

CONTINUING DISCLOSURE ANNUAL REPORT

Filed by

BOARD OF REGENTS OF THE UNIVERSITY OF TEXAS SYSTEM
and
BOARD OF REGENTS OF THE TEXAS A&M UNIVERSITY SYSTEM

Pursuant to Undertakings Provided to
Permit Compliance with SEC Rule 15c2-12
Relating to

PERMANENT UNIVERSITY FUND BONDS

December 2, 2021

This information is being provided by the **BOARD OF REGENTS** (the “UT Board”) of **THE UNIVERSITY OF TEXAS SYSTEM** (the “UT System”) and the **BOARD OF REGENTS** (the “A&M Board”) of **THE TEXAS A&M UNIVERSITY SYSTEM** (the “A&M System”) in compliance with their respective contractual undertakings (each, an “Undertaking”) to provide annual reports of financial information and operating data, as required by Rule 15c2-12 (the “Rule”) of the United States Securities and Exchange Commission, regarding the following municipal debt issues (the “Issues”):

**Board of Regents of The University of Texas System
Permanent University Fund Bonds; CUSIP Prefix: 915115**

**Board of Regents of The Texas A&M University System
Permanent University Fund Bonds; CUSIP Prefix: 882117**

Pursuant to the rules of the Municipal Securities Rulemaking Board (the “MSRB”) the participating underwriters for the Issues were required to file copies of the final official statements for each of the Issues with the MSRB, copies of which are available from the MSRB. The final official statements for the Issues should not be considered to speak as of any date other than the dates indicated in such documents.

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This Annual Report contains financial information and operating data with respect to (i) the Permanent University Fund created and administered pursuant to the Constitution of the State of Texas and (ii) the UT System's two-thirds interest (the "Interest of the UT System in the Available University Fund") and the A&M System's one-third interest (the "Interest of the A&M System in the Available University Fund") in the Available University Fund (as described in Exhibit A). Information in this Annual Report regarding the Permanent University Fund, the UT Board, the UT System, the Interest of the UT System in the Available University Fund and the UT Board's bonds and notes payable from all or any part of the Interest of the UT System in the Available University Fund has been compiled and provided by the UT System. Information in this Annual Report regarding the A&M Board, the A&M System, the Interest of the A&M System in the Available University Fund and the A&M Board's bonds and notes payable from all or any part of the Interest of the A&M System in the Available University Fund has been compiled and provided by the A&M System. Neither system is responsible for the accuracy or completeness of information compiled and provided by the other. The information compiled and provided by each system has been obtained from such system's records and other sources that are believed by the system providing such information to be reliable. The information compiled and provided by each system is provided in satisfaction of that system's respective Undertakings. Neither system makes any warranty concerning the usefulness of such information to a decision to invest in, hold or sell bonds, notes or other obligations payable, in whole or in part, from the interest of such system in the Available University Fund. Information agreed to be provided by the UT Board or the A&M Board may be reported in full text herein, or may be incorporated by reference to certain other publicly available documents. The UT Board and the A&M Board are required by their respective Undertakings to provide information annually by a date not more than six months following the close of their respective fiscal years, for as long as any of their respective Issues identified above are outstanding.

Questions concerning this Annual Report should be directed as follows:

Concerning the UT System, to:

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<u>TABLE OF EXHIBITS</u>	
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EXHIBIT A

ANNUAL UPDATE OF QUANTITATIVE FINANCIAL INFORMATION AND OPERATING DATA FOR FISCAL YEAR 2021

Introduction

The Permanent University Fund is a constitutional fund and public endowment contributing to the support of institutions of The University of Texas System (the “UT System”) and institutions of The Texas A&M University System (the “A&M System”), other than Texas A&M University—Corpus Christi, Texas A&M International University, Texas A&M University—Kingsville, West Texas A&M University, Texas A&M University—Commerce, Texas A&M University—Texarkana, and Texas A&M Veterinary Medical Diagnostic Laboratory. The Permanent University Fund consists of a portfolio of investments in addition to 2,109,190 acres of land located in 24 Texas counties (the “Permanent University Fund Land”).

Available University Fund

The Available University Fund is defined by Article VII, Section 18 of the Texas Constitution (the “Constitutional Provision”) to consist of distributions from the investment income of the Permanent University Fund. The Available University Fund distributions are from the “total return” on all investment assets of the Permanent University Fund, including the net income attributable to the surface of Permanent University Fund Land, in the amounts determined by the Board of Regents (the “UT Board”) of the UT System. The Constitutional Provision contains the following restrictions on the UT Board when determining distributions to the Available University Fund:

- The amount of any distribution to the Available University Fund must be determined by the UT Board in a manner intended to provide the Available University Fund with a stable and predictable stream of annual distributions and to maintain over time the purchasing power of Permanent University Fund investment assets and annual distributions to the Available University Fund;
- The amount distributed to the Available University Fund in a fiscal year must be not less than the amount needed to pay the principal and interest due and owing in that fiscal year on bonds and notes issued by the UT Board and the Board of Regents (the “A&M Board”) of the A&M System under the Constitutional Provision;
- If the purchasing power of Permanent University Fund investments for any rolling ten-year period is not preserved, the UT Board may not increase annual distributions to the Available University Fund until the purchasing power of Permanent University Fund investment assets is restored, except as necessary to pay the principal and interest due and owing on bonds and notes issued under the Constitutional Provision; and
- An annual distribution made by the UT Board to the Available University Fund during any fiscal year may not exceed an amount equal to 7% of the average net fair market value of Permanent University Fund investment assets as determined by the UT Board, except as necessary to pay any principal and interest due and owing on bonds and notes issued under the Constitutional Provision.

Two-thirds of the amounts attributable to the Available University Fund are constitutionally appropriated to the UT System to be used for constitutionally prescribed purposes. This two-thirds share is referred to herein as the “Interest of the UT System in the Available University Fund.” The other one-third of the amounts attributable to the Available University Fund is constitutionally appropriated to the A&M System. This one-third share is referred to herein as the “Interest of the A&M System in the Available University Fund.” The Constitutional Provision appropriates annual distributions from the Permanent University Fund to the Available University Fund to the UT Board and the A&M Board in an amount sufficient to pay debt service due on bonds and notes issued by such boards pursuant to the Constitutional Provision. In addition, the Constitutional Provision limits the aggregate amount of bonds and notes payable from the Available University Fund that may be issued by the UT Board to 20% of the cost

value of investments and other assets of the Permanent University Fund (exclusive of the Permanent University Fund Land) and by the A&M Board to 10% of such cost value.

Management of the Permanent University Fund

Article VII, Section 11b of the Texas Constitution imposes upon the UT Board a “prudent investor” standard in connection with its management of the Permanent University Fund. As described above, the Constitutional Provision provides for distributions to the Available University Fund to be made from the “total return” on Permanent University Fund investments, including capital gains (realized and unrealized) as well as current income. The “prudent investor” standard is consistent with this investment approach. Under the “prudent investor” standard, the UT Board is authorized to make such investments as a prudent investor “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.”

Pursuant to the Constitutional Provision, expenses of managing the Permanent University Fund Land and Permanent University Fund investments are payable from the Permanent University Fund.

Permanent University Fund Spending Policy

Under the Permanent University Fund Investment Policy Statement (the “Investment Policy Statement”) approved by the UT Board, and pursuant to the Constitutional Provision, the UT Board is required to determine the annual amount to be distributed from the total return on Permanent University Fund investments to the Available University Fund each fiscal year. Current UT Board rules require the UT Board to determine the amount to be distributed from the Permanent University Fund to the Available University Fund during the next fiscal year. Such rules provide that, unless otherwise approved by the UT Board and subject to the restrictions contained in the Constitutional Provision, the annual distribution amount from the Permanent University Fund to the Available University Fund shall be based on the following formula:

(a) Increase the prior year’s distribution amount by the sum of the average inflation rate (Consumer Price Index) for the previous twelve quarters plus 2.65%, unless further modified pursuant to clauses (b) and (c) below.

(b) If the inflationary increase in step (a) above results in a distribution rate below 3.5% of the trailing twenty-quarter average of the net asset value of the Permanent University Fund for the quarter ending February of each year, the distribution shall be increased to 3.5% of such trailing twenty-quarter average.

(c) If the inflationary increase in step (a) above results in a distribution rate exceeding 6.0% of the trailing twenty-quarter average of the net asset value of the Permanent University Fund for the quarter ending February of each year, the distribution shall be capped at 6.0% of such trailing twenty-quarter average.

The UT Board may approve an annual distribution amount in any Fiscal Year that is greater than or less than the distribution amount prescribed by UT Board rules, subject to the restrictions contained in the Constitutional Provision. Under the Investment Policy Statement, distributions from the Permanent University Fund to the Available University Fund may be made quarterly or annually at the discretion of The University of Texas/Texas A&M Investment Management Company (“UTIMCO”), a Texas nonprofit corporation. See “Investment Governance and Management Structure.” Each year, the distribution amount is used to prepare the budget for the upcoming fiscal year.

At its meeting on November 18, 2021, the Board approved the distribution amount of \$1,161,760,000 from the Permanent University Fund for Fiscal Year 2022. Such distribution amount (i) reflects a 4.45% increase over the distribution amount approved by the Board for Fiscal Year 2021, and (ii) as a percentage of the applicable trailing twenty-quarter average of the net asset value of the Permanent University Fund, was 5.34%. Pursuant to the Constitutional Provision, an annual distribution made to the Available University Fund during any Fiscal Year may not exceed an amount equal to 7% of the average net fair market value of Permanent University Fund investment assets as determined by the UT Board, except as necessary to pay any principal and interest due and owing on bonds and notes payable from the Available University Fund. The distribution amounts approved by the UT Board are exclusive of any net income attributable to the surface of Permanent University Fund Land.

Arbitrage Exemption

Pursuant to a federal statutory exception for certain perpetual trust funds (the “Arbitrage Exemption”), investments held in the Permanent University Fund allocable to tax-exempt Permanent University Fund bonds and notes issued pursuant to the Constitutional Provision by the UT Board and the A&M Board (“PUF Debt”), are exempt from the yield restriction and rebate requirements otherwise imposed on tax-exempt bonds under the Internal Revenue Code of 1986. The Arbitrage Exemption applies to tax-exempt PUF Debt that does not exceed 20 percent of the cost value of the investments and other assets of the Permanent University Fund (exclusive of the Permanent University Fund Land) (the “20-Percent Limit”). The UT System and the A&M System, however, are permitted by the Constitutional Provision to issue PUF Debt in an amount that does not exceed 30 percent of the cost value of the investments and other assets of the Permanent University Fund (exclusive of the Permanent University Fund Land) at the time of issuance thereof, as described above.

The outstanding principal amount of tax-exempt PUF Debt for the UT System and the A&M System has at various times exceeded, and is anticipated to exceed from time to time in the future, the 20-Percent Limit. To the extent the outstanding principal amount of tax-exempt PUF Debt exceeds the 20-Percent Limit, the yields of an allocable portion of the investments in the Permanent University Fund will be required to be restricted to yields that do not exceed the respective yields on such excess portion of tax-exempt PUF Debt. The imposition of this yield restriction may reduce the earnings of the Permanent University Fund; however, UT System officials anticipate that certain actions may be taken to mitigate the effect of imposing such yield restriction.

Outstanding Permanent University Fund Debt

UT PUF Bond Debt: As of August 31, 2021, the following bonds (the “UT PUF Bonds”), which are secured by and payable from a first lien on and pledge of the Interest of the UT System in the Available University Fund, were outstanding in the principal amounts indicated below:

<u>UT PUF Bonds</u>	<u>Outstanding Principal</u>
Permanent University Fund Refunding Bonds, Series 2006B	\$233,345,000
Permanent University Fund Bonds, Series 2008A	339,010,000
Permanent University Fund Taxable Bonds, Series 2009A	250,000,000
Permanent University Fund Bonds, Series 2014A	240,340,000
Permanent University Fund Bonds, Series 2014B	205,200,000
Permanent University Fund Refunding Bonds, Series 2015A	105,390,000
Permanent University Fund Bonds, Series 2015B	171,390,000
Permanent University Fund Bonds, Taxable Series 2015C	126,020,000
Permanent University Fund Bonds, Series 2016A	96,005,000
Permanent University Fund Bonds, Series 2016B	237,685,000
Permanent University Fund Taxable Bonds, Series 2017A	302,640,000
Total Outstanding UT PUF Bonds	<u>\$2,307,025,000</u>

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The combined debt service requirements on all outstanding UT PUF Bonds during the Fiscal Years (ending August 31) 2022–2047 are as follows:

<u>Fiscal Year</u>	<u>Total Debt Service (In Thousands)</u>	<u>Fiscal Year</u>	<u>Total Debt Service (In Thousands)</u>
2022	\$160,276	2035	\$160,272
2023	160,275	2036	160,273
2024	160,275	2037	160,277
2025	160,276	2038	160,275
2026	160,275	2039	160,275
2027	160,277	2040	160,272
2028	160,274	2041	160,272
2029	160,276	2042	14,981
2030	160,276	2043	14,981
2031	160,273	2044	14,981
2032	160,276	2045	141,001
2033	160,273	2046	159,017
2034	160,276	2047	159,034

Note: For purposes of this table, the interest rate on \$169,505,000 in principal amount of the Series 2008A Bonds is calculated based on the interest rate of 3.6960% and the interest rate on the remaining \$169,505,000 in principal amount of the Series 2008A Bonds is calculated based on the interest rate of 3.6575%, each obtained as a result of swap agreements related to the Series 2008A Bonds. Excludes any cash subsidy payments (“Subsidy Payments”) to be received by the UT Board from the United States Treasury as a result of the UT Board’s designation of the UT Board’s Permanent University Fund Taxable Bonds, Series 2009A (the “Series 2009A Bonds”) as “Build America Bonds”. Such Subsidy Payments are not pledged to the payment of the Series 2009A Bonds, and the designation of the Series 2009A Bonds as “Build America Bonds” does not alter the UT Board’s obligation to pay the principal of and interest on such Bonds from the Interest of the UT System in the Available University Fund.

UT PUF Subordinate Lien Note Debt: In addition to the UT PUF Bonds, the UT Board, pursuant to a resolution adopted on August 14, 2008, as amended on February 6, 2014 and further amended on November 15, 2018, authorized the issuance from time to time of its Permanent University Fund Commercial Paper Notes, Series A and its Permanent University Fund Taxable Commercial Paper Notes, Series B (collectively, the “UT PUF Commercial Paper Notes”); provided, that the combined aggregate principal amount of the UT PUF Commercial Paper Notes outstanding at any one time may not exceed \$1,250,000,000. The UT PUF Commercial Paper Notes are secured by and payable solely from a lien on and pledge of the Interest of the UT System in the Available University Fund, which lien and pledge is junior and subordinate to the lien and pledge securing the UT PUF Bonds. Pursuant to a resolution adopted by the UT Board (the “UT Board’s Liquidity Resolution”), the UT Board has covenanted to provide liquidity support for the UT PUF Commercial Paper Notes by using lawfully available funds to purchase the UT PUF Commercial Paper Notes in the event such notes mature and are not able to be renewed or refunded. In furtherance thereof, the UT Board has entered into a Security Purchase Agreement (the “Security Purchase Agreement”) with UTIMCO, pursuant to which UTIMCO has agreed, subject to the limitations set forth therein, to purchase the UT PUF Commercial Paper Notes as investments for certain funds managed by UTIMCO in the event the UT PUF Commercial Paper Notes are not able to be renewed or refunded. Neither the UT Board’s Liquidity Resolution nor the Security Purchase Agreement constitutes security or credit enhancement for the UT PUF Commercial Paper Notes but merely serves as a source of liquidity.

As of August 31, 2021, there was \$659,000,000 of UT Permanent University Fund Commercial Paper Notes, Series A outstanding and \$436,000,000 of UT Permanent University Fund Taxable Commercial Paper Notes, Series B outstanding. UT PUF Bonds and UT PUF Commercial Paper Notes are hereinafter collectively referred to as “UT PUF Debt.”

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A&M PUF Bond Debt: As of August 31, 2021, the following bond issues (the “A&M PUF Bonds”), which are secured by and payable solely from a first lien on and pledge of the Interest of the A&M System in the Available University Fund, were outstanding in the principal amounts indicated below:

<u>A&M PUF Bonds</u>	<u>Outstanding Principal</u>
Permanent University Fund Refunding Bonds, Series 1998	\$ 21,710,000
Permanent University Fund Bonds, Series 2009AB	192,360,000
Permanent University Fund Bonds, Series 2012A	37,975,000
Permanent University Fund Taxable Bonds, Series 2012B	75,370,000
Permanent University Fund Bonds, Series 2013	79,780,000
Permanent University Fund Bonds, Series 2015A	140,555,000
Permanent University Fund Taxable Bonds, Series 2015B	94,875,000
Permanent University Fund Bonds, Series 2017A	89,710,000
Permanent University Fund Bonds, Taxable Series 2017B	310,470,000
Permanent University Fund Bonds, Taxable Series 2019	<u>346,405,000</u>
Total Outstanding A&M PUF Bonds	<u>\$1,389,210,000</u>

The combined debt service requirements on all outstanding A&M PUF Bonds during the Fiscal Years (ending August 31) 2022–2049 are as follows:

<u>Fiscal Year</u>	<u>Total Debt Service (In Thousands)</u>	<u>Fiscal Year</u>	<u>Total Debt Service (In Thousands)</u>
2022	\$105,568	2036	\$ 57,061
2023	105,254	2037	57,078
2024	100,068	2038	57,100
2025	100,093	2039	57,099
2026	100,122	2040	57,102
2027	100,239	2041	57,097
2028	99,778	2042	57,104
2029	99,888	2043	57,094
2030	96,368	2044	57,113
2031	96,254	2045	57,157
2032	87,008	2046	57,206
2033	76,371	2047	57,261
2034	67,035	2048	57,314
2035	57,042	2049	57,468

A&M PUF Subordinate Lien Note Debt: In addition to the A&M PUF Bonds, the A&M Board has (pursuant to the Constitutional Provision) authorized an interim financing program pursuant to a resolution adopted by the A&M Board on September 26, 2008, which authorizes the issuance from time to time by the A&M Board of its Permanent University Fund Commercial Paper Notes to be outstanding at any one time in the maximum principal amount of \$125,000,000 (the “A&M PUF Commercial Paper Notes”). The A&M PUF Commercial Paper Notes are secured by and payable solely from a lien on and pledge of the Interest of the A&M System in the Available University Fund, which lien and pledge is junior and subordinate to the lien and pledge securing the A&M PUF Bonds.

The A&M Board is obligated pay the principal and interest due on A&M PUF Commercial Paper Notes that are not renewed or refunded by using lawfully available funds. In order to manage such obligation, the A&M Board has entered into a Note Purchase Agreement with UTIMCO with respect to \$125,000,000 of the A&M PUF Commercial Paper Notes (the "Note Purchase Agreement"). Pursuant to the Note Purchase Agreement, UTIMCO has agreed, subject to the limitations set forth in such agreement, to purchase the A&M PUF Commercial Paper Notes as investments for the Permanent University Fund in the event such A&M PUF Commercial Paper Notes mature and are not renewed or refunded. The Note Purchase Agreement does not constitute security or credit enhancement for the A&M PUF Commercial Paper Notes but merely serves as a source of liquidity to pay the purchase price of maturing

A&M PUF Commercial Paper Notes at are not renewed or refunded.

As of August 31, 2021, no A&M PUF Commercial Paper Notes were outstanding. A&M PUF Bonds and A&M PUF Commercial Paper Notes are hereinafter collectively referred to “A&M PUF Debt.”

Future Financings

The Constitutional Provision provides that certain member institutions of the UT System and the A&M System may not receive any funds from the general revenues of the State of Texas for acquiring land, with or without improvements, for constructing or equipping buildings or other permanent improvements, or for major repairs or rehabilitations of buildings or other permanent improvements, except in the case of fire or other natural disaster (when the Texas State Legislature may appropriate amounts to replace uninsured losses) or in the case of demonstrated need, as statutorily expressed in an appropriations act adopted by a two-thirds vote of both houses of the Texas State Legislature. Accordingly, the needs of the UT System and the A&M System for capital funds through the issuance of bonds and notes payable from the Available University Fund are on-going.

The UT Board periodically revises the capital improvement plan of the UT System, which provides for the use over a six-year period of the proceeds of bonds or notes payable from the Interest of the UT System in the Available University Fund. The UT Board expects to issue additional UT PUF Commercial Paper Notes prior to the end of the current Fiscal Year (August 31, 2022) to fund certain capital projects. The UT Board may issue up to \$750 million of additional bonds secured by and payable from a lien on the Interest of the UT System in the Available University Fund prior to August 31, 2022 if refunding opportunities are economically beneficial. The A&M Board issued \$50 million in A&M PUF Commercial Paper Notes on October 27, 2021, and may issue additional A&M PUF Commercial Paper Notes prior to the end of the current Fiscal Year to fund certain capital projects. The A&M Board may issue up to \$772 million of A&M PUF Bonds during the Fiscal Year ending August 31, 2022, including refunding opportunities that are economically beneficial. Each board reserves the right, however, to alter the amount of such obligations actually issued and to issue additional bonds and notes secured by and payable from a lien on the interest of the related system in the Available University Fund.

Historical Distributions, Debt Service Requirements and Coverage

Table I below sets forth historical distributions to the Available University Fund, together with the debt service requirements on UT PUF Debt and A&M PUF Debt and debt coverage for each System respectively.

Table I
Historical Available University Fund ⁽¹⁾
(In Thousands)

Fiscal Year ⁽²⁾	Available University Fund ⁽³⁾	Interest of the Systems in Available University Fund				Total Distributions Available to Pay Debt Service		Total Debt Service Payable from the Available University Fund		Coverage ⁽⁴⁾	
		UT System		A&M System		UT System	A&M System	UT System	A&M System	UT System	A&M System
		UT System	A&M System	UT System	A&M System	UT System	A&M System	UT System	A&M System	UT System	A&M System
2017	\$898,376	\$598,917	\$299,459	\$6,641	\$2,664	\$605,558	\$302,123	\$151,960	\$105,687	3.98x	2.86x
2018	973,026	648,684	324,342	14,011	6,478	662,696	330,820	180,980	108,243	3.66x	3.06x
2019	1,122,355	748,237	374,118	21,734	9,422	769,971	383,540	167,126	122,961	4.61x	3.12x
2020	1,387,096	924,731	462,365	15,990	10,004	940,721	472,369	170,597	98,943	5.51x	4.77x
2021	1,174,074	782,716	391,358	3,069	2,092	785,785	393,450	164,025	156,103	4.79x	2.52x

(1) The amounts are unaudited amounts reflected on the books of each System.

(2) Fiscal Year ending August 31 for each year.

(3) Includes distribution amount approved by the UT Board, plus net income attributable to the surface of Permanent University Fund Land.

(4) Represents Total Distributions Available to Pay Debt Service divided by Total Debt Service Payable from the Available University Fund by the UT System and the A&M System, respectively, excluding cash defeasance transactions.

Constitutional Debt Limitations

As described above, the Constitutional Provision limits the aggregate amount of bonds and notes payable from the Available University Fund that may be issued to amounts not exceeding, at the time of issuance, 20% in case of the UT Board and 10% in case of the A&M Board of the cost value of investments and other assets of the Permanent University Fund, exclusive of the Permanent University Fund Land. See “Available University Fund.” As of August 31, 2021, the unaudited cost value of the investments and other assets of the Permanent University Fund, exclusive of the Permanent University Fund Land, was approximately \$24.660 billion; UT PUF Debt totaled approximately \$3.402 billion and A&M PUF Debt totaled approximately \$1.389 billion. Using the August 31, 2021 valuation, the UT Board is authorized to issue an additional \$1.53 billion of bonds or notes secured by the Interest of the UT System in the Available University Fund, and the A&M Board is authorized to issue an additional \$1.077 billion of bonds and notes secured by the Interest of the A&M System in the Available University Fund. For the purpose of making these calculations, “cost value” and “book value” are treated as equivalent terms.

Table II shows the constitutional debt limits of the Permanent University Fund for Fiscal Years 2017 through 2021 and the amount of outstanding bonds and notes secured by the respective interests in the Available University Fund for each of such years for both the UT System and the A&M System.

Table II
Historical Availability and Outstanding Bonds and Notes
(In Thousands)

Fiscal Year Ending <u>August 31</u>	Book Value of Fund ⁽¹⁾	<u>The UT System</u>		<u>The A&M System</u>	
		<u>Constitutional Debt Limit</u>	<u>Outstanding</u>	<u>Constitutional Debt Limit</u>	<u>Outstanding</u>
2017	\$16,345,254	\$3,269,051	\$2,695,035	\$1,634,525	\$932,850
2018	18,227,709	3,645,542	2,922,895	1,822,771	1,233,095
2019	19,785,799	3,957,160	3,106,760	1,978,580	1,258,580
2020	20,788,921	4,157,784	3,223,190	2,078,892	1,439,735
2021	24,660,325	4,932,065	3,402,025	2,466,033	1,389,210

(1) Excludes Permanent University Fund Land.

Note: Debt limits are based on the Permanent University Fund’s book value which includes investments, receivables and payables.

Investment Responsibility

The fiduciary responsibility for managing and investing the Permanent University Fund is constitutionally assigned to the UT Board. The “Board for Lease of University Lands”, composed of representatives of the UT System, the A&M System and the State of Texas Land Commissioner, is responsible for the approval of oil, gas and other mineral leases of the Permanent University Fund Land.

Investment Governance and Management Structure

The UT Board has contracted with UTIMCO for the investment management of all funds under the control and management of the UT Board, subject to the limitations and restrictions in the UT Board’s investment policy statements. UTIMCO is prohibited from engaging in any business other than investing funds designated by the UT Board in its contract with UTIMCO. Pursuant to its by-laws and consistent with State law, UTIMCO is governed by a nine-member board of directors, consisting of (i) seven members appointed by the UT Board, of whom at least three must be members of the UT Board, three must have substantial background and expertise in investments, and one must be a qualified individual as determined by the UT Board, which may include the Chancellor of the UT System, and (ii) two members appointed by the A&M Board, at least one of whom must have substantial background and expertise in investments. The UT Board pays UTIMCO an annual fee for its investment management services. UTIMCO has received a determination from the Internal Revenue Service (the “Service”) that it constitutes a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”).

Investment Management Firms

UTIMCO may hire unaffiliated investment managers from time to time in order to provide the Permanent University Fund with increased diversity through their unique style and approach to investing, as well as to improve the Permanent University Fund's return and risk characteristics. The external managers are screened and evaluated on the basis of investment philosophy and historical performance. Investment managers are monitored periodically for performance and adherence to investment discipline. UTIMCO reviews the composition of managers from time to time and may add or terminate managers in order to optimize portfolio returns. As of August 31, 2021, approximately 8.2% of Permanent University Fund investments (primarily fixed income, ETFs, futures contracts, and other derivatives) was managed internally with the remaining approximately 91.8% managed externally by unaffiliated investment managers.

Eligible Investments and Investment Policies

Pursuant to the Constitutional Provision, the UT Board is authorized, subject to procedures and restrictions it establishes, to invest the Permanent University Fund in any kind of investments and in amounts it considers appropriate; provided that it adheres to the prudent investor standard. See "Management of the Permanent University Fund."

The UT Board's Investment Policy Statement for the Permanent University Fund currently provides that the primary investment objective of the Permanent University Fund is to maximize investment returns within the risk parameters specified in the Investment Policy Statement without regard to the distribution rate. Investment returns are expressed net of all investment-related expenses. Investments must be within the asset class ranges, prudently diversified, and within approved policy risk bounds regarding one-year downside deviation, as defined in the Investment Policy Statement, and measured at least monthly by UTIMCO. Liquidity of the Permanent University Fund will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board. UTIMCO reviews the Permanent University Fund Investment Policy Statement and other related investment policies on a periodic basis. These reviews may result in UTIMCO proposing to the UT Board a material change in the asset allocation ranges, liquidity, and benchmarks for the Permanent University Fund. On August 19, 2021, the UT Board approved revisions to the Investment Policy Statement for the Permanent University Fund, which took effect September 1, 2021. The amendments reflect changes to the strategic asset allocation framework and set forth revised Asset Class targets and ranges effective September 1, 2021.

The Investment Policy Statement recognizes that asset class allocation is the primary determinant of the volatility of investment return. Under the current Investment Policy Statement, Permanent University Fund assets are allocated among the following broad asset classes based upon their individual return/risk characteristics and relationships to other asset classes:

Global Equity:

Developed Public Equity – Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries (including the U.S.) that are part of the MSCI World Index. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Emerging Markets Public Equity – Emerging Markets Public Equity invests primarily in the equity securities of companies that are domiciled in (i) the emerging countries that are part of the MSCI Emerging Markets Index or (ii) countries that have yet to reach MSCI Emerging Markets Index qualification status. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Emerging Markets Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Directional Hedge Funds – Directional Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Directional Hedge Funds exhibit some market

sensitivity as defined by beta to public equities. Strategies may include but are not limited to long/short equity, multi-strategy, event-driven, distressed and stressed credit and global macro.

Private Equity – Private Equity investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in controlling or minority ownership interests in private or publicly-traded companies. These investments are acquired by purchasing publicly-traded or privately-issued common and preferred stocks, convertible securities, warrants, rights, options or debt obligations of private or publicly-traded companies. Private Equity investments often have transfer restrictions and are not as liquid as publicly traded securities. Private Equity investments are often classified by strategy including: buyouts, venture capital and private credit.

Stable Value:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, U.S. and non-U.S., that are rated investment grade. These include debt issued by the Sovereign Governments, various government enterprises and agencies, and corporations. The principal securities include bonds, notes, bills and mortgage and asset backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as Investment Grade Fixed Income.

Long Treasuries – Long Treasuries represents ownership of fixed income instruments across long-dated maturities issued by the U.S. government. The principal securities may include bonds, notes and bills. In addition, derivative applications that serve as a fixed income substitute may be classified as Long Treasuries.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, U.S. and non-U.S., that are rated below investment grade.

Stable Value Hedge Funds – Stable Value Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Stable Value Hedge Fund investments exhibit little to no market sensitivity, as defined by beta to U.S. Public Equity, and have an absolute return orientation. Strategies may include but are not limited to market-neutral equity, multi-strategy, re-insurance, risk premia, trend following, senior secured lending and global macro.

Cash – Cash has the same meaning as given to the term “Cash” in the Liquidity Policy and includes, for example, cash in any currencies and other overnight funds that have not been allocated to a specific asset class.

Real Return:

Inflation Linked Bonds – Inflation Linked Bonds include fixed income investments issued by both U.S. and Non-U.S. Governments where the principal value of the bond has been indexed to some rate of inflation, as well as derivatives referencing Inflation Linked Bonds or directly linked to inflation rates, including but not limited to inflation swaps. Inflation Linked Bonds are intended to provide some degree of inflation protection.

Commodities – Commodities investments represent ownership of fungible goods such as metals, grains, foods and energy products or any other investment defined by regulators as a commodity. These investments can be made through actual physical ownership of the goods, or through financial ownership of the underlying goods achieved through the purchase of derivatives based on commodities or commodities indices.

Natural Resources – Natural Resources investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in a controlling or minority ownership interest in a company involved in the production of natural resources including, but not limited to: energy, precious metals, metals, minerals, agriculture, livestock, and timber. Some Natural Resource investments may have transfer restrictions and may not be as liquid as publicly-traded securities.

Infrastructure – Infrastructure investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in ownership of companies or assets that provide an essential service that contributes to the economic or social productivity of an organization, community, or society at large with real assets in the water, transportation, energy, communication or social sectors. Investments generally have structure features that include a monopolistic or oligopolistic market position with high barriers to entry; a low elasticity of demand due to their essential functions; stable, predictable, and long-term revenue contracts; or inflation protection through

inflation adjustment mechanisms in underlying contracts. Some Infrastructure investments may have transfer restrictions and may not be as liquid as publicly traded securities.

Real Estate –Real Estate investments may be public, made principally in companies that are part of the MSCI US REIT (RMZ) Index and that own or manage equity or debt interests in portfolios of real estate. Public Real Estate investments generally trade in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Real Estate investments may also be private. Private Real Estate investments may have transfer restrictions and may not be as liquid as publicly traded securities. Real Estate investments may be made by purchasing or selling: physical real estate; privately issued securities such as interests in private limited partnerships, joint ventures or other special purpose vehicles (which in each case could result in a controlling or minority ownership interest in a real estate focused company); common or preferred stocks; depositary receipts; exchange traded funds; secured or subordinated debt; mortgage-related investments; real estate investment (“REITs”) or any other instrument commonly used by institutional investors and derivatives base on any of the foregoing. Real Estate investments are often classified by strategy including: core, core-plus, value-added, opportunistic and special situations.

Strategic Partnerships:

Strategic Partnerships – Strategic Partnerships are multi-asset investment portfolios designed to generate investment returns through a combination of security selection and tactical asset allocation. Strategic Partnerships may invest long or short in equities, fixed income, commodities, currencies, funds, and other global market instruments, including derivatives. Strategies utilized by Strategic Partnerships may involve the use of leverage to enhance the portfolio’s risk-adjusted returns.

Table III sets forth (i) the percentage allocation (as of August 31, 2021) of Permanent University Fund investments by asset class under the Investment Policy Statement for the Permanent University Fund and (ii) the asset class targets and ranges under such Investment Policy Statement for the Fiscal Year ending August 31, 2022, which became effective on September 1, 2021. While specific asset class allocation positions may be changed by UTIMCO within the ranges specified in Table III based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval by the UT Board. The UT Board may, from time to time, implement further revisions to the Investment Policy Statement for the Permanent University Fund.

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Table III
Long-Term Investment Policy Targets and Ranges

Asset Class	Actual Allocation (As of 8/31/2021)	FYE 2022		
		Min	Target	Max
<u>Global Equity:</u>				
Developed Public Equity	23.3%	-5.0%	23.6%	+5.0%
Emerging Markets Public Equity	7.0%	-5.0%	7.0%	+5.0%
<i>Total Public Equity</i>	<i>30.3%</i>	<i>-5.0%</i>	<i>30.6%</i>	<i>+5.0%</i>
Directional Hedge Funds	8.1%	-5.0%	6.5%	+5.0%
Private Equity	26.1%	14.2%	24.2%	34.2%
Total Global Equity	64.5%	-7.0%	61.3%	+7.0%
<u>Stable Value:</u>				
Investment Grade Fixed Income	7.8%	-5.0%	4.5%	+5.0%
Long Treasuries	0.0%	-5.0%	2.2%	+5.0%
Credit-Related Fixed Income	0.1%	-5.0%	0.0%	+5.0%
<i>Total Fixed Income</i>	<i>7.9%</i>	<i>-5.0%</i>	<i>6.7%</i>	<i>+5.0%</i>
Cash	1.0%	-5.0%	1.0%	+5.0%
Stable Value Hedge Funds	8.1%	-5.0%	9.2%	+5.0%
Total Stable Value	17.0%	-10.0%	16.9%	+6.0%
<u>Real Return:</u>				
Inflation Linked Bonds	1.6%	-5.0%	2.0%	+5.0%
Gold	0.0%	-5.0%	0.0%	+5.0%
Commodities	0.0%	-5.0%	0.0%	+5.0%
<i>Total Commodities</i>	<i>0.0%</i>	<i>-5.0%</i>	<i>0.0%</i>	<i>+5.0%</i>
Natural Resources	5.1%	0.0%	4.5%	+9.5%
Infrastructure	2.1%	0.0%	3.0%	8.0%
Real Estate	6.0%	2.3%	7.3%	12.3%
Total Real Return	14.8%	-6.0%	16.8%	+6.0%
Strategic Partnerships	3.7%	-5.0%	5.0%	+5.0%
Total All Asset Classes	100.0%	-5.0%	100%	+5.0%

* The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 105% of the Asset Class exposures excluding the amount of derivatives exposure not collateralized by Cash.

** The target and range percentages are as of fiscal year end. The Adjusted Target weight of each of Private Equity, Real Estate, Natural Resources and Infrastructure, will be set each month as the ending actual weight from the prior month. Any difference in the calculated Private Equity, Real Estate, Natural Resources, and Infrastructure Adjusted Target weights from the original Target weights derived from this table will be offset using other asset classes with 80% Developed Public Equity and 20% to a blend of Total Fixed Income components. The percentage allocation for a particular asset class may occasionally fall outside of the stated range during the fiscal year. When preceded by a “-” or “+”, in relation to the Asset Class Target; with the exception of Cash, “Min” will not be below zero.

Table IV shows the annual change in the book value of the Permanent University Fund for Fiscal Years 2017 through 2021. See “Available University Fund” and “Arbitrage Exemption.” The terms “book value” and “cost value” herein are used interchangeably.

Table IV
Annual Permanent University Fund Performance (Book Value)
(in Millions)

Fiscal Year Ending <u>August 31</u>	Beginning Book <u>Value</u>	PUF Land <u>Receipts</u>	Other Additions/ <u>(Deductions)</u>	Total Additions/ <u>(Deductions)</u>	Ending Book <u>Value</u>
2017	\$15,170.8	\$688.7	\$485.8	\$1,174.5	\$16,345.3
2018	16,345.3	1,031.8	850.6	1,882.5	18,227.7
2019	18,227.7	1,026.1	532.0	1,558.1	19,785.8
2020	19,785.8	771.0	232.1	1,003.1	20,788.9
2021	20,788.9	979.2	2,892.2	3,871.4	24,660.3

Table V shows the annual performance in the market value of the Permanent University Fund for Fiscal Years 2017 through 2021 net of distributions to the Available University Fund. Distributions to the Available University Fund are made in the amounts determined by the UT Board from the total return on all Permanent University Fund investment assets, including capital gains (realized and unrealized), as well as current income. See “Available University Fund” and “Permanent University Fund Spending Policy.”

Table V
Annual Permanent University Fund Performance (Market Value)
(in Millions)

Fiscal Year Ending <u>August 31</u>	Beginning Market <u>Value</u>	PUF Mineral <u>Receipts</u>	Net Investment <u>Return</u>	Distributions to the Available <u>University Fund</u>	Ending Market <u>Value</u>
2017	\$17,880.1	\$688.7	\$2,183.4	(\$839.4)	\$19,912.8
2018	19,912.8	1,031.8	1,819.8	(887.3)	21,877.1
2019	21,877.1	1,026.1	940.9	(1,014.0)	22,830.1
2020	22,830.1	771.0	2,090.9	(1,311.4)	24,380.6
2021	24,380.6	979.2	7,721.8	(1,112.3)	31,969.3

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Table VI shows a summary comparison of fiduciary net position of the Permanent University Fund as reported by UTIMCO, excluding the Permanent University Fund Land, for Fiscal Years ended August 31, 2020 and 2021.

Table VI⁽¹⁾
Permanent University Fund
Comparison Summary of Fiduciary Net Position
August 31, 2020 and August 31, 2021
(In Thousands)

	August 31, 2020		August 31, 2021	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Equity Securities				
Domestic Common Stock	\$898,828	\$1,120,274	\$1,273,174	\$1,616,065
Foreign Common Stock	1,343,326	1,726,672	1,411,307	1,791,729
Other	<u>8,338</u>	<u>10,807</u>	<u>8,290</u>	<u>7,078</u>
Total Equity Securities	2,250,492	2,857,753	2,692,771	3,414,872
Preferred Stocks				
Domestic Preferred Stock	1,691	1,757	2,591	2,734
Foreign Preferred Stock	<u>39,054</u>	<u>47,531</u>	<u>31,596</u>	<u>46,456</u>
Total Preferred Stocks	40,745	49,288	34,187	49,190
Debt Securities				
U.S. Govt. Obligations	838,444	854,593	1,452,570	1,460,277
Foreign Govt. and Provincial Obligations	709,495	699,636	1,079,349	1,052,108
Corporate Obligations	648,202	697,778	747,251	776,571
Other	<u>4,498</u>	<u>4,696</u>	<u>5,233</u>	<u>5,402</u>
Total Debt Securities	2,200,639	2,256,703	3,284,403	3,294,358
Purchased Options	10,660	9,937	15,339	31,166
Investment Funds				
Marketable Alternative	3,913,203	4,585,188	4,047,263	5,130,848
Private Markets	8,222,639	9,114,771	9,382,893	12,459,781
Developed Country Equity	2,732,684	3,764,696	3,034,839	4,996,151
Emerging Markets Equity	751,080	1,042,066	787,596	1,193,532
Fixed Income	<u>141,045</u>	<u>146,268</u>	<u>85,677</u>	<u>85,702</u>
Total Investment Funds	15,760,651	18,652,989	17,338,268	23,866,014
Cash and Cash Equivalents⁽²⁾				
Money Markets & Cash Held at State	<u>774,987</u>	<u>776,805</u>	<u>1,400,456</u>	<u>1,401,001</u>
Total Cash and Cash Equivalents	774,987	776,805	1,400,456	1,401,001
Total Investments in Securities	21,038,174	24,603,475	24,765,424	32,056,601
Net Trade Receivables	(189,943)	(190,247)	(78,212)	(78,494)
Deposit with Brokers for Derivative	30,765	30,769	42,672	42,635
Payable to Brokers for Collateral Held	(58,857)	(58,895)	(69,178)	(69,187)
Net Swap Assets (Liabilities)	(1,991)	25,879	3,651	22,135
Options Written	(1,652)	(2,177)	(516)	(474)
Net Futures Assets (Liabilities)	(2,618)	840	1,090	1,090
Other Net Assets (Liabilities)	<u>(24,957)</u>	<u>(29,005)</u>	<u>(4,606)</u>	<u>(5,003)</u>
Value of Fund	\$20,788,921	\$24,380,639 ⁽³⁾	\$24,660,325	\$31,969,303 ⁽³⁾

(1) The information contained in this Table VI was derived from the books and records of UTIMCO and certain supplemental schedules contained in the audited financial statements of the Permanent University Fund for such Fiscal Years.

(2) Cash and Cash Equivalents includes amounts allocated to various investment managers for the Permanent University Fund. For asset allocation purposes (as set forth in Table III) such amounts are considered to be invested in the asset class for which a manager invests.

(3) The Fair Value of the Permanent University Fund Investments does not include the Fair Value of Permanent University Fund Land, which was approximately \$8,794,981,790 as of August 31, 2021 and \$6,885,688,521 as of August 31, 2020.

Table VII shows a summary of the income from investments in the Permanent University Fund for the Fiscal Years ended August 31, 2020 and August 31, 2021.

Table VII
Summary of Income
Years Ended August 31, 2020 and August 31, 2021
(In Thousands)

	August 31, 2020	August 31, 2021
Equity Securities		
Domestic Common Stocks	\$8,014	\$18,274
Foreign Common Stock	42,752	32,382
Other Equity Securities	<u>966</u>	<u>243</u>
Total Equity Securities	<u>51,732</u>	<u>50,899</u>
Preferred Stock		
Domestic Preferred Stock	28	111
Foreign Preferred Stock	<u>977</u>	<u>2,648</u>
Total Preferred Stock	<u>1,005</u>	<u>2,759</u>
Debt Securities		
U. S. Govt. Obligations (Direct and Gtd)	11,214	9,142
Foreign Government Obligations	22,518	29,061
Corporate Obligations	18,413	21,370
Other	<u>124</u>	<u>128</u>
Total Debt Securities	<u>52,269</u>	<u>59,701</u>
Convertible Securities	--	--
Investment Funds		
Hedge Funds	4	--
Private Markets	64,587	109,569
U.S. and Non-U.S. Developed Equities	2,098	1,571
Emerging Markets	9,193	1,903
Fixed Income	2,090	3,820
Real Estate	--	--
Natural Resources	<u>--</u>	<u>--</u>
Total Investment Funds	<u>77,972</u>	<u>116,863</u>
Cash and Cash Equivalents		
Money Markets and Cash Held at State Treasury	<u>10,328</u>	<u>250</u>
Total Cash and Cash Equivalents	<u>10,328</u>	<u>250</u>
Other	<u>857</u>	<u>1,759</u>
Total Investment Income	<u>194,163</u>	<u>232,231</u>
Surface and Other Income		
Grazing Leases	4,510	4,809
Land Easements	46,120	37,133
Exploration & Prospecting Permits	2,281	116
Water Royalties	17,251	15,197
Damage Income	4,751	3,629
Penalties and Interest	1,272	2,511
Miscellaneous	<u>1,881</u>	<u>652</u>
Total Surface and Other Income	<u>78,066</u>	<u>64,047</u>
Total Income	<u>\$272,229</u>	<u>\$296,278</u>

EXHIBIT B

Permanent University Fund Schedule of Investment Values

Due to changes in the nature of certain investments held by the Permanent University Fund, the Schedule of Investment Values is not being reported in the form provided in Exhibit B to prior continuing disclosure annual reports filed by the UT Board and the A&M Board in connection with PUF Debt. The information contained in the Schedule of Investment Values may be derived from information reported on page 38 of the Permanent University Fund's audited financial statements for the fiscal year ending August 31, 2020 and page 38 of the Permanent University Fund's audited financial statements for the fiscal year ending August 31, 2021. Such statements have been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system with respect to the outstanding Issues, accessible at <https://emma.msrb.org>.