PUF Distribution Discussion

• The current PUF distribution policy is 4.75% of the average net asset value of the PUF for the trailing 12 fiscal quarters, calculated as of the fiscal quarter ending on the last day of February of each year.

• At its meeting on May 10, 2007, the Board approved a PUF distribution of $448,942,761 for Fiscal Year 2008.

• Based on the current distribution policy, the amount of the distribution for Fiscal Year 2009 is forecasted to be approximately $506 million.
Constitutional Restrictions on PUF Distributions

- 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 be not less than the amount needed to pay PUF debt service.

- 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 PUF debt service.

- 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 PUF debt service.

Distribution and Return Scenarios

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<tbody>
<tr>
<td>1. 4.75% Distribution (Base Case)</td>
<td>8.34%</td>
<td>8.47%</td>
<td>8.62%</td>
<td>8.75%</td>
</tr>
<tr>
<td>2. 5.00% Distribution</td>
<td>8.34%</td>
<td>8.47%</td>
<td>8.62%</td>
<td>8.75%</td>
</tr>
<tr>
<td>3. 4.75% or 5.0% Distribution (Base Case less 200 bps) *</td>
<td>6.34%</td>
<td>6.47%</td>
<td>6.62%</td>
<td>6.75%</td>
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<tr>
<td>4. 4.75% or 5.0% Distribution (Base Case plus 200 bps) *</td>
<td>10.34%</td>
<td>10.47%</td>
<td>10.62%</td>
<td>10.75%</td>
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* In scenarios 3 and 4, the payout would increase to 5.00% if the average annual return over the prior 12Q exceeded the expected return plus 25 bps. If the actual return did not exceed this threshold, the payout would remain at 4.75%.
Impact of Increasing the Distribution Rate to 5.0%

- Compared to a 4.75% distribution rate, increasing the distribution rate to 5.0% would increase annual distributions by approximately $30 million annually for an initial 15 years. Thereafter, the benefit would decline rapidly due to a lower rate of growth of the endowment. By year 24, distributions would be equal. Thereafter, distributions at 4.75% would be significantly higher through perpetuity.

- Increased distributions could provide funding for increased investments in capital assets in the near term, which could generate real returns directly to the institutions.

- Increasing the distribution rate slows the dollar growth of the endowment, thereby decreasing the amount of PUF debt permitted to be issued under the Texas Constitution (20% of the PUF cost value).
Pros and Cons of Increasing the Distribution Rate

**Pros**
- Increased distributions could permit additional investments in excellence to further meet societal demands and produce real returns through increased research and philanthropy.
- Increases financial debt capacity in the intermediate term (not the operative constraint).
- Increases the projected AUF balance, which can be used for operational and capital purposes at U. T. Austin and at U. T. System Administration.
- Provides additional resources to accelerate capital investments at a time of rising construction costs and low cost of capital.

**Cons**
- Converts investments earning 8.34%+ per annum into cash.
- Reduces Constitutional debt capacity – cost of PUF debt is about 4.0%.
- Reduces financial debt capacity in the out years.
- Greater risk of triggering Constitutional purchasing power limitations.

### Effect of Payout Ratio on PUF Value

![Graph showing the effect of payout ratio on PUF value](image)