AUGUST 2009

THE UNIVERSITY OF TEXAS SYSTEM

Recent PUF Financial Information

THE UNIVERSITY OF TEXAS SYSTEM

The University of Texas System: Key Facts and Statistics

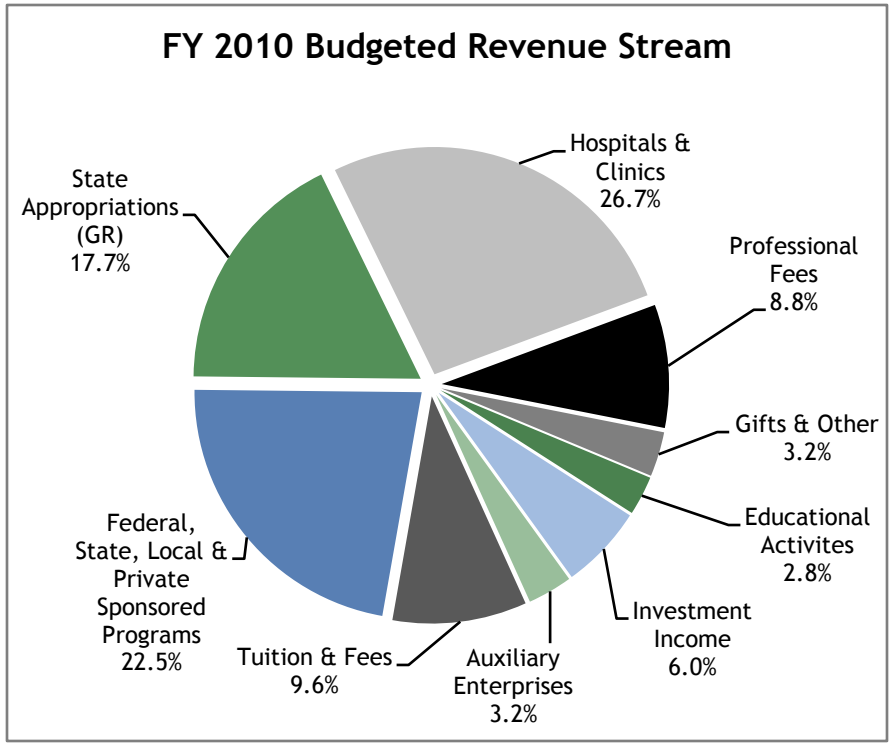
- The University of Texas System is one of the nation's largest higher education systems, with nine academic campuses and six health institutions. Student enrollment exceeds 195,000. Nine members of the current U. T. System faculty are recipients of the Nobel Prize.

- The U. T. System confers more than one-third of the state's undergraduate degrees and educates nearly three-fourths of the state's healthcare professionals annually. With more than 81,000 employees, the U. T. System is one of the largest employers in Texas.

- The U. T. System has the largest endowment of any public university system per the 2008 NACUBO Endowment Study.

- The U. T. System had $40 billion of assets at FYE 2008 and has an annual operating budget of $12.2 billion (FY 2010) funded by a well-diversified revenue stream .

- The U.T. System has relatively low reliance on state appropriations, endowment income and tuition and fees compared to peer institutions .

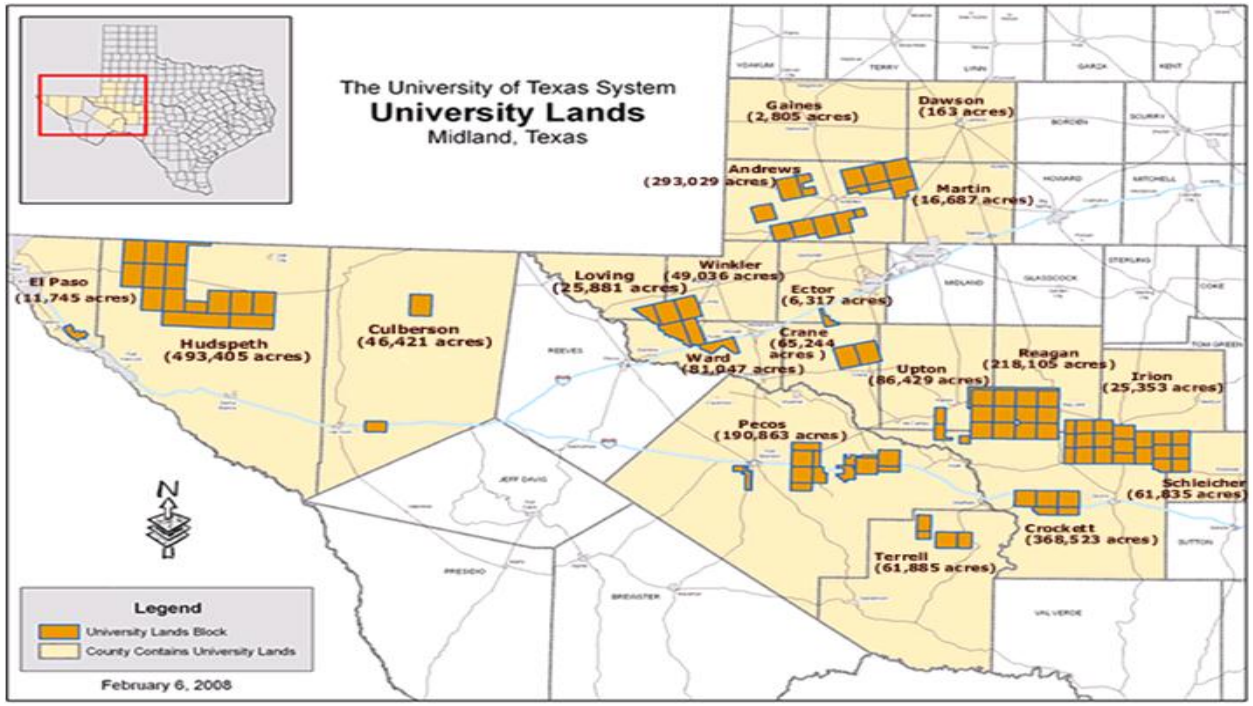


Permanent University Fund: Key Facts and Statistics

- The Permanent University Fund (PUF) was established in the Texas Constitution of 1876 through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the PUF were completed in 1883 with the contribution of an additional one million acres of land.

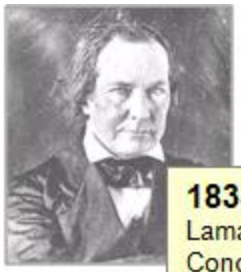
- Today, the PUF contains approximately 2.1 million acres of land located in 24 counties primarily in West Texas.

- The PUF is a public endowment contributing to the support of most institutions of The University of Texas System and the Texas A&M University System.



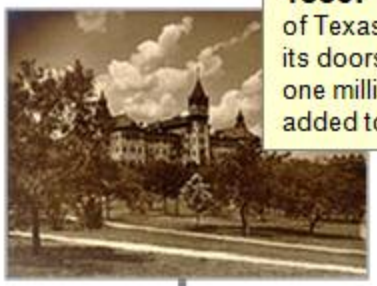
THE UNIVERSITY OF TEXAS SYSTEM

Permanent University Fund: Historical Timeline

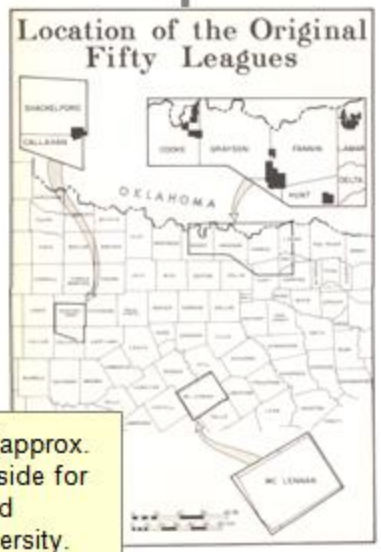


1833: President Mirabeau Lamar addresses Third Congress of the Republic of Texas, urging Congress to establish the foundation of a vast system of education.

1845: Texas becomes a state.



1883: The University of Texas at Austin opens its doors, and additional one million acres are added to the PUF.



1839: 50 leagues (approx. 220,000 acres) set aside for the establishment and endowment of a university.

1876: Texas Constitution calls for creation of the University of Texas and appropriates one million acres for the establishment of a Permanent University Fund

1923: Oil is first discovered on the University lands with the completion of the Santa Rita No. 1.

Investment Responsibility

- The ultimate fiduciary responsibility for managing and investing the PUF is constitutionally assigned to the U. T. Board of Regents.
- On February 8, 1996, the U. T. Board of Regents approved a contract for investment management of all funds under the Board's control and management to The University of Texas Investment Management Company (UTIMCO).
- UTIMCO is a 501(c)(3) investment corporation, the first investment corporation formed by a public university system to oversee investments.
- UTIMCO is governed by a nine-member board of directors appointed by the U. T. Board of Regents, consisting of at least three members of the U. T. Board of Regents, the Chancellor of the U. T. System, at least one member from a list of candidates submitted by the Texas A&M Board of Regents and four independent directors.
- The Board for Lease of University Lands, composed of representatives of the U. T. System, the Texas A&M System and the Texas State Land Commissioner, is responsible for the approval of oil, gas and other mineral leases of PUF land.

PUF Investment Objectives

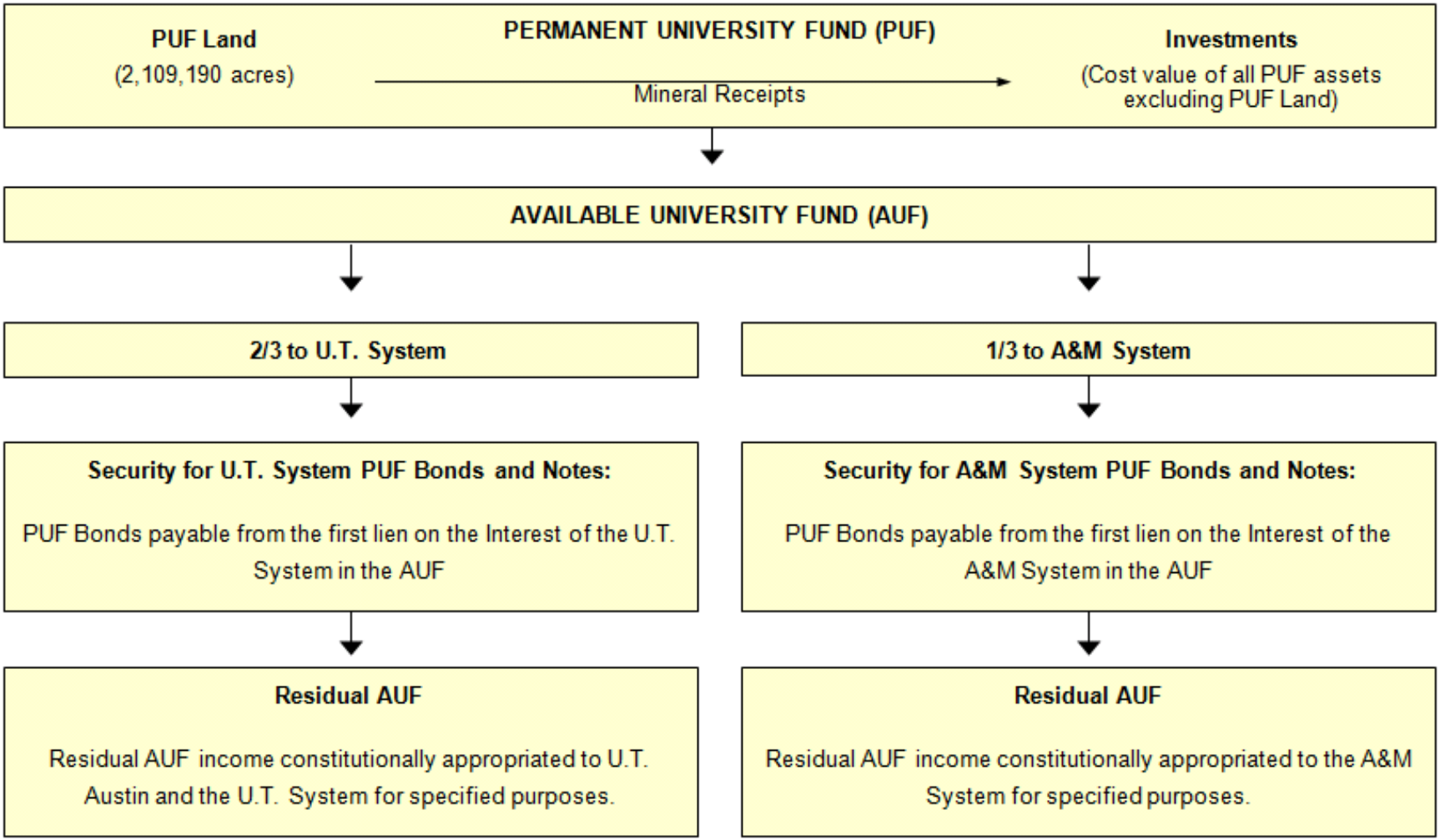
- As provided for in the Texas Constitution, the PUF is invested in accordance with the "prudent investor" standard.

- The Constitution provides for distributions to the Available University Fund (AUF) to be made from the "total return" on PUF investments, including capital gains (realized and unrealized) as well as current income.

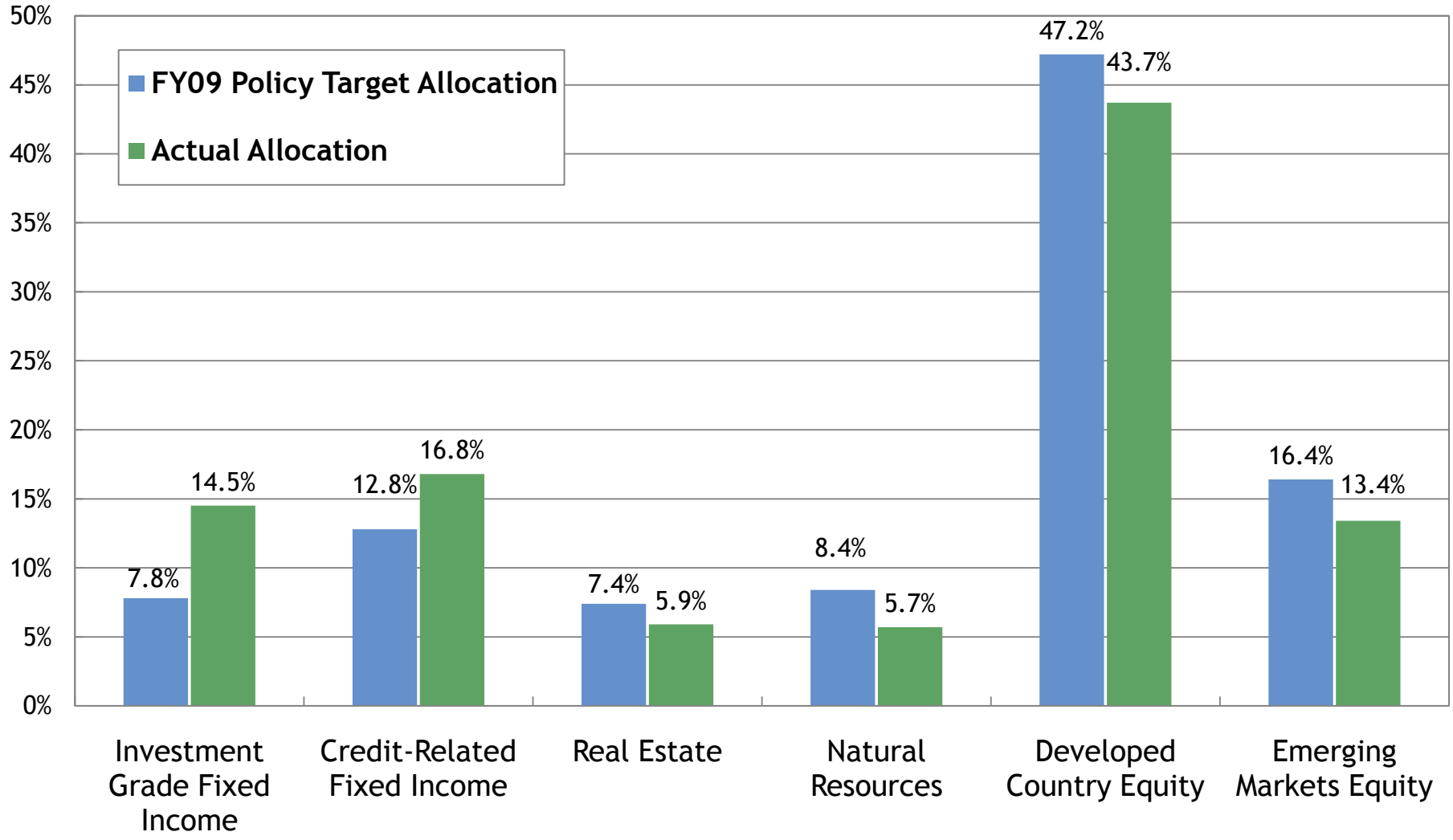
- The PUF's primary investment objective is to preserve the purchasing power of PUF assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate plus annual expected expenses. The current 5.1% real return target was derived by adding the PUF's current target distribution rate of 4.75% plus annual expected expenses of 0.35%.

- The Board's long-term asset allocation decisions are embodied in the PUF Investment Policy, which is reviewed at least annually
  - Describes asset categories in which UTIMCO will invest PUF assets
  - Sets target weights for allocations
  - Includes ranges of weightings within which allocations can be adjusted

Relationship of the PUF to the AUF



Actual PUF Asset Allocation vs. PUF Policy Portfolio Target Allocation as of July 31, 2009



Constitutional Restrictions on PUF Distributions

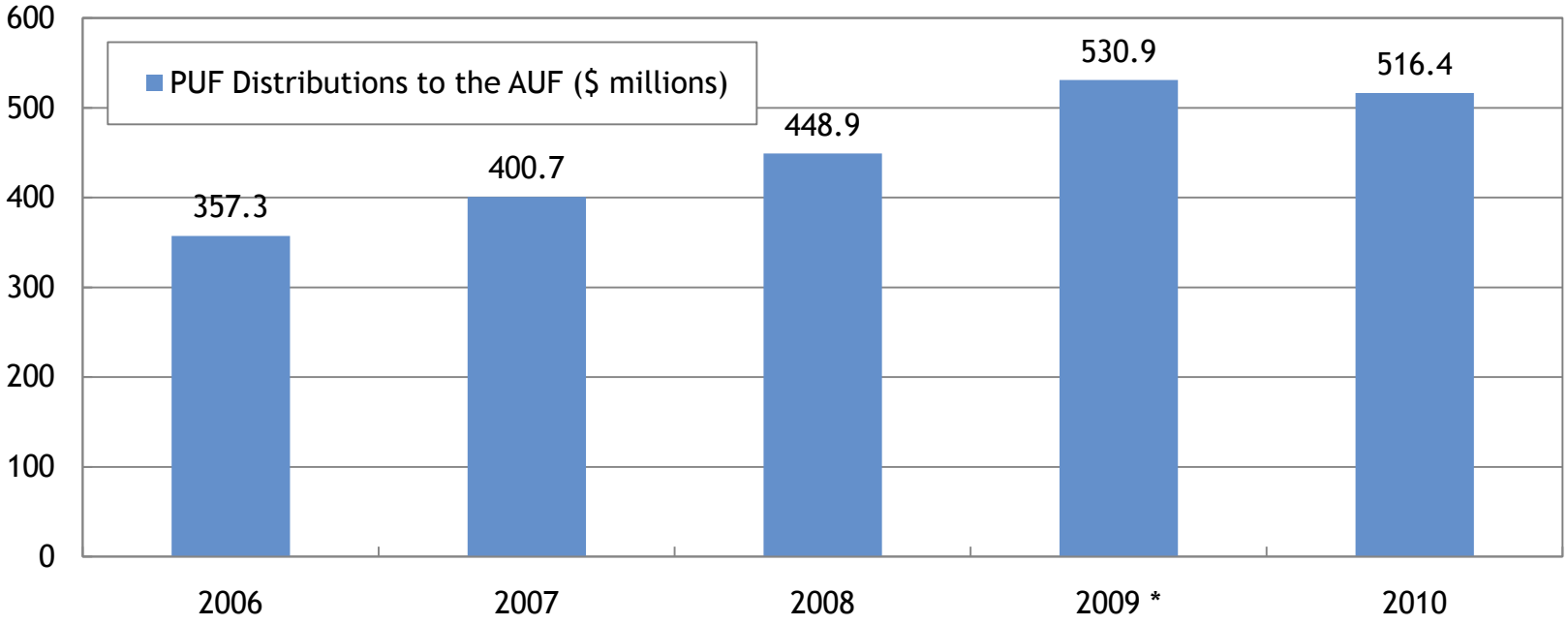
The Constitution contains the following restrictions on the Board when determining distributions from the PUF to the AUF:

- The amount of any distribution to the AUF must be determined by the Board in a manner intended to provide the AUF with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of PUF investment assets and annual distributions to the AUF;
- The amount distributed to the AUF in a fiscal year must not be less than the amount needed to pay the principal and interest due and owing on PUF bonds and notes;
- If the purchasing power of PUF investments for any rolling ten-year period is not preserved, the Board may not increase annual distributions to the AUF until the purchasing power of PUF investment assets is restored, except as necessary to pay the principal and interest due on PUF bonds and notes; and
- An annual distribution made by the Board to the AUF during any fiscal year may not exceed an amount equal to 7% of the average net fair market value of PUF investment assets as determined by the Board, except as necessary to pay any principal and interest due on PUF bonds and notes.

PUF Spending Policy

- Under the PUF Investment Policy Statement, UTIMCO is required to recommend to the U. T. Board of Regents in May of each year an amount to be distributed from the total return on PUF investments to the AUF during the next fiscal year.

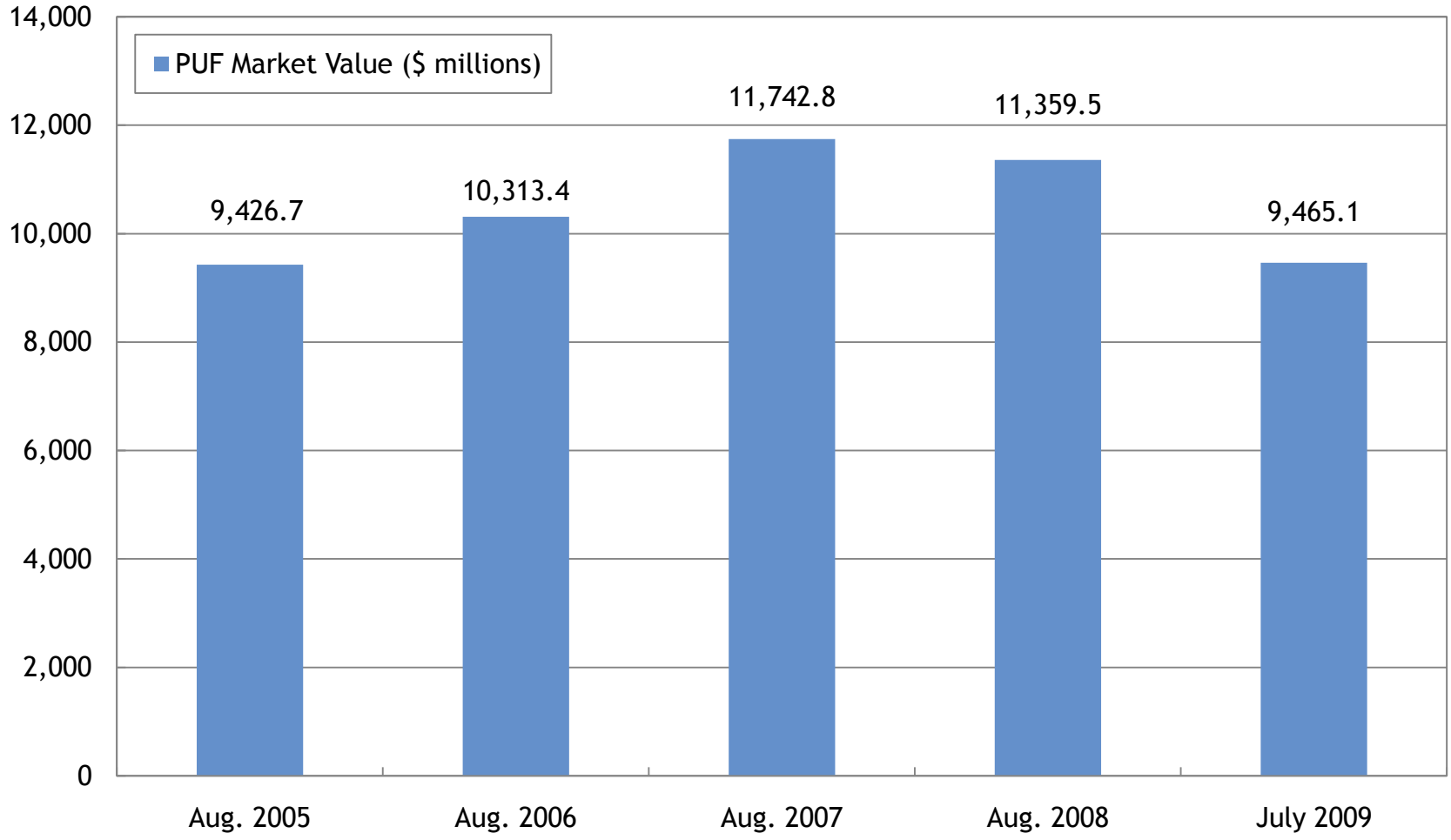
- The distribution amount is 4.75% of the trailing twelve quarter average of the PUF investments unless the average annual rate of return of the PUF investments over the trailing twelve quarters is greater than the expected return plus 0.25%, in which case the distribution shall be 5.0% of the trailing twelve quarter average.



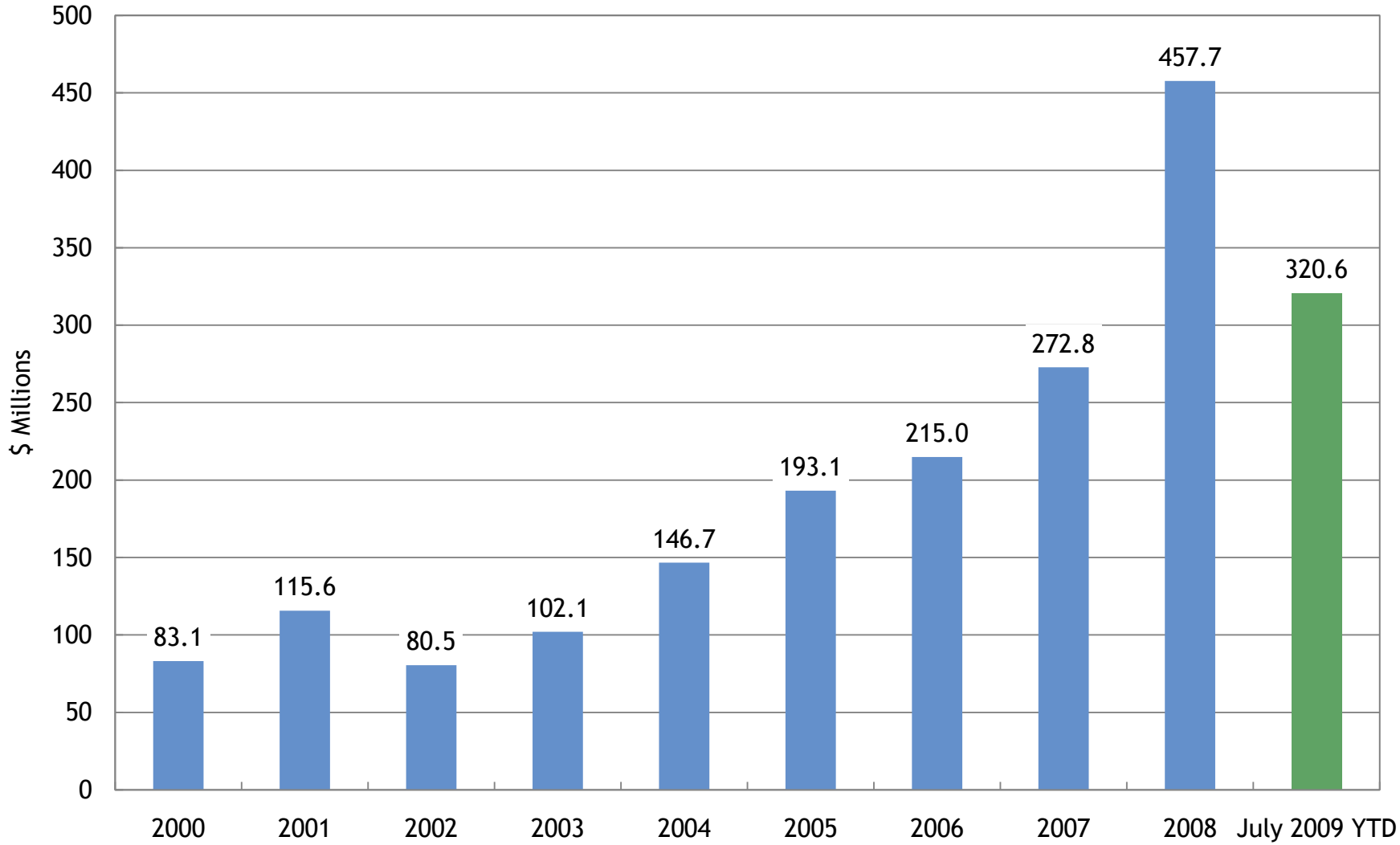
NOTE: The distribution for FY 2009 was based on a 5.0% distribution rate compared to 4.75% distribution rate for the other years reflected.

Recent PUF Investment Performance

- For the 12 months ended July 31, 2009, the PUF endowment managed by UTIMCO returned (16.6%)

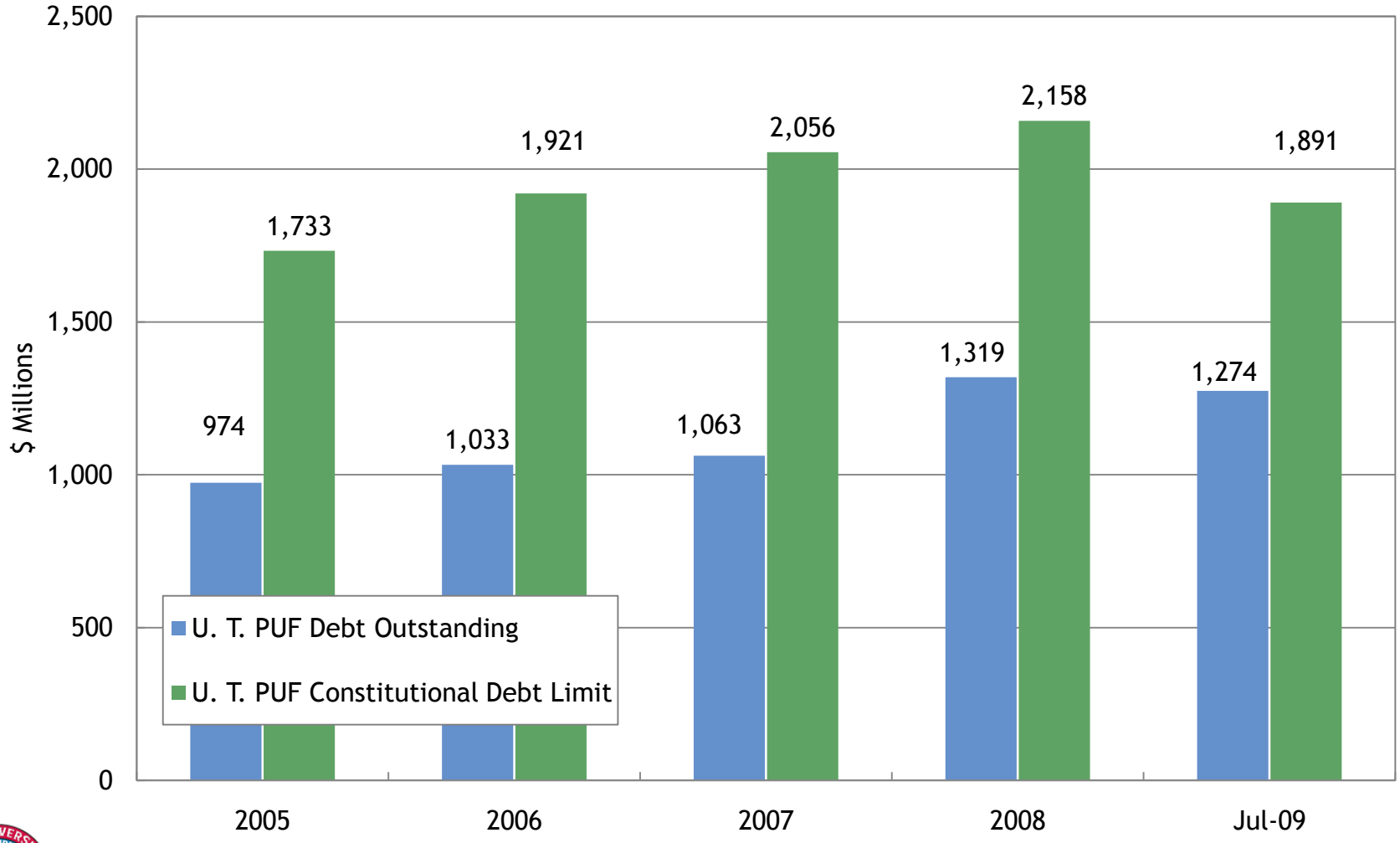


Mineral Income from PUF Lands



Constitutional Restrictions on PUF Debt Issuance

- The Texas Constitution limits the amount of PUF debt that can be issued to exceed 20% of the cost value of PUF investments, exclusive of the value of PUF lands.



PUF Debt Structure and Access to Liquidity

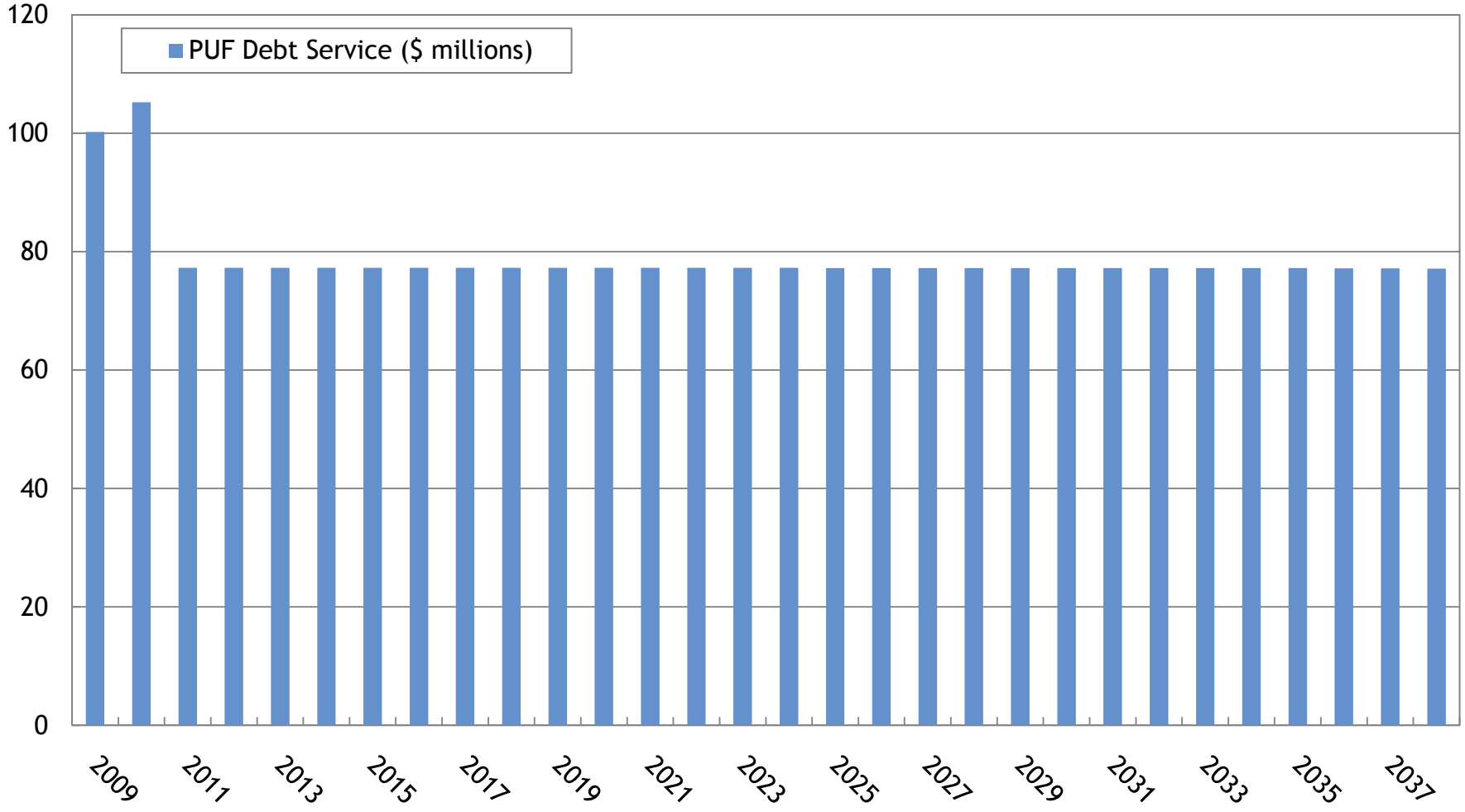
- The U. T. System has $1.27 billion of long-term PUF debt outstanding as of July 31, 2009
  - Approximately 69% ($873 million) is comprised of committed fixed-rate funding
  - The remaining 31% ($401 million) of outstanding PUF debt is long-term variable rate bonds that have been combined with SIFMA fixed-payer swaps to mitigate interest rate risk

- The System maintains PUF taxable and tax-exempt commercial paper programs supported by self-liquidity in a maximum aggregate amount of $500 million
  - As of Aug. 19, 2009, $250 million of PUF CP was outstanding

- Conservative structure of PUF debt
  - The System has limited interest rate swaps on PUF debt, with one-way collateral posting from swap counterparties
  - Debt service on outstanding PUF bonds falls from $105 million in FY 2010 to approximately $77 million in fiscal years 2011-2038
  - There is limited roll-over risk in the PUF CP program due to daily maximums contained in dealer agreements

- The U.T. Board of Regents has pledged all assets managed by UTIMCO to provide liquidity for all of the Board's outstanding PUF and RFS variable rate bonds and commercial paper. As of July 31, 2009, the total assets managed by UTIMCO aggregated to $19.7 billion

PUF Debt Service Profile



NOTE: Includes debt service on all outstanding PUF Debt outstanding as of July 1, 2009. Expected annual debt service requirements on the Series 2008A bonds have been computed based on the fixed-payer rates achieved as a result of the associated swap agreements.

Executive Summary and Credit Highlights

- The U. T. System is a leading educational and research enterprise with extensive financial resources
- Balance sheet: Largest endowment of any public institution with total investment pool (endowments and operating funds) of $19.7 billion as of July 31, 2009
- PUF investment portfolio: PUF market value of $9.46 billion, exclusive of the value of PUF lands, compared to U. T. PUF debt outstanding of $1.52 billion
- Substantial oil and gas royalty income : Mineral royalties from PUF lands of $457 million in fiscal year 2008 and $320 million fiscal YTD through July 2009
- Credit ratings: Highest ratings of Aaa, AAA and AAA from Moody's , S&P and Fitch, respectively, supported by substantial real and financial assets and market-leading position in public higher education
- Conservative debt structure: The U. T. System maintains a $1.52 billion PUF debt portfolio with a conservative debt service profile
- Constitutional limitations on PUF debt issuance: U. T. PUF debt issuance is limited to 20% of the cost value of PUF investments
- Constitutional requirement to distribute as necessary to meet PUF debt service requirements

Key Contacts for Q&A

The University of Texas System	UTIMCO	
http://www.utsystem.edu/fin/	http://www.utimco.org/	
Philip R. Aldridge 512-499-4469 paldridge@utsystem.edu	Bruce Zimmerman 512-225-1600 bzimmerman@utimco.org	
Terry Hull 512-499-4494 thull@utsystem.edu		

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