

PERMANENT UNIVERSITY FUND

1 What is the Permanent University Fund (PUF)?

The PUF is a State endowment contributing to the support of 18 institutions and 6 agencies of The University of Texas System and The Texas A&M University System. The PUF was established by the Texas Constitution in 1876 with land grants ultimately totaling 2.1 million acres, primarily in West Texas (PUF Lands).

2 What is the PUF's Goal?

The PUF's primary goal is to preserve the purchasing power of the PUF's assets and annual distributions by earning an average annual real return of 5.1% over rolling ten-year periods or longer. The PUF's success in meeting its objectives depends upon its ability to generate high returns in periods of low inflation that will offset lower returns generated in years when the capital markets underperform the rate of inflation.

3 What is the PUF's Investment Strategy?

The PUF's strategy is to invest in a broadly diversified portfolio of fixed income and equity securities in both domestic and international markets using a long-term investment horizon. In addition to traditional exchange-traded equity and fixed income securities, the PUF's portfolio includes private investments, marketable alternative investments, and various other specialized public market investments.

4 What are the Significant Risks?

The performance of the PUF depends on the value of its holdings. Equity values fluctuate in response to the activities of individual companies and general market and economic conditions. In the short term, stock prices can fluctuate dramatically in response to these factors. Bond prices fluctuate based on changes in interest rates and the credit quality of the issues. Investments in international securities can involve political and economic risk, as well as exposure to currency fluctuations. Since the PUF is a permanent endowment, any short-term valuation swings are negated over the long term.

5 How does the PUF support The University of Texas System and The Texas A&M University System?

The PUF is managed using universal endowment principals and dictates that distributions to the Available University Fund (AUF) are based on the total return of the PUF investments. The University of Texas System Board of Regents has established a distribution policy that provides stable, inflation adjusted annual distributions to the AUF to support the two university systems while preserving the real value of the PUF investments. The distributions to the AUF are subject to the following overriding conditions: (1) A minimum amount equal to the amount needed to pay debt service on PUF bonds; (2) No increase from the preceding year (except as necessary to pay debt service on PUF bonds), unless the purchasing power of PUF investments for any 10-year rolling period has been preserved; (3) A maximum amount equal to 7% of the average net fair market value of PUF assets in any fiscal year, except as necessary to pay debt service on PUF bonds. The University of Texas System and the Texas A&M University System split the AUF on a 2/3rds and 1/3rd sharing ratio, respectively. The Texas Constitution authorizes each university system to expend their respective interests in the PUF distributions in a prescribed order of priority. PUF distributions are first available for debt service on PUF bonds issued to finance permanent improvements at both systems' component institutions and, second, to fund excellence programs at U. T. Austin, Texas A&M University and Prairie View A&M University.

6 What is the Value of the PUF?

The net asset value of PUF investments was \$11,359.5 million as of August 31, 2008. The market value of the PUF Lands, valued in accordance with the SFAS 69 valuation methods, was \$1,612.2 million as of August 31, 2008.

7 What are the PUF's Expenses?

Expenses related to the PUF Investments and the PUF Lands have been paid by the PUF. The following were the PUF's expenses related to the management of the PUF Investments (excluding PUF Lands) for fiscal year ended August 31, 2008:

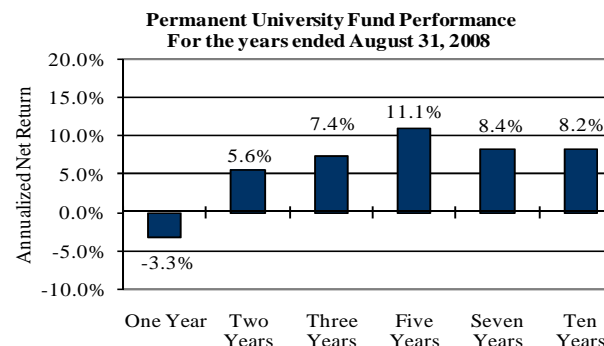
Management fees	0.17%
Other expenses	<u>0.05%</u>
Total PUF Investment Management Fees	<u>0.22%</u>

8 Who is the PUF's Manager?

Article VII of the Texas Constitution assigns responsibility for managing the PUF Lands and Investments to The University of Texas System Board of Regents. The PUF Lands manager is University Lands, which is under the U.T. System Office of Business Affairs. The PUF's investment manager is The University of Texas Investment Management Company (UTIMCO). UTIMCO employs investment managers and administrative staff to manage the PUF Investments. As of August 31, 2008, UTIMCO was responsible for the investment of \$23,207.0 million of PUF and other U.T. System assets pursuant to an investment management agreement with the Board of Regents.

9 How have the PUF's Investments Performed?

Annualized net returns are total returns less investment management expenses. They are based on past results and are not an indication of future performance.



10 How are Distributions made?

The distribution is established at 4.75% of the prior twelve quarter average net asset value of the PUF as determined each February 28th for the following fiscal year, unless the average annual rate of return of PUF investments over the prior twelve quarter exceeds the expected return of the Endowment Policy Portfolio by twenty-five basis points or more, in which case the distribution is calculated at 5.00% of the trailing twelve quarter average net asset value. The PUF distributions are made to the AUF by sending cash to the State Comptroller.

11 What Services are Available?

UTIMCO provides an annual report on the PUF. This report, and other information about the PUF, is available via UTIMCO's Internet site.

The University of Texas System

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Permanent University Fund



Summary