THE UNIVERSITY OF TEXAS SYSTEM
PERMANENT UNIVERSITY FUND
INVESTMENT POLICY STATEMENT

Purpose

The Permanent University Fund (the "PUF") is a public endowment contributing to the support of eligible institutions of The University of Texas System and The Texas A&M University System as provided in Article VII, Section 18 of the *Texas Constitution*.

PUF Organization

The 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 2,109,190 acres of land (the "PUF Lands") located in 19 counties primarily in West Texas.

The 2.1 million acres comprising the PUF Lands produce two streams of income: a) mineral income, primarily in the form of oil and gas royalties and b) surface income, primarily from surface leases and easements. Under the Texas Constitution, mineral income, as a non-renewable source of income, remains a non-distributable part of PUF corpus, and is invested pursuant to this Policy Statement. Surface income, as a renewable source of income, is distributed to the Available University Fund (the "AUF"), as received. The Constitution also requires that all surface income and investment distributions paid to the AUF be expended for certain authorized purposes.

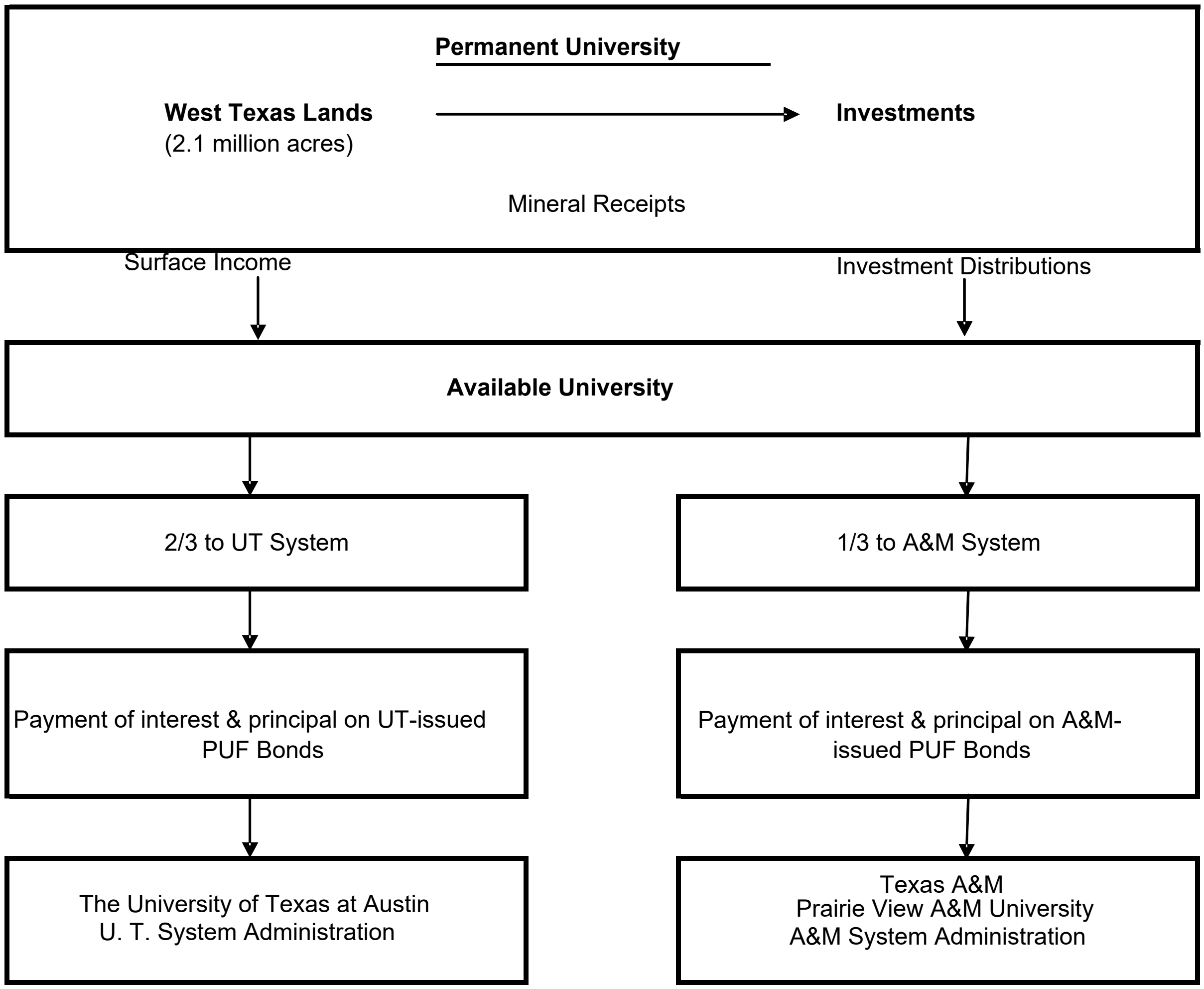
The expenditure of the AUF is subject to a prescribed order of priority:

First, following a 2/3rds and 1/3rd allocation of AUF receipts to the U. T. System and the A&M System, respectively, AUF receipts are expended for debt service on PUF bonds. Article VII of the *Texas Constitution* authorizes the U. T. System Board of Regents (the "Board of Regents") and the Texas A&M University System Board of Regents (the "TAMUS Board") to issue bonds payable from their respective interests in AUF receipts to finance permanent improvements and to refinance outstanding PUF obligations. The Constitution limits the amount of bonds and notes secured by each System's interest in divisible PUF income to 20% and 10% of the book value of PUF investment securities, respectively. Bond resolutions adopted by both Boards also prohibit the issuance of additional PUF parity obligations unless the interest of the related System in AUF receipts during the preceding fiscal year covers projected debt service on all PUF Bonds of that System by at least 1.5 times.

Second, AUF receipts are expended to fund a) excellence programs specifically at U. T. Austin, Texas A&M University and Prairie View A&M University and b) the administration of the university Systems.

The payment of surface income and investment distributions from the PUF to the AUF and the associated expenditures is depicted below in Exhibit 1:

Exhibit 1



PUF Management

Article VII, Section 11b of the *Texas Constitution* assigns fiduciary responsibility for managing and investing the PUF to the Board of Regents. Article VII, Section 11b authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the PUF in any kind of investments and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, 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.

Ultimate fiduciary responsibility for the PUF rests with the Board of Regents. Section 66.08 of the *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas/Texas A&M Investment Management Company ("UTIMCO"), the PUF shall be managed by UTIMCO, which shall a) recommend investment policy for the PUF, b) recommend specific Asset Class allocation targets, ranges and performance benchmarks consistent with PUF objectives, and c) monitor PUF performance against PUF objectives. UTIMCO shall invest the PUF's assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class allocation targets, ranges, and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

PUF Administration

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of PUF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

PUF Investment Objectives

The PUF and the General Endowment Fund (the "GEF") are managed similarly for efficient investment purposes. The primary investment objective of the PUF shall be to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate. Investment returns are expressed net of all investment-related expenses. Additional expenses include U.T. System administrative fees charged to the fund.

Investments must be prudently diversified, and within the approved Policy Downside Volatility Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO's risk model. Liquidity of the PUF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

PUF return, Asset Class allocations, and downside volatility targets are subject to adjustment from time to time by the Board of Regents.

Asset Class Allocation and Policy

Asset Class allocation is the primary determinant of the volatility of investment return and, subject to the Asset Class allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. UTIMCO is responsible for measuring actual Asset Class allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio Asset Class allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific Asset Class allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in Asset Classes or the Portfolio Projected Downside Volatility move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the PUF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive immediate remedial action.

PUF assets shall be allocated among the following broad Asset Classes based upon their individual return/risk characteristics and relationships to other Asset Classes:

Global Equity:

U.S. Public Equity – U.S. Public Equity invests primarily in the equity securities of companies domiciled in the U.S. These securities are traded in public markets (on an exchange, over the counter, pursuant to SEC Rule 144a, or issued in an underwritten initial public offering ("IPO")) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. U.S. Public Equity includes common stocks, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Non-U.S. Developed Public Equity – Non-U.S. Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries (other than 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 ("IPO")) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Non-U.S. 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).

Global Developed Public Equity – Global Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries that are part of the MSCI World Index; however, the asset allocation between U.S. and non-U.S. may be variable over time. Global 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 ("IPO")) 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 assetbacked securities. In addition, derivative applications that serve as a fixed income substitute may be classified as Investment Grade Fixed Income.

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 consists of internal and external pooled investment funds, cash in foreign 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 bulk physical goods such as metals, grains, foods and energy products. 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.

Public Real Estate – Public Real Estate invests principally in companies that are part of the FTSE/EPRA NAREIT Developed Index and that own or manage equity or debt interests in portfolios of real estate or real assets. 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. Public Real Estate 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).

Private Real Estate – Private Real Estate 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 real asset or a real estate focused company. Private Real Estate investments are acquired by purchasing physical real assets, physical real estate or publicly-traded or privately-issued securities including, but not limited to: common or preferred stock, secured or subordinated debt, mortgage-related investments, master limited partnerships ("MLPs") and real estate investment trusts ("REITs"). Some Private Real Estate investments may have transfer restrictions and may not be as liquid as publicly-traded securities. Private Real Estate investments are often classified by strategy including: core, core-plus, value-added, opportunistic and special situations.

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.

All mandates will be categorized at inception and on an ongoing basis by Asset Class.

Performance Measurement

The investment performance of the PUF will be measured by the PUF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board and compared against the stated Policy Benchmarks of the PUF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of Asset Class indices weighted to reflect PUF's Asset Class allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

Investment Guidelines

The PUF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

<u>General</u>

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of PUF assets in such investments.
- No securities may be purchased or held which would jeopardize the PUF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The PUF's investments in warrants shall not exceed more than 5% of the PUF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The PUF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce exposure to an Asset Class or hedge against risk shall not exceed 75 basis points of PUF value.

<u>Investment Grade and Credit-Related Fixed Income</u>

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

Public Real Estate, and Public Equity

- Not more than 25% of the market value of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.

- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

Stable Value

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

PUF Distributions

The PUF shall balance the needs and interests of present beneficiaries with those of the future. PUF spending policy objectives shall be to:

- provide a predictable, stable stream of distributions over time;

- ensure that the inflation adjusted value of distributions is maintained over the long term; and

- ensure that the inflation adjusted value of PUF assets after distributions is maintained over rolling 10-year periods.

The goal is for the PUF's average spending rate over time not to exceed the PUF's average annual investment return after inflation and expenses in order to preserve the purchasing power of PUF distributions and underlying assets.

Annually, the Board of Regents will approve a distribution amount to the AUF pursuant to Regents' Rule 80303, Section 2.2.

Following approval of the distribution amount, distributions from the PUF to the AUF will be made at the discretion of UTIMCO management in consultation with the U. T. System Office of Finance and The Texas A&M University System Office of Treasury Services.

PUF Accounting

The fiscal year of the PUF shall begin on September 1st and end on August 31st. Market value of the PUF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's

Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be “other than temporarily impaired” as defined by GAAP shall be written off and reported to UTIMCO’s Chief Investment Officer and the UTIMCO Board when material. The PUF’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

Valuation of Assets

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all PUF net assets. Valuation of PUF assets shall be based on the books and records of the custodian for the valuation date. The final determination of PUF net assets for a month end close shall normally be completed within seven business days but determination may be longer under certain circumstances. Valuation of alternative assets shall be determined in accordance with the UTIMCO Valuation Criteria for Alternative Assets as approved by the UTIMCO Board and then in effect.

The fair market value of the PUF’s net assets shall include all related receivables and payables of the PUF on the valuation. Such valuation shall be final and conclusive.

Compliance

Compliance with this Policy will be monitored by UTIMCO’s Chief Compliance Officer. UTIMCO’s Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO’s compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO’s Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO’s Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the non-compliant activity within this Policy.

Securities Lending

The PUF may participate in a securities lending contract with a bank or nonbank security lending agent for purposes of realizing additional income. Loans of securities by the PUF shall be collateralized by cash, letters of credit or securities issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to ensure compliance with contract provisions.

Investor Responsibility

As a shareholder, the PUF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the PUF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the PUF solely in the interest of the U. T. System and the A&M System, in compliance with the Proxy Voting Policy then in effect, and shall not invest the PUF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Amendment of Policy Statement

The Board of Regents reserves the right to amend this Policy Statement as it deems necessary or advisable.

Effective Date

The effective date of this Policy shall be September 1, 2020

EXHIBIT A
ASSET CLASS TARGETS, RANGES, AND PERFORMANCE OBJECTIVES
EFFECTIVE SEPTEMBER 1, 2020

Asset Class	Min v Target(1)	Target(2)(3)	Max v Target(1)	Benchmark
Global Equity:				
U.S. Public Equity	-5.0%	7.0%	+5.0%	MSCI US with Net Dividends
Non-U.S. Developed Public Equity	-5.0%	3.8%	+5.0%	MSCI EAFE and Canada with Net Dividends
Global Developed Public Equity	-5.0%	10.0%	+5.0%	MSCI World Index with Net Dividends
Total Developed Public Equity	-5.0%	20.8%	+5.0%	
Emerging Markets Public Equity	-5.0%	7.2%	+5.0%	MSCI Emerging Markets Index with Net Dividends
Total Public Equity	-5.0%	28.0%	+5.0%	
Directional Hedge Funds	-5.0%	9.2%	+5.0%	HFRI Fund of Funds Composite
Private Equity(3)	12.8%	22.8%	32.8%	Blended Cambridge Buyouts, Emerging Markets Private Equity and Venture Capital, Credit Opportunities, and Venture Capital
Total Global Equity	-7.0%	60.0%	+7.0%	
Stable Value:				
Investment Grade Fixed Income	-5.0%	6.7%	+5.0%	Bloomberg Barclays Global Aggregate Index - Hedged
Credit-Related Fixed Income	-5.0%	0.0%	+5.0%	Bloomberg Barclays Capital Global High Yield Index
Total Fixed Income	-5.0%	6.7%	+5.0%	
Cash	-5.0%	1.0%	+5.0%	3 month T-Bills
Stable Value Hedge Funds	-5.0%	9.5%	+5.0%	HFRI Fund of Funds Conservative
Total Stable Value	-10.0%	17.2%	+6.0%	
Real Return:				
Inflation Linked Bonds	-5.0%	1.7%	+5.0%	Bloomberg Barclays Global Inflation-Linked: U.S. TIPS Index
Gold	-5.0%	0.0%	+5.0%	Gold Spot Price (XAU)
Commodities	-5.0%	0.0%	+5.0%	Bloomberg Commodity TRI
Total Commodities	-5.0%	0.0%	+5.0%	
Natural Resources(3)	1.1%	6.1%	11.1%	Cambridge Natural Resources
Infrastructure(3)	0.0%	3.3%	8.3%	Cambridge Infrastructure
Public Real Estate	-5.0%	0.0%	+5.0%	FTSE EPRA/NAREIT Developed Index Net TRIUSD
Private Real Estate(3)	2.9%	7.9%	12.9%	Cambridge Real Estate
Total Real Return	-6.0%	19.0%	+6.0%	
Strategic Partnerships	-5.0%	3.8%	+5.0%	Blended Bloomberg Barclays Global Aggregate Index - Hedged, MSCI US with Net Dividends, MSCI EAFE and Canada with Net Dividends, and MSCI Emerging Markets Index with Net Dividends
Total All Asset Classes		100.0%		

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

POLICY/TARGET RETURN/RISKS(2)	
Expected 10-Year Annual Real Return (Benchmark)	4.33%
One Year Downside Volatility	10.94%
Risk Bounds	
Lower: 1 Year Downside Volatility	75.00%
Upper: 1 Year Downside Volatility	115.00%

(1) When preceded by a "-" or "+", in relation to the Asset Class Target; with the exception of Cash, "Min" will not be below zero

(2) Asset Class Targets and Policy/Target Return/Risks reset monthly

(3) The Adjusted Target weight of each of Private Equity, Private 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, Private 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 52% of such difference applied to U.S. Public Equity, 28% to Non-U.S. Developed Public Equity, and 20% to Investment Grade Fixed Income.