. UTIMCO PERMANENT UNIVERSITY FUND INPUT WORKSHEET

	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions				
Total Fund	\$13,470.3				
		Fiscal Year 2012 Time Weighted Gross Fund Return	Fiscal Year 2012 Benchmark Adjusted Gross Fund Return		
Total Fund		3.44%	3.27%		
		Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
Gross Return - Total Fund		3.44%	15.06%	13.32%	(12.72%)
Gross Return - Equity					
Domestic		1.09%	19.14%	16.32%	(22.86%)
Foreign		1.99%	11.13%	11.06%	(16.09%)
Gross Return - Fixed Income		2.24%	8.04%	15.04%	8.19%
Gross Return - Cash & Short-term		0.84%	1.32%	2.31%	2.20%
Gross Return - All Other					
Absolute Return					
Equity Hedge		6.65%	7.48%	11.89%	(7.91%)
Non-Marketable		7.05%	23.26%	16.37%	(15.00%)
Commodities		-8.23%	35.74%	13.19%	(32.80%)
Real Estate		5.09%	9.81%	17.86%	(19.02%)
		Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2011 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2010 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions
Portfolio Diversification					Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions
All Equity		\$2,570.3	\$2,521.0	\$2,294.6	\$2,346.6
Domestic (a) and (f)		\$571.1	\$538.4	\$618.3	\$785.5
Foreign (b) and (c)		\$1,999.2	\$1,982.6	\$1,676.3	\$1,561.1
All Fixed Income (h) and (i)		\$1,165.5	\$1,128.1	\$1,209.2	\$1,280.5
All Cash & Short Term Securities (j)		\$463.7	\$338.8	\$404.3	\$181.1
All Other Investments		\$9,270.8	\$8,700.1	\$6,816.9	\$5,865.7
Absolute Return (d)					
Equity Hedge (d)		\$3,974.8	\$3,737.7	\$3,235.8	\$2,804.1
Non-Marketable (e)		\$3,547.9	\$3,142.8	\$2,386.9	\$2,193.9
Commodities (g)		\$1,401.8	\$1,515.2	\$869.4	\$439.2
Real Estate		\$346.3	\$304.4	\$324.8	\$428.5
		\$13,470.3	\$12,688.0	\$10,725.0	\$9,673.9
					\$11,359.5

**ATTACHMENT 5. UTIMCO PERMANENT UNIVERSITY FUND INPUT WORKSHEET (CONTINUED)**

	<b>Total Fiscal Year 2012</b>	
<b>Fund Contributions</b>	\$954.5	PUF Land receipts
<b>Fund Distributions</b>	\$575.5	Distributed to Available University Fund
<b>Internal Investment Expenses:</b>		
<b>Direct</b>	\$4.4	
<b>Indirect</b>	\$4.5	
<b>External Investment Expenses:</b>	\$30.7	
<b>Total Investment Expense</b>	\$39.6	
	<b>Year Ending Aug. 31, 2012</b>	
<b>Percentage of Assets Externally Managed</b>	89.20%	

Note 1: Not fully funded in this asset class during this fiscal year.

## ATTACHMENT 6. UTIMCO PERMANENT HEALTH FUND INPUT WORKSHEET

	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions				
<b>Total Fund</b>	\$976.6				
		<b>Fiscal Year 2012 Time Weighted Gross Fund Return</b>	<b>Fiscal Year 2012 Benchmark Adjusted Gross Fund Return</b>		
<b>Total Fund</b>		3.22%	3.27%		
<b>PHF</b>		<b>Fiscal Year 2012</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>	<b>Fiscal Year 2009</b>
<b>Gross Return - Total Fund</b>		3.22%	14.86%	12.00%	(13.17%)
<b>Gross Return - Equity</b>		See Note 1	See Note 1	See Note 1	See Note 1
<b>% of Domestic Equity Internally Managed</b>					
<b>% of Domestic Equity Externally Managed</b>					
<b>Gross Return - Fixed Income</b>		See Note 1	See Note 1	See Note 1	See Note 1
<b>Gross Return - Cash &amp; Short-term</b>		0.15%	0.22%	0.22%	1.21%
<b>Gross Return - All Other</b>		See Note 1	See Note 1	See Note 1	See Note 1
<b>GEF</b>		<b>Fiscal Year 2012</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>	<b>Fiscal Year 2009</b>
<b>Gross Return - Total Fund</b>		3.41%	15.10%	13.24%	(13.04%)
<b>Gross Return - Equity</b>					
<b>Domestic</b>		1.72%	19.44%	16.15%	24.20%
<b>Foreign</b>		1.96%	11.19%	10.85%	(16.21%)
<b>Gross Return - Fixed Income</b>		2.10%	8.20%	14.95%	8.58%
<b>Gross Return - Cash &amp; Short-term</b>		0.90%	1.52%	1.80%	2.18%
<b>Gross Return - All Other</b>					
<b>Absolute Return</b>					
<b>Equity Hedge</b>		6.65%	7.48%	11.89%	(7.91%)
<b>Non-Marketable</b>		7.05%	23.26%	16.41%	(14.97%)
<b>Commodities</b>		(8.29%)	35.98%	13.14%	(32.04%)
<b>Real Estate</b>		5.13%	9.71%	17.95%	(19.14%)

**ATTACHMENT 6. UTIMCO PERMANENT HEALTH FUND INPUT WORKSHEET (CONTINUED)**

	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2011 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2010 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions
<b>Portfolio Diversification</b>					
All Equity	\$976.2	\$992.7	\$905.4	\$842.0	\$1,025.4
All Fixed Income					
All Cash & Short Term Securities	\$0.3	\$0.3	\$-	\$0.3	\$0.3
All Other Investments					
	<b>Total Fiscal Year 2012</b>				
Fund Contributions	\$-				
Fund Distributions	(\$46.0)				
Internal Investment Expenses:					
Direct	\$0.4				
Indirect	\$0.5				
External Investment Expenses:	\$-				
Total Investment Expense	\$0.9				
Allocation from GEF	\$1.6				
Total Expense	\$2.5				
					Investment expense is made up of investment management fees, custodian, and audit fees.
	<b>Year Ending Aug. 31, 2012</b>				
Percentage of Assets Externally Managed	91.40%				

Note 1 - As of March 1, 2001, the PHF and LTF purchased units in the newly created General Endowment Fund (GEF) in exchange for their contribution of investment assets. The GEF, established by the Board of Regents effective March 1, 2001, is a pooled fund for the collective investment of long-term funds under the control and management of the Board. The GEF is organized as a mutual fund in which the PHF and LTF are the only unit holders. As of August 31, 2012, the PHF had a 13.74% ownership of the GEF. The returns by asset class for the GEF for fiscal year 2012 are shown above. As of August 31, 2012, the Fund owned 4,816,184 GEF units representing an ownership percentage of 13.74%, compared to 5,054,800 GEF units representing an ownership percentage of 14.08% as of August 31, 2011.



## ATTACHMENT 7. COMPTROLLER – TOBACCO SETTLEMENT PERMANENT TRUST FUND INPUT WORKSHEET

	Market Value of Fund Year Ending Aug. 31, 2012					
Total Fund	\$2,052.5					
		Fiscal Year 2012 Time Weighted Gross Fund Return	Fiscal Year 2012 Benchmark Adjusted Gross Fund Return			
Total Fund		2.82%	0.56%			
		Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009	
					Fiscal Year 2008	
Gross Return - Total Fund		2.82%	10.47%	7.27%	(10.48%)	(6.07%)
Gross Return - Equity		7.60%	13.70%	6.73%	(18.20%)	(13.65%)
% of Domestic Equity Internally Managed		0.00%	0.00%	0.00%	0.00%	0.00%
Rate of Return for Internally Managed		0.00%	0.00%	0.00%	0.00%	0.00%
% of Domestic Equity Externally Managed		100.00%	100.00%	100.00%	100.00%	100.00%
Rate of Return for Externally Managed		7.60%	13.70%	6.73%	(18.20%)	(13.65%)
Gross Return - Fixed Income		5.41%	3.17%	10.98%	9.12%	3.75%
Gross Return - Cash & Short-term		0.01%	0.02%	0.02%	0.48%	3.30%
Gross Return - All Other						
Gross Return - Alternative Fixed Income		0.24%	5.60%	6.69%	(9.02%)	(0.30%)
Gross Return - Equity Hedge		(0.78%)	8.09%	0.06%	(7.60%)	(1.76%)
Gross Return Non-marketable - Private Debt		7.23%				
Gross Return - Non-marketable - Private Equity		8.77%	18.84%	16.68%	(19.44%)	3.28%
Gross Return - Non-marketable - Real Estate - Value		6.82%	19.99%	(17.49%)	(37.95%)	12.69%
Gross Return - Non-marketable - Real Estate - Stable		3.37%	7.35%	(2.59%)	(19.17%)	
Gross Return - Natural Resources		(7.16%)	42.29%	14.43%	(29.45%)	
Gross Returns - Inflation Linked Bonds		4.33%				
Gross Returns - All Asset Strategies		N/A				

## ATTACHMENT 7. COMPTROLLER – TOBACCO SETTLEMENT PERMANENT TRUST FUND INPUT WORKSHEET (CONTINUED)

	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2011 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2010 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions
<b>Portfolio Diversification</b>					
All Equity	\$295.2	\$561.6	\$500.3	\$521.6	\$725.1
All Fixed Income	\$201.1	\$310.5	\$436.7	\$472.9	\$416.8
All Cash & Short Term Securities	\$18.7	\$19.6	\$75.5	\$117.0	\$61.4
All Other Investments	\$1,537.5	\$1,159.8	\$895.6	\$714.7	\$958.3
Alternative Fixed Income	\$366.5	\$429.9	\$416.6	\$255.7	\$427.1
Equity Hedge	\$427.2	\$214.5	\$163.3	\$201.3	\$307.2
Non-marketable - Private Debt	\$106.4				
Non-marketable - Private Equity	\$197.7	\$228.5	\$173.1	\$117.3	\$106.7
Non-marketable - Real Estate - Value	\$111.3	\$96.3	\$63.9	\$48.4	\$106.4
Non-marketable - Real Estate - Stable	\$65.5	\$62.4	\$40.3	\$38.4	
Natural Resources	\$155.0	\$128.2	\$38.4	\$53.6	\$10.9
Inflation Linked Bonds	\$18.4				
All Asset Strategies	\$89.5				
<b>Totals:</b>	<b>\$2,052.5</b>	<b>\$2,051.5</b>	<b>\$1,908.1</b>	<b>\$1,826.2</b>	<b>\$2,161.6</b>
	<b>Total Fiscal Year 2012</b>				
Fund Contributions	-				
Fund Distributions	\$50,000,000.00				
<b>Internal Investment Expenses:</b>					
Direct	\$4,268,084.66				
Indirect					
External Investment Expenses:	\$1,796,272.31				
<b>Total Investment Expenses:</b>	<b>\$6,064,356.97</b>				
	<b>Year Ending Aug. 31, 2012</b>				
<b>Percentage of Assets Externally Managed</b>					

## ATTACHMENT 8. COMPTROLLER – TEXAS GUARANTEED TUITION PLAN FUND INPUT WORKSHEET

	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions				
Total Fund					
	Fiscal Year 2012 Time Weighted Gross Fund Return				
Total Fund					
	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
Gross Return - Total Fund	7.3%	9.0%	5.7%	(6.2%)	(3.3%)
Gross Return - Equity	10.9%	11.6%	5.6%	(18.5%)	(7.6%)
(For Fiscal Year 2010 only)					
% of Domestic Equity Internally Managed	N/A	N/A	N/A	N/A	N/A
Rate of Return for Internally Managed	N/A	N/A	N/A	N/A	N/A
% of Domestic Equity Externally Managed	100.0%	100.0%	100.0%	100.0%	100.0%
Rate of Return for Externally Managed	17.0%	22.0%	5.6%	(18.5%)	(7.6%)
Gross Return - Fixed Income	8.6%	4.9%	10.9%	7.2%	6.1%
Gross Return - Cash & Short-term	0.2%	0.4%	1.9%	3.5%	4.6%
Gross Return - All Other	N/A	N/A	N/A	N/A	N/A
	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2011 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2010 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions
<b>Portfolio Diversification</b>					
All Equity	\$397.1	\$549.3	\$699.3	\$767.0	\$940.0
All Fixed Income	\$705.0	\$577.2	\$453.3	\$729.0	\$756.0
All Cash & Short Term Securities	\$172.7	\$207.8	\$198.1	\$6.0	\$43.0
All Other Investments			\$-		\$-
<b>Totals:</b>	<b>\$1,274.8</b>	<b>\$1,334.3</b>	<b>\$1,350.8</b>	<b>\$1,502.0</b>	<b>\$1,739.0</b>
	Total Fiscal Year 2012				
<b>Fund Contributions:</b>					
Prepaid Tuition Contract Payments	\$8,614,283				
Application Fees & Other Income	\$659,991				
Changes in Future Contract Benefits	(\$19,812,276)				
Investment Income	\$92,106,004				
<b>Total Fund Contributions</b>	<b>\$81,568,003</b>				

## ATTACHMENT 8. COMPTROLLER – TEXAS GUARANTEED TUITION PLAN FUND INPUT WORKSHEET (CONTINUED)

	<b>Total Fiscal Year 2012</b>
<b>Fund Distributions:</b>	
Tuition Payments to Colleges	\$143,432,535
Administrative Expenses	\$1,550,612
Changes in Future Contract Collections	(\$77,191,338)
Refunds to Contract Purchasers	\$14,283,953
<b>Total Fund Distributions</b>	<b>\$82,075,762</b>
<b>Internal Investment Expenses:</b>	
Direct	
Indirect	
<b>External Investment Expenses:</b>	<b>\$1,724,842</b>
<b>Total Investment Expenses:</b>	<b>\$1,724,842</b>
<b>Change in Net Assets</b>	<b>(\$2,232,601)</b>
<b>Percentage of Assets Externally Managed</b>	<b>Year Ending Aug. 31, 2012</b>
	100.0%

## ATTACHMENT 9. COMPTROLLER – PERMANENT PUBLIC HEALTH FUND INPUT WORKSHEET

	Market Value of Fund Year Ending Aug. 31, 2012				
Total Fund	\$408.4				
		Fiscal Year 2012 Time Weighted Gross Fund Return	Fiscal Year 2012 Benchmark Adjusted Gross Fund Return		
Total Fund		2.80%	0.56%		
		Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
		Fiscal Year 2008			
Gross Return - Total Fund		2.80%	10.60%	7.28%	(10.72%)
Gross Return - Equity		7.60%	13.70%	6.73%	(18.20%)
(For Fiscal Year 2010 only)					
% of Domestic Equity Internally Managed		0.00%	0.00%	0.00%	0.00%
Rate of Return for Internally Managed		0.00%	0.00%	0.00%	0.00%
% of Domestic Equity Externally Managed		100.00%	100.00%	100.00%	100.00%
Rate of Return for Externally Managed		7.60%	13.70%	6.73%	(18.20%)
Gross Return - Fixed Income		5.41%	3.17%	10.98%	9.12%
Gross Return - Cash & Short-term		0.01%	0.02%	0.02%	0.48%
Gross Return - All Other					
Gross Return - Alternative Fixed Income		0.24%	5.60%	6.69%	(9.02%)
Gross Return - Equity Hedge		(0.78%)	8.09%	0.06%	(7.60%)
Gross Return Non-marketable - Private Debt		7.23%			
Gross Return - Non-marketable - Private Equity		8.66%	18.36%	16.96%	(19.96%)
Gross Return - Non-marketable - Real Estate - Value Added Optimistic		6.82%	19.99%	(17.49%)	(37.95%)
Gross Return - Non-marketable - Real Estate - Stable Return		3.37%	7.35%	(2.59%)	(19.17%)
Gross Return - Natural Resources		(7.16%)	42.29%	14.43%	(29.45%)
Gross Returns - Inflation Linked Bonds		4.33%			
Gross Returns - All Asset Strategies		N/A			

## ATTACHMENT 9. COMPTROLLER – PERMANENT PUBLIC HEALTH FUND INPUT WORKSHEET (CONTINUED)

	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2011 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2010 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2009 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2008 \$ in millions
<b>Portfolio Diversification</b>					
All Equity	\$58.3	\$114.9	\$106.6	\$117.1	\$160.5
All Fixed Income	\$39.8	\$63.0	\$90.0	\$101.3	\$82.8
All Cash & Short Term Securities	\$3.3	\$3.9	\$16.0	\$24.9	\$13.6
All Other Investments	\$307.0	\$244.7	\$192.7	\$155.3	\$215.9
Alternative Fixed Income	\$72.4	\$88.0	\$86.8	\$53.7	\$95.8
Equity Hedge	\$84.4	\$43.9	\$34.0	\$42.2	\$69.0
Non-marketable - Private Debt	\$18.9				
Non-marketable - Private Equity	\$42.6	\$52.4	\$40.4	\$28.4	\$25.4
Non-marketable - Real Estate - Value	\$22.7	\$20.6	\$14.0	\$10.6	\$23.3
Non-marketable - Real Estate - Stable	\$14.2	\$13.6	\$8.8	\$8.4	
Natural Resources	\$30.6	\$26.2	\$8.7	\$12.0	\$2.4
Inflation Linked Bonds	\$3.6				
All Asset Strategies	\$17.6				
<b>Totals:</b>	<b>\$408.4</b>	<b>\$426.5</b>	<b>\$405.3</b>	<b>\$398.6</b>	<b>\$472.8</b>
	<b>Total Fiscal Year 2012</b>				
<b>Fund Contributions</b>					
Fund Distributions Total	\$28,211,164.85				
Fund Distributions for Public Health	\$20,395,288.04				
Fund Distributions CPRIT Debt Service	\$7,815,876.81				
<b>Internal Investment Expenses:</b>					
Direct	\$868,043.05				
Indirect					
External Investment Expenses:	\$365,712.62				
<b>Total Investment Expenses:</b>	<b>\$1,233,755.67</b>				
	<b>Year Ending Aug. 31, 2012</b>				
Percentage of Assets Externally Managed	100.0%				

## ATTACHMENT 10. COMPTROLLER – NATIONAL RESEARCH UNIVERSITY FUND INPUT WORKSHEET

	Market Value of Fund Year Ending Aug. 31, 2012	
Total Fund	\$602.9	
	Fiscal Year 2012 Time Weighted Gross Fund Return	Fiscal Year 2012 Benchmark Adjusted Gross Fund Return
Total Fund	2.61%	0.56%
	Fiscal Year 2012	Fiscal Year 2011
Gross Return - Total Fund	2.61%	10.02%
Gross Return - Equity	7.60%	13.70%
(For Fiscal Year 2010 only)		
% of Domestic Equity Internally Managed	0.00%	0.00%
Rate of Return for Internally Managed	0.00%	0.00%
% of Domestic Equity Externally Managed	100.00%	100.00%
Rate of Return for Externally Managed	7.60%	13.70%
Gross Return - Fixed Income	5.41%	3.17%
Gross Return - Cash & Short-term	0.01%	0.02%
Gross Return - All Other		
Gross Return - Alternative Fixed Income	0.24%	5.60%
Gross Return - Equity Hedge	(0.78%)	8.09%
Gross Return Non-marketable - Private Debt	7.23%	
Gross Return - Non-marketable - Private Equity	8.66%	18.36%
Gross Return - Non-marketable - Real Estate - Value Added Optimistic	6.82%	19.99%
Gross Return - Non-marketable - Real Estate - Stable Return	3.37%	7.35%
Gross Return - Natural Resources	(7.16%)	42.29%
Gross Returns - Inflation Linked Bonds	4.33%	
Gross Returns - All Asset Strategies	N/A	
	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2011 \$ in millions
Portfolio Diversification		
All Equity	\$90.3	\$171.1
All Fixed Income	\$61.5	\$94.4
All Cash & Short Term Securities	\$5.2	\$5.3
All Other Investments	\$445.9	\$334.5
Alternative Fixed Income	\$112.0	\$131.0

**ATTACHMENT 10. COMPTROLLER - NATIONAL RESEARCH UNIVERSITY FUND INPUT  
WORKSHEET (CONTINUED)**

	Market Value of Fund Year Ending Aug. 31, 2012 \$ in millions	Market Value of Fund Year Ending Aug. 31, 2011 \$ in millions
Equity Hedge	\$130.6	\$65.4
Non-marketable - Private Debt	\$27.7	
Non-marketable - Private Equity	\$51.6	\$60.2
Non-marketable - Real Estate - Value	\$27.8	\$23.6
Non-marketable - Real Estate - Stable	\$16.1	\$15.2
Natural Resources	\$47.4	\$39.1
Inflation Linked Bonds	\$5.6	
All Asset Strategies	\$27.1	
<b>Totals:</b>	<b>\$602.9</b>	<b>\$605.3</b>
	<b>Total Fiscal Year 2012</b>	
Fund Contributions		
Fund Distributions	\$15,755,864.1	
Internal Investment Expenses:		
Direct	\$1,262,581.82	
Indirect		
External Investment Expenses:	\$531,385.63	
<b>Total Investment Expenses:</b>	<b>\$1,793,967.45</b>	
	<b>Year Ending Aug. 31, 2012</b>	
Percentage of Assets Externally Managed	100.0%	