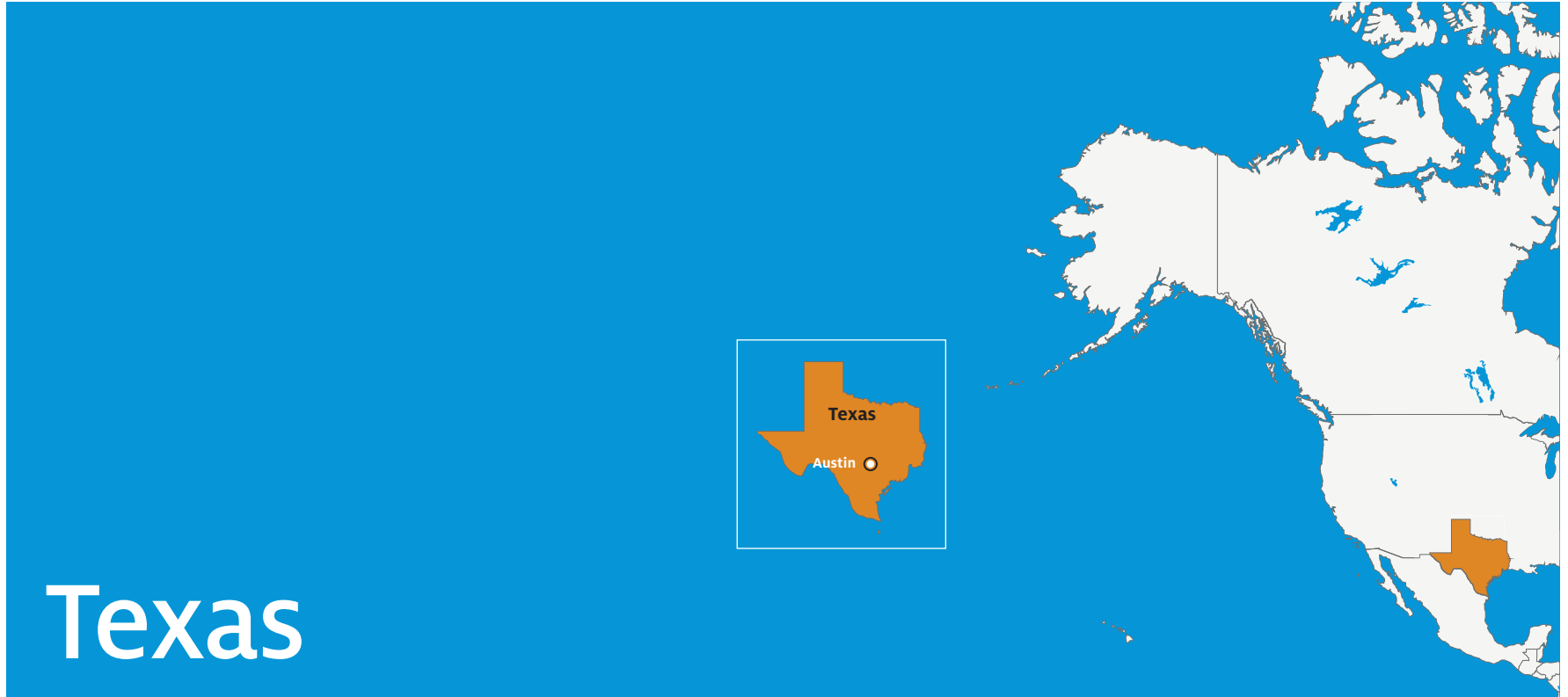


Natural Resource Funds



Texas

Permanent University Fund



Market Value

Permanent University Fund
\$14.4 billion

Santiago
Compliance
Index

not rated

Resource
Governance Index
Natural Resource
Fund Score

not yet rated

Truman Sovereign
Wealth Fund
Scoreboard

not rated

Good Governance Fundamentals

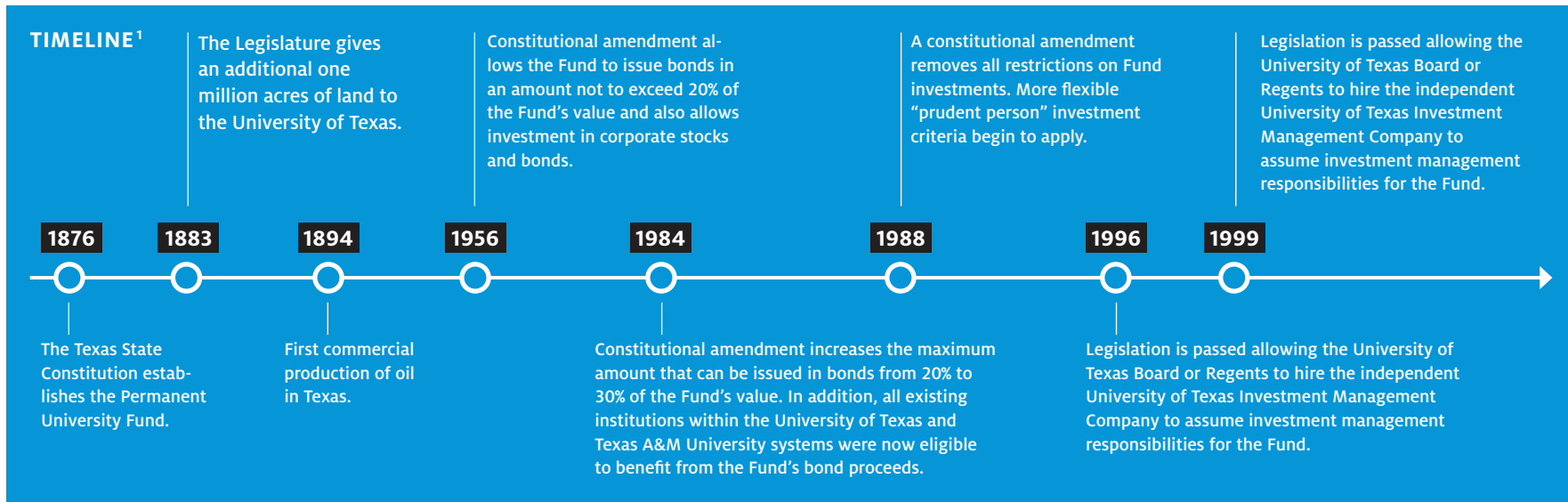
Clear Deposit Rules	yes
Clear Withdrawal Rules	yes
Clear Investment Rules	yes
Transparent	yes
Publicly Available Audits	yes
Effective Oversight	yes

Fund Highlights

- The Texas Permanent University Fund, established in 1876, is likely the world’s oldest natural resource fund.
- The objective of the Fund is to provide a sustainable source of financing for the University of Texas and the Texas A&M University systems.
- The Fund is financed by proceeds from oil, gas and mineral production on University of Texas lands, which were given to the Permanent University Fund in 1876 and 1883 by the State of Texas.

- Approximately 5 percent of the Fund’s average value over the previous three years is withdrawn annually. Withdrawals must be used to fund academic programs or cover university debt payments.
- The Fund seeks an average annual real return on its investments of about 5 percent.
- The Fund is world-leading on oversight and transparency requirements. One internal and two external audits are made public, the government-appointed Board of Regents and the Texas Legislature both oversee the Fund, and fund activities and investment details are published.

Timeline and Fund Objectives



Fund Inception

- The 1876 **Texas State Constitution, Article 7 Section 11** established the Permanent University Fund. Through this Fund, the University of Texas was given approximately one million acres of land, along with the natural resources underneath, in compensation for the appropriation of some of the University's existing lands, specifically its lands bordering railroads.²
- In 1883, the University of Texas was given an additional one million acres of land, bringing the total to 2.1 million acres or approximately 1.3 percent of the total surface area of Texas.³

Fund Objectives

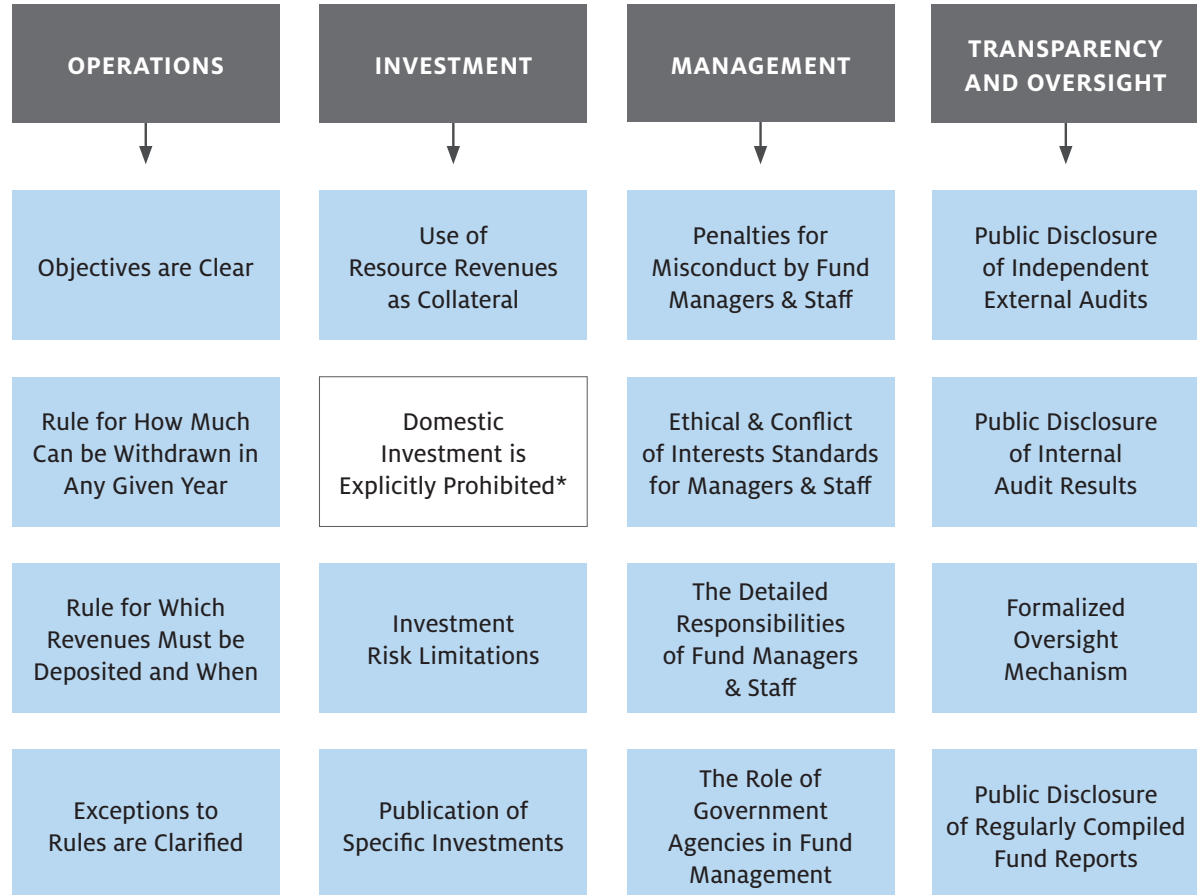
- The Permanent University Fund is a **development and future generations savings fund** promoting higher education in Texas.
- The Fund seeks to balance present and future needs of the 18 component institutions and six agencies belonging to the University of Texas and Texas A&M University.⁴ Specifically, it supports the universities' debt issuance and education spending.⁵


Good Governance Standards and Gaps in Regulation


Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.

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Good Governance Standards Met



 Presence of Regulation

 Absence of Regulation

*Economically targeted investment in Texas is permitted (see page 8).

Oil, gas and mineral revenues from lands belonging to the University of Texas finance the Permanent University Fund.

Operational Laws, Rules and Policies

Fund Structure

- The Permanent University Fund is the resource wealth fund where the revenue from non-renewable resources belonging to the University of Texas are deposited. Other revenues from lands belonging to the University of Texas are not deposited into the Permanent University Fund.
- All funds from the Permanent University Fund that are distribution to the University of Texas and Texas A&M University systems must first pass through the Available University Fund. The Available University Fund is an account at the Texas State Treasury.

Fund Deposit Rules⁶

Permanent University Fund:

- 100 percent of oil, gas and mineral revenues (primarily royalties) from University of Texas lands are deposited into the Fund each year. This includes income from investments.

Available University Fund:

- Each year, the University of Texas Board of Regents determines how much to transfer from the Permanent University Fund into the Available University Fund. For 2013, this is equal to 4.75 percent of the trailing 12-quarter average of the Permanent University Fund's net value. This amount is raised to 5 percent if the average annual rate of return exceeds the benchmarks set by the University of Texas Investment Management Company by 0.25 percent or more.⁷

- In addition to transfers from the Permanent University Fund, surface income from Permanent University Fund land goes directly to the Available University Fund, bypassing the Permanent University Fund. Surface income includes leases and revenue that is considered to be renewable, such as grazing fees.

Exceptions to Deposit Rules:

The annual deposit amount from the Permanent University Fund into the Available University Fund is subject to the following overriding conditions:⁸

- The amount must be enough to pay the debt on Permanent University Fund bonds.
- There is no increase from the preceding year if it harms the Fund's purchasing power over a rolling 10-year period.
- The amount cannot exceed 7 percent of the Fund's average net fair market value in any fiscal year.

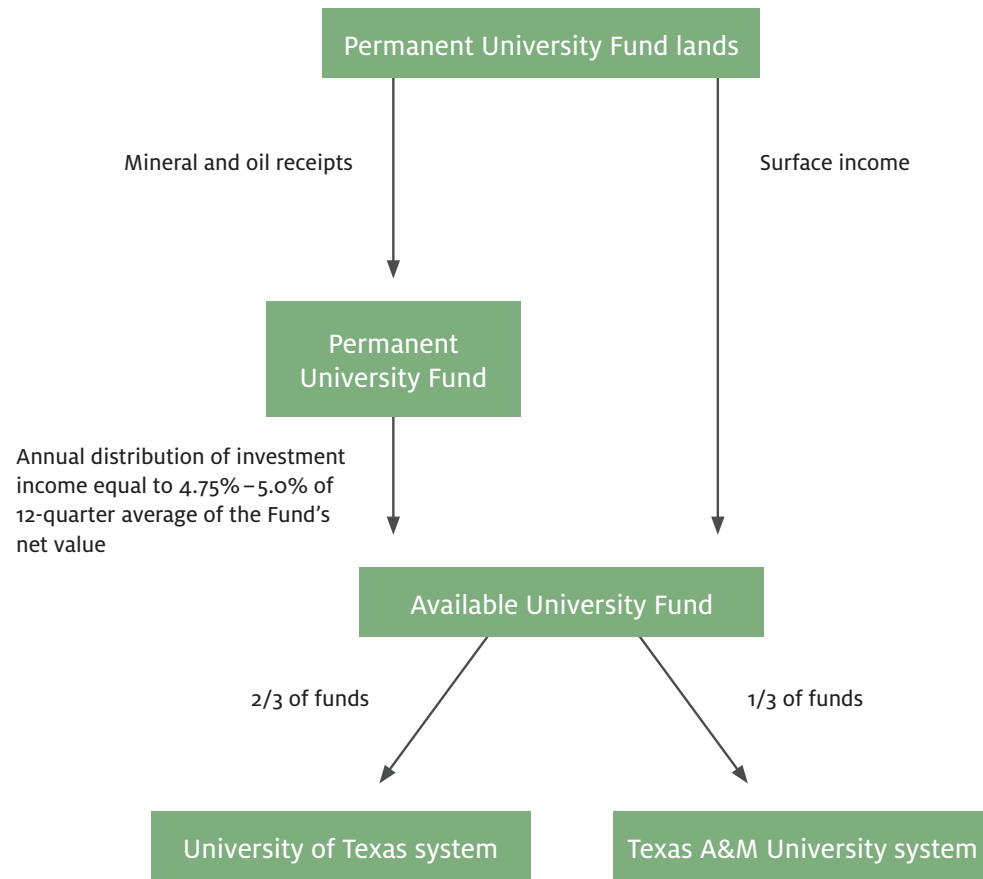
Operational Laws, Rules and Policies

Fund Withdrawal Rules

- All funds withdrawn from the Permanent University Fund must go to the Available University Fund.
- Withdrawals from the Available University Fund are divided as such:
 - Two-thirds to the University of Texas system
 - One-third to the Texas A&M University system⁹
- Funds can only be withdrawn from the Available University Fund for two purposes:
 - To issue bonds in order to finance construction and renovation, major library acquisitions and the purchase of research and educational equipment. However, the University of Texas and Texas A&M University systems may only issue bonds up to 20 percent and 10 percent respectively of the Fund's book value.¹⁰
 - After debt payments, any residual funds from the Available University Fund may be spent on academic excellence programs, including scholarships and fellowships, student services, organized research, institutional support and library books.¹¹

Operational Laws, Rules and Policies

Flow of Funds



Investment Laws, Rules and Policies

Investment Authority

The University of Texas Board of Regents is the governing body for the University of Texas system. Members are appointed by the Governor of Texas. The Board of Regents contracts the University of Texas Investment Management Company to invest funds under the control and management of the University of Texas.¹²

Investment Objectives

- In order to preserve the purchasing power of the Fund's assets and meet annual distribution obligations, the University of Texas Investment Management Company's seeks to earn an average annual real return of 4.75 to 5.0 percent over a rolling ten-year period.¹³
- The Permanent University Fund seeks to generate high returns in periods of low inflation in order to offset lower real returns when inflation rises.¹⁴

Investment Strategy

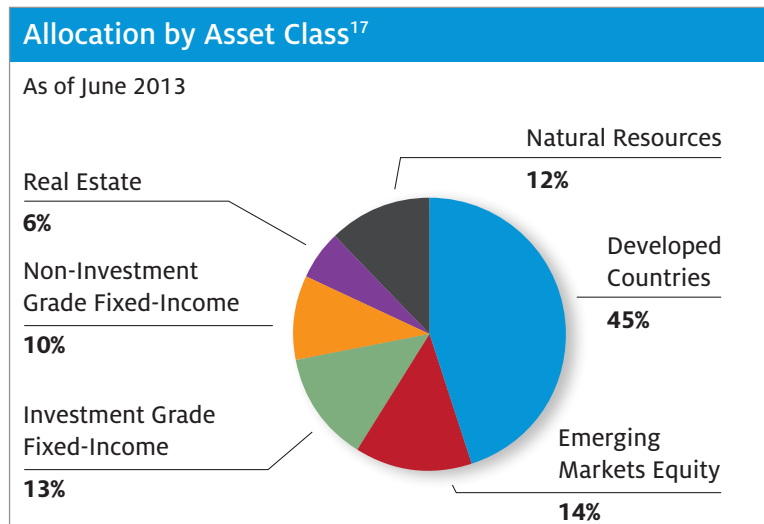
The Fund's investments are diversified using the following target asset allocation:¹⁵

- 45 percent – developed country equity
- 20 percent – emerging markets equity
- 13.5 percent – natural resources (investments in resources such as energy, minerals, and livestock, either through direct ownership or indirectly through a security whose value is tied to the resource)
- 9.5 percent – investment grade fixed-income
- 6.5 percent – real estate
- 5.5 percent – fixed-income rated below investment grade

The Fund adheres to the following investment restrictions:¹⁶

- No more than 5 percent of the market value of the Fund's fixed income investments may be invested in any single bond issuer
- No more than 25 percent of the market value of the Fund's equity investments may be invested in any one industry and no more than 5 percent may be invested in any single corporation
- No more than 7.5 percent of the combined market value of the Fund's fixed income and equity investments may be invested in any single corporation

Investment Laws, Rules and Policies



Policy on In-State Investments

Fund assets may invest in Texas through economically targeted investments. These are investments in which at least half of the investment is allocated to economic development in Texas or in local Texas businesses.¹⁸

Management and Accountability

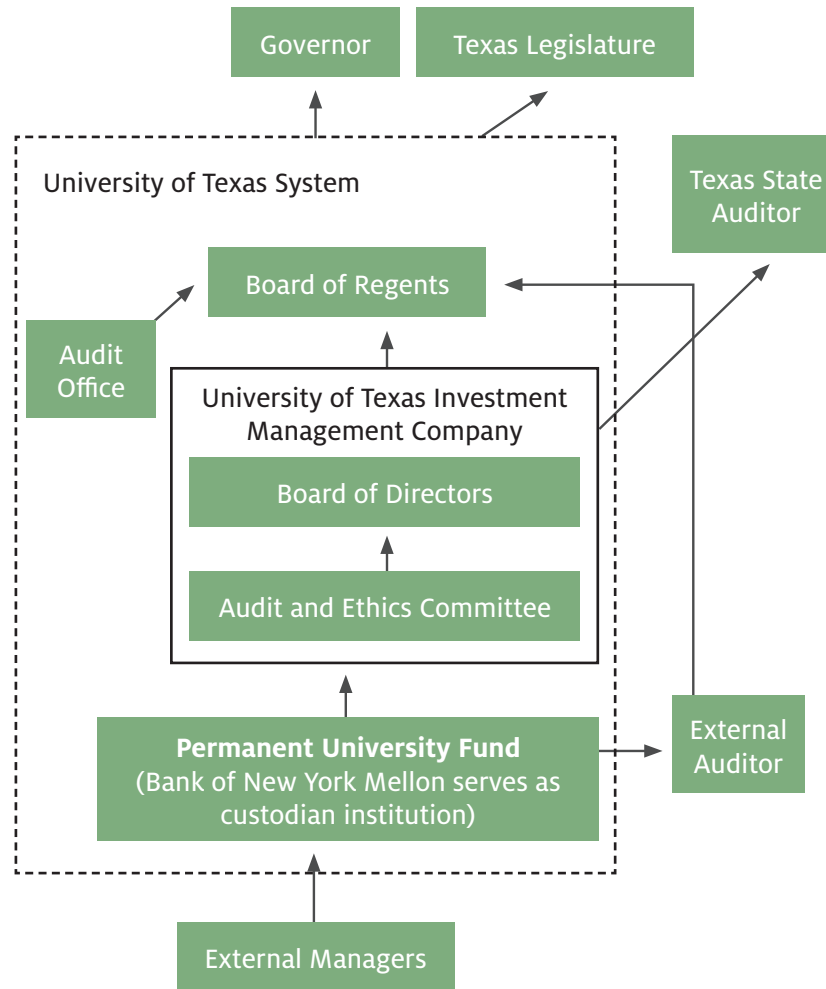
Management and internal accountability

The University of Texas System Board of Regents is appointed by the Governor.

The University of Texas system Board of Regents has ultimate responsibility for the Fund and approves any changes to investment and management policy.

An Audit Office performs internal audits of the University of Texas System.

The University of Texas Investment Management Company, headed by a Board of Directors, is responsible for day-to-day management of the Fund. The Board of Directors also appoints an Audit and Ethics Committee to oversee external audits. The Board consists of the Chancellor of the University of Texas system, three members from the University of Texas Board of Regents, three additional members appointed by the University of Texas Board of Regents and two members appointed by the Texas A&M University Board of Regents.



External accountability

The University of Texas Board of Regents releases annual reports to the Governor and the State Legislature regarding use of funds from the Available University Fund.

The Texas State Auditor reports on the University of Texas Investment Management Company's compliance with laws and regulations and publishes its findings.

An external auditor reports to both the University of Texas Board of Regents and the University of Texas Investment Management Company's Audit and Ethics Committee.

The Fund has strong reporting procedures and detailed information is readily available to the public.

Oversight and Safeguards

Oversight Mechanisms

- The **University of Texas Board of Regents**, which has ultimate responsibility for the Permanent University Fund, monitors Fund activity to ensure the University of Texas Investment Management Company's compliance with investment goals and policies.
- Arbitrary withdrawals from the Permanent University Fund are not allowed; all withdrawals must be **approved by the University of Texas Board of Regents**.
- A **periodic review process of investment methodology** is done by the University of Texas Investment Management Company's Board of Directors, with any changes then needing approval by the University of Texas Board of Regents.
- The Boards of the University of Texas and Texas A&M University systems are **required to publish reports** on how funds from the Available University Fund are spent.
- Finances are subject to a regular and comprehensive internal audit by the University of Texas Auditing Office.
- Fund finances are subject to **regular and independent external audits** by an independent auditor and the Texas State Auditor that meet international standards.

Common Oversight Mechanisms or Safeguards Not Present in Texas

- There is **little regular monitoring** by citizens or civil society organizations.

Transparency Laws, Rules and Policies

There is public disclosure of the following:

When or how often Fund reports are published and made publicly available	yes	
Which individuals or organizations are responsible for publishing Fund reports	yes	
Size of the Fund(s)	yes	
Deposit and withdrawal amounts	yes	
Returns on investments	yes	
Detailed asset allocation – geographic location	yes	
Detailed asset allocation – asset class	yes	
Detailed asset allocation – specific assets	yes	
Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules	yes	

Annex: List of Applicable Laws

Texas State Constitution Article 7, Section 11

<http://www.statutes.legis.state.tx.us/Docs/CN/htm/CN.7.htm#7.11>

Texas State Education Code Chapter 66: Permanent University Fund

<http://www.statutes.legis.state.tx.us/Docs/ED/htm/ED.66.htm>

Memorandum of Understanding for Investment Related Transactions and Accounting between the Comptroller of Public Accounts and University of Texas System: Permanent University Fund

http://www.utsystem.edu/cont/reports_publications/state_required_reports.htm

Vernon's Texas Revised Civil Statutes Title 70, Chapter 9, Article 4413 (34e): State Trust Fund Periodic Reporting

<http://www.statutes.legis.state.tx.us/Docs/CV/htm/CV.70.9.htm>

Endnotes

- 1 http://www.utimco.org/scripts/internet/puf_timeline.asp
- 2 Texas State Constitution Article 7 Section 11. Available at: <http://www.statutes.legis.state.tx.us/Docs/CN/htm/CN.7.htm>
- 3 <http://www.utimco.org/scripts/internet/fundsdetail.asp?fnd=2>
- 4 History of the Permanent University Fund p. 3. Available at: <http://www.utimco.org/Funds/Endowment/PUF/PUFBrochure.pdf>
- 5 History of the Permanent University Fund p. 6. Available at: <http://www.utimco.org/Funds/Endowment/PUF/PUFBrochure.pdf>
- 6 The University of Texas System Permanent University Fund Investment Policy Statement p. 1-2. Available at: <http://www.utimco.org/extranet/WebData/INVESTMENT/PUFInvestmentPolicy.pdf>
- 7 The University of Texas System Permanent University Fund Investment Policy Statement p. 8. Available at: <http://www.utimco.org/extranet/WebData/INVESTMENT/PUFInvestmentPolicy.pdf>
- 8 History of the Permanent University Fund p. 6. Available at: <http://www.utimco.org/Funds/Endowment/PUF/PUFBrochure.pdf>
- 9 Texas State Constitution Article 7 Section 18 (f). Available at: <http://www.statutes.legis.state.tx.us/Docs/CN/htm/CN.7.htm>
- 10 Texas State Constitution Article 7 Section 18 (a) and (b). Available at: <http://www.statutes.legis.state.tx.us/Docs/CN/htm/CN.7.htm>
- 11 History of the Permanent University Fund p. 6. Available at: <http://www.utimco.org/Funds/Endowment/PUF/PUFBrochure.pdf>
- 12 Texas State Education Code Chapter 66 Section 66.08. Available at: <http://www.statutes.legis.state.tx.us/Docs/ED/htm/ED.66.htm>
- 13 The University of Texas System Permanent University Fund Investment Policy Statement p. 4. Available at: <http://www.utimco.org/extranet/WebData/INVESTMENT/PUFInvestmentPolicy.pdf>
- 14 Permanent University Fund Semiannual Report December 2012 p. 1. Available at: <http://www.utimco.org/Funds/Endowment/PUF/PUF-SemiAnnual201206.pdf>
- 15 The University of Texas System Permanent University Fund Investment Policy Statement p. 11. Available at: <http://www.utimco.org/extranet/WebData/INVESTMENT/PUFInvestmentPolicy.pdf>
- 16 The University of Texas System Permanent University Fund Investment Policy Statement p. 1-2. Available at: <http://www.utimco.org/extranet/WebData/INVESTMENT/PUFInvestmentPolicy.pdf>
- 17 Permanent University Fund Semiannual Report June 2013 p. 3. Available at: <http://www.utimco.org/Funds/Endowment/PUF/PUFSemiAnnual201306.pdf>
- 18 Permanent University Fund Semiannual Report June 2013 p. 4. Available at: <http://www.utimco.org/Funds/Endowment/PUF/PUFSemiAnnual201306.pdf>