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DISTRIBUTION (OR SPENDING) POLICY



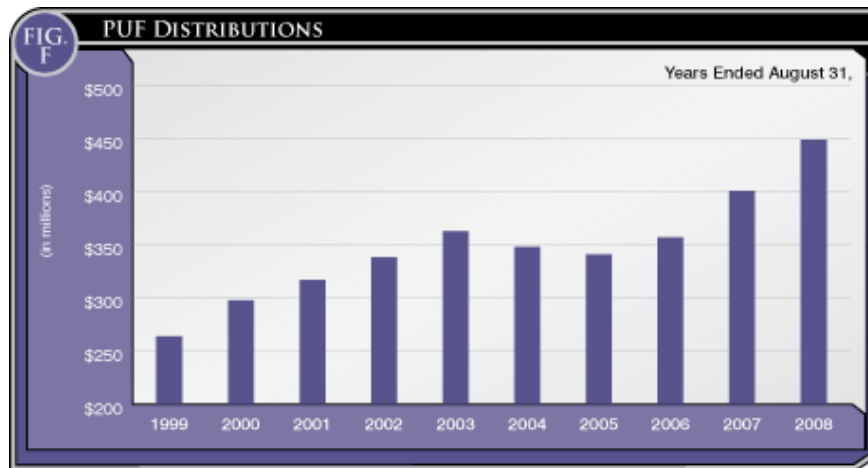
The University of Texas at Tyler

The Constitution directs the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF Investments over the long term. To achieve these goals, the UT Board has adopted a "percent of assets" spending policy for the PUF. Currently, the distribution rate is set at 4.75% of the prior twelve quarters' average net asset value of PUF Investments unless the average annual rate of return of PUF Investments over the trailing twelve quarters exceeds the expected return of the endowment policy portfolio by twenty-five basis points or more, in which case the distribution is calculated at 5.00% of the trailing twelve quarters' average net asset value. Under this policy, dollar distributions vary with the volatility inherent in financial markets. Although

this policy exposes distribution recipients to relative high volatility and may result in the loss of nominal or real purchasing power in yearly distributions, it is effective in maintaining the purchasing power of the PUF corpus. This policy was chosen for the PUF because it best suits endowments in which current distributions are small relative to the total budget of the beneficiary and where long term growth of the endowment fund is the key objective as is the case with the PUF.

However, the UT Board does not have unlimited authority to set the PUF distribution rate. Distributions to the Available University Fund are subject to the following overriding Constitutional requirements:

1. Distributions must be at least equal to the amount needed to pay debt service on PUF Bonds;
2. Distributions may not increase from the preceding year (except as necessary to pay debt service on PUF Bonds) unless the purchasing power of PUF Investments for any rolling 10-year period has been preserved;
3. Distributions may not exceed 7 percent of the average net fair market value of PUF Investments in any fiscal year, except as necessary to pay debt service on PUF Bonds.



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Distributions from the PUF to the AUF increased by 12.0% from \$400.7 million in fiscal year 2007 to \$448.9 million in fiscal year 2008. The FY 2009 distribution is \$530.9 million. **Figure F** shows the ten year history of PUF distributions.

As depicted in **Figure G**, the PUF has achieved the objective of maintaining its inflation adjusted value because purchasing power has increased over the ten year period by 2.75%. The PUF net investment return less distributions trailed the inflation rate for the one year period ended August 31, 2008. However, the previous years' growth has helped the PUF maintain its purchasing power. The rate of investment return in **Figure G** is the gross total return. The net investment return reported in **Figure E** is net of investment management fees. The expense rate in **Figure G** includes both investment management fees and other fees.

Annual Average	For the periods ended August 31, 2008		
	One Year	Five Years	Ten Years
Rate of Investment Return	-3.11%	11.32%	8.40%
Mineral Interest	3.88%	2.53%	1.86%
Less:			
Expenses (Paid Directly by PUF):			
UTIMCO Management	0.06%	0.05%	0.05%
External Investment Manager	0.11%	0.19%	0.14%
Non-Investment Manager	0.03%	0.03%	0.03%
UT System Administration	0.05%	0.05%	0.04%
Total Expenses	0.25%	0.32%	0.26%
Inflation Rate	5.37%	3.48%	2.98%
Distribution Rate	3.70%	4.09%	4.27%
Change in Purchasing Power	(8.55%)	5.96%	2.75%

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