

*In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the Board, interest on the Tax-Exempt Notes (defined herein) will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions on the date thereof, subject to the matters described under "TAX MATTERS – Certain Federal Income Tax Considerations of Tax-Exempt Notes" herein, including the alternative minimum tax on certain corporations. Interest on the Taxable Notes (defined herein) is not excludable from gross income calculations for federal income tax purposes (see "TAX MATTERS – Certain Federal Income Tax Considerations of Taxable Notes" herein).*

## **COMMERCIAL PAPER MEMORANDUM**

Book-Entry-Only



### **BOARD OF REGENTS OF THE TEXAS A&M UNIVERSITY SYSTEM PERMANENT UNIVERSITY FUND COMMERCIAL PAPER NOTES, SERIES A**

*The Board of Regents of The Texas A&M University System Permanent University Fund Commercial Paper Notes, Series A (the "Notes") are special obligations of the Board of Regents of The Texas A&M University System (the "Board"), secured by and payable from, together with other sources described in the hereinafter defined Resolution, a lien on and pledge of the "Available University Fund Share," which lien and pledge are junior and subordinate to the lien on and pledge thereof securing the payment of the "Fund Priority Obligations" now outstanding or hereafter issued (as such quoted terms are hereinafter defined). The Notes will be issued in whole or in part as Tax-Exempt Commercial Paper Notes, Series A ("Tax-Exempt Notes") or Taxable Commercial Paper Notes, Series A ("Taxable Notes"). The Notes are issued by the Board pursuant to a resolution adopted by the Board on September 26, 2008, as amended (the "Resolution").*

The Notes are exempt from registration under Section 3(a)(2) of the Securities Act of 1933, as amended.

THE NOTES ARE SECURED SOLELY BY THE AVAILABLE UNIVERSITY FUND SHARE AND DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE BOARD, THE TEXAS A&M UNIVERSITY SYSTEM OR ANY PARTS THEREOF, OR THE STATE OF TEXAS OR ANY POLITICAL SUBDIVISION THEREOF. THE BOARD HAS NO TAXING POWER AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE PAYMENT OF THE NOTES.

**BARCLAYS**

Dated: February 24, 2025

## **COMMERCIAL PAPER MEMORANDUM**

**DATED: February 24, 2025**

### **BOARD OF REGENTS OF THE TEXAS A&M UNIVERSITY SYSTEM PERMANENT UNIVERSITY FUND COMMERCIAL PAPER NOTES, SERIES A**

Barclays Capital Inc., as Initial Placement Agent and Commercial Paper Dealer (together, the "Placement Agent"), is offering for sale, on behalf of the Board, Notes in the aggregate principal amount not to exceed \$125,000,000 outstanding at any one time. Interest on the Notes is calculated on an actual (365-/366-day) year basis, and the Notes will be sold at par.

The Placement Agent has provided the following sentence for inclusion in this Commercial Paper Memorandum. The Initial Placement Agent and Commercial Paper Dealer has reviewed the information in this Commercial Paper Memorandum in accordance with, and as part of its responsibility to investors under federal securities law as applied to the facts and circumstances of this transaction, but the Initial Placement Agent and Commercial Paper Dealer does not guarantee the accuracy or completeness of such information.

The Notes will be issued in whole or in part as Tax-Exempt Commercial Paper Notes, Series A ("Tax-Exempt Notes") or Taxable Commercial Paper Notes, Series A ("Taxable Notes"). On the date of initial delivery of any Notes issued as Tax-Exempt Notes, McCall, Parkhurst & Horton L.L.P., Bond Counsel, will render its opinion that, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, discussed below, interest on the Tax-Exempt Notes is excludable from gross income for federal income tax purposes and is not subject to the alternative minimum tax on individuals or, except as described herein, corporations. Corporate purchasers of the Tax-Exempt Notes should consult their tax advisors regarding the computation of alternative minimum tax. See "TAX MATTERS" herein. A copy of the opinion of Bond Counsel is attached hereto as "APPENDIX B – BOND COUNSEL OPINION" and addresses additional matters regarding the Tax-Exempt Notes and the Taxable Notes.

Capitalized terms used in this Commercial Paper Memorandum and not otherwise defined have the meaning assigned in the Resolution of the Board Establishing the Permanent University Fund Commercial Paper Program, dated September 26, 2008 (the "Original Resolution"), as amended by a First Amendment to the Original Resolution dated February 4, 2011 (collectively, the "Resolution").

The Notes are exempt from registration under Section 3(a)(2) of the Securities Act of 1933, as amended.

### **THE TEXAS A&M UNIVERSITY SYSTEM**

The Texas A&M University System (the "A&M System") was established pursuant to the provisions of the Constitution and the laws of the State of Texas (the "State" or "Texas") as an agency of the State. The A&M System presently consists of eleven State-supported academic institutions, and eight research and service agencies. For the 2024 Fall Semester the general academic institutions of the A&M System had a total enrollment of approximately 165,559 students, of which approximately 70,667 attended Texas A&M University in College Station. The service and research agencies are engaged in a wide variety of research and public service activities, as well as disaster response, in facilities located throughout the State. In addition, Texas A&M University's Health Science Center combines the health components of the A&M System into a unit of Texas A&M University. The Fiscal Year 2025 budget of the A&M System is approximately \$7.3 billion, and the A&M System benefits from endowments, subject to certain restrictions, with a market value of approximately \$21.0 billion as of January 31, 2025. Of this amount, \$18.0 million is attributable to funds held for investment on behalf of Texas Woman's University. The Board is the governing body of the A&M System and its members are officers of the State, appointed by the Governor of the State with the advice and consent of the State Senate. In July 2024, Chancellor John Sharp announced his upcoming retirement which will be effective June 30, 2025. In October 2024, Russell Reynolds Associates was hired to conduct a national search for his successor.

## DESCRIPTION OF THE NOTES

### Authority and Purpose for Issuance of the Notes

The Notes are issued under the authority of Article VII, Section 18 of the Texas Constitution (the "Constitutional Provision"); Chapter 1371, Texas Government Code, as amended, and other applicable law (collectively, the "Applicable Law"); and pursuant to the terms of the Resolution and the actions of the authorized representative of the Board establishing their final terms.

By adoption of the Resolution, the Board authorized an interim financing program for permanent improvements at various eligible component institutions of the A&M System pursuant to which Notes may be issued from time to time; provided that the combined aggregate principal amount of Tax-Exempt Notes and Taxable Notes outstanding at any one time may not exceed \$125,000,000. The Notes authorized to be issued under the Resolution are secured by and payable from a lien on and pledge of the A&M System's one-third interest in the Available University Fund (as hereinafter defined) as apportioned and provided in the Constitutional Provision (the "Available University Fund Share"), which lien and pledge are junior and subordinate to the lien on and pledge thereof securing the payment of the Fund Priority Obligations now outstanding or hereafter issued. See "SECURITY FOR THE NOTES - Fund Priority Obligations" and "PERMANENT UNIVERSITY FUND - Available University Fund."

In accordance with the requirements of the Resolution, the proceeds of the Notes may be used to pay Project Costs of Eligible Projects, to pay costs of issuance of the Notes and to refund or refinance Notes and other bonds or notes of the Board issued and delivered pursuant to the provisions of the Constitutional Provision, payable from and secured by a lien on and pledge of the Available University Fund ("Permanent University Fund Obligations"), including Fund Priority Obligations.

### General

The Notes are authorized to be issued in denominations of \$100,000 or in integral multiples of \$1,000 in excess thereof, to mature and become due and payable on such dates as shall be determined by an authorized representative of the Board at the time of sale; provided, however, that no Notes shall (i) mature after the Maximum Maturity Date (September 1, 2038) or (ii) have a term in excess of 270 calendar days. Interest on the Notes is payable at maturity on the basis of the actual number of days elapsed in a 365 or 366-day year, as applicable, and the Notes will be sold at par. The Notes may bear interest at an amount not exceeding the maximum "net effective interest rate" permitted by law, which maximum rate is currently 15% per annum. The Notes will be payable at the offices of the Issuing and Paying Agent, U.S. Bank Trust Company, National Association.

The Notes will initially be issued in book-entry form through the book-entry system of The Depository Trust Company ("DTC"), New York, New York. Ownership of beneficial interests in the Notes shall be shown by book entry on the system maintained and operated by DTC. See "APPENDIX A – BOOK-ENTRY-ONLY SYSTEM."

## SECURITY FOR THE NOTES

### Pledge Under the Resolution

Pursuant to the Applicable Law, the Resolution provides that the Notes and the interest thereon are equally and ratably secured by and payable from a lien on and pledge of the Available University Fund Share, which lien and pledge are junior and subordinate to the lien on and pledge thereof securing the payment of the Fund Priority Obligations now outstanding or hereafter issued. See "Fund Priority Obligations" and "PERMANENT UNIVERSITY FUND - Available University Fund." Additionally, the Board in the Resolution has reserved the right to issue obligations, including obligations pursuant to a credit facility, with a superior, parity, or inferior lien on and pledge of the Available University Fund Share, subject to the constitutional limitation that the aggregate amount of bonds and notes payable from the Available University Fund Share cannot at the time of issuance exceed 10% of the cost value of investments and other assets of the Permanent University Fund, exclusive of real estate (the "10% Limit"). Based on the current, unaudited cost value as of January 31, 2025 of such investments and assets in the Permanent University Fund, the 10% Limit was approximately \$3,257,005,052. See "PERMANENT UNIVERSITY FUND — Constitutional Debt Power, Debt Limitations." As of January 31, 2025, \$1,464,535,000 of such obligations were outstanding, excluding the Notes.

THE NOTES ARE SECURED SOLELY BY THE AVAILABLE UNIVERSITY FUND SHARE AND DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE BOARD, THE A&M SYSTEM, THE STATE, OR ANY

POLITICAL SUBDIVISION OF THE STATE. THE BOARD HAS NO TAXING POWER, AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE NOTES.

### **Liquidity**

The Notes are not currently supported by a letter of credit or other credit facility. The Board will notify the Placement Agent and the holders of outstanding Notes prior to entering into a Liquidity Agreement (as defined in the Resolution), to provide the Board with liquidity with regard to its obligations under the Notes. In addition, no such Liquidity Agreement will be entered into with respect to or supporting then outstanding Notes. The liquidity support for the Notes is provided by various funds under the control of the Board. See "LIQUIDITY SUPPORT."

### **Perfection of Security**

Chapter 1208, Texas Government Code, applies to the issuance of the Notes and the pledge of security made by the Board in the Resolution, and such pledge, as amended, is, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the Notes are outstanding and unpaid, the result of such amendment being that the pledge of security granted by the Board in the Resolution is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, as amended, in order to preserve to the Holders of the Notes a security interest in such pledge, the Board agrees to take such measures as it determines are reasonable and necessary to cause the pledge of security granted in the Resolution to be perfected.

### **Fund Priority Obligations**

The Board presently has outstanding eleven series of Fund Priority Obligations issued pursuant to the Constitutional Provision, having an aggregate principal balance on January 31, 2025, of \$1,464,535,000 (excluding the Notes). The Fund Priority Obligations are equally and ratably secured by and payable from a first lien on and pledge of the Available University Fund Share (described below). The Resolution provides that the Notes and the interest thereon are payable solely from and secured solely by a lien on and pledge of: (i) the proceeds from (a) the sale of Permanent University Fund Obligations issued for the purpose of paying outstanding Notes and (b) the sale of Notes issued pursuant to the Resolution for the purpose of paying outstanding Notes; (ii) the amounts held in the Note Payment Fund (defined below) and the System Special Account; and (iii) the Available University Fund Share, such pledge of Available University Fund Share being subordinate to the pledge thereof securing the payment of Fund Priority Obligations. See "Future Financings" and "PERMANENT UNIVERSITY FUND - Available University Fund."

### **Creation of Funds and Accounts**

*Note Payment Fund.* The Resolution established with the Issuing and Paying Agent a separate and special fund designated as the "Board of Regents of The Texas A&M University System Permanent University Fund, Commercial Paper Note Payment Fund" (the "Note Payment Fund"). All amounts required to be paid to the Issuing and Paying Agent by the Board pursuant to the Resolution will be deposited to the Note Payment Fund and must be used to pay principal of and interest on Notes at the respective maturity dates of such Notes as provided herein.

*Interest and Sinking Fund.* The Notes represent obligations that are subordinate to the Fund Priority Obligations. The resolutions authorizing the Fund Priority Obligations have established and continued in the Treasury of the State of Texas (the "Treasury") a fund known as the "Board of Regents of The Texas A&M University System Permanent University Fund Bonds Interest and Sinking Fund" (the "Interest and Sinking Fund"). The Fund Priority Obligations are payable from monies deposited into the Interest and Sinking Fund. After provision has been made for the payment of the principal of and interest on the Fund Priority Obligations, the balance of the Available University Fund Share will be made available to the Board for deposit into the Note Payment Fund and any payment account(s) established for the payment of Short Term Obligations (defined below), such amounts as are necessary to pay the interest on and/or the principal of the Notes and any Short Term Obligations as the same come due and mature or are required to be purchased to the extent not paid from the proceeds of Notes, Short Term Obligations, Fund Priority Obligations, or other obligations of the Board issued under the Constitutional Provision; provided that, if such balance of the Available University Fund Share shall not be sufficient to pay such amounts due on the Notes and any Short Term Obligations, the Board shall deposit such balance of the Available University Fund Share into the Note Payment Fund and any payment account(s) established for the payment of any Short Term Obligations on a ratable basis according to such amounts due on the Notes and any Short Term Obligations without any discrimination or privilege. After provision has been made for the payment of the interest and principal of the Notes and any Short Term Obligations, the balance of the Available University Fund

Share each year will be made available to the Board in the manner provided by law and by regulations of the Board to be used by the Board as it may lawfully direct.

Pursuant to the Resolution, the term "Short Term Obligations" is defined to mean bonds or other evidences of indebtedness issued and incurred by the Board (other than the Notes) payable from the same sources, or any portion of such sources, securing the payment of the Notes and equally and ratably secured by a parity lien on and pledge of such sources securing the Notes or any portion thereof. There are no Short Term Obligations currently outstanding. See "Future Financings."

*System Special Account.* There has heretofore been established in the Treasury of the State of Texas the "System Special Account." If there is on deposit in the System Special Account from the Available University Fund Share, monies sufficient to pay the principal of and interest on the Notes as the same come due and mature, an authorized representative of the Board or other designated officer or employee must transfer from such account to the Issuing and Paying Agent for deposit in the Note Payment Fund monies sufficient to pay such amounts, and thereafter must coordinate with the Comptroller of Public Accounts of the State of Texas (the "Comptroller of Texas") and take such actions as are necessary to restore the System Special Account to an amount equal to the amount such official estimates will be necessary, from the Available University Fund Share, to pay said interest on and/or principal of the Notes.

*Note Construction Fund.* Under the Resolution, the Board has established a separate account designated as the "Board of Regents of The Texas A&M University System Commercial Paper Note Construction Fund" (the "Commercial Paper Construction Fund") and within such fund has established separate accounts designated as the "Tax-Exempt Note Account" and the "Taxable Note Account." The Commercial Paper Construction Fund is maintained by the Board in an official account of the A&M System. Money on deposit or to be deposited in the Commercial Paper Construction Fund remains therein until from time to time expended for Project Costs and is not used for any other purpose whatsoever, except as otherwise provided below. Pending the expenditure of money in the Commercial Paper Construction Fund, money deposited therein or credited thereto can be invested at the direction of an authorized representative in the manner prescribed by law and in accordance with the written policies adopted by the Board. Any income received from investments in the Commercial Paper Construction Fund is retained in the Commercial Paper Construction Fund.

Any amounts remaining in the Commercial Paper Construction Fund and not necessary for the payment of Project Costs will be paid into the Note Payment Fund and used either for the payment of interest during construction and thereafter on the Notes or payment of such maturities or purchases of the Notes coming due at such times as may be selected by an authorized representative of the Board, as the case may be. In the event no Notes are outstanding, any amounts in the Commercial Paper Construction Fund not anticipated to be needed to pay Project Costs will be transferred to the Interest and Sinking Fund.

### **Authorized Investments**

Funds on deposit in the Note Payment Fund and the Commercial Paper Construction Fund may be invested at the direction of an authorized representative of the Board in the manner prescribed by law and in accordance with the written policies of the Board.

### **Remedies and Defaults**

If an "Event of Default" under the Resolution occurs, any owner of any of the Notes ("Note Holders") has the right to institute mandamus proceedings against the Board or any other necessary or appropriate party for the purpose of enforcing payment from the sources pledged under the Resolution or for enforcing any covenant. Except for the remedy of mandamus to enforce the Board's covenants and obligations under the Resolution, the Resolution does not establish other remedies with respect to the Notes. The Resolution does not provide for a trustee to enforce the covenants and obligations of the Board. In no event shall Note Holders have the right to have the maturity of the Notes accelerated as a remedy. The enforcement of the remedy of mandamus may be difficult and time consuming, and would need to be exercised for each successive Event of Default. No assurance can be given that a mandamus or other legal action to enforce an Event of Default under the Resolution would be successful.

Under current State law, the Board is prohibited from waiving sovereign immunity from liability with respect to the Notes, and the holders thereof are prevented by operation of the Board's sovereign immunity from bringing a suit against the Board in a court of law to adjudicate a claim to enforce the Notes or for damages for breach of the Notes. However, State courts have held that mandamus proceedings against a governmental unit, such as the Board, as discussed in the preceding paragraph, are not prohibited by sovereign immunity.

The Resolution prescribes any one or more of the following events as "Events of Default":

- (a) if default is made in the due and punctual payment of any installment of principal of any Note when and as the same becomes due and payable, whether at stated maturity as therein expressed, by declaration, or otherwise;
- (b) if the Board fails to make due and punctual payment of any installment of interest on any Note when and as such interest installment becomes due and payable and such failure shall continue for five Business Days;
- (c) if an "event of default" under a Liquidity Agreement occurs; or
- (d) if default is made by the Board in the performance or observance of any other of the covenants, agreements, or conditions on its part in the Resolution or in the Notes, and such default continues for a period of 60 days after written notice thereof to the Board by the Holders of not less than 10% in principal amount of the Notes then outstanding.

### **Future Financings**

The Constitutional Provision provides that member institutions of the A&M System, other than East Texas A&M University (formerly known as Texas A&M University – Commerce), Texas A&M University – Corpus Christi, Texas A&M University – Kingsville, Texas A&M International University, West Texas A&M University, Texas A&M University – Texarkana, Texas A&M Veterinary Medical Diagnostic Laboratory and Texas Division of Emergency Management, may not receive any funds from the general revenues of the State for acquiring land, with or without improvements, for constructing or equipping buildings or other permanent improvements, or for major repairs or rehabilitation of buildings or other permanent improvements, except in the case of fire or other natural disaster (when the Texas 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 Legislature. Accordingly, the needs of the A&M System for capital funds through the issuance of bonds or notes payable from the Available University Fund Share are on-going.

The Board has authorized the issuance of up to \$590 million of additional Fund Priority Obligations during the Fiscal Year ending August 31, 2025. To date, no Fund Priority Obligations have been issued under this authorization. The Board has \$590 million (100%) of authorization remaining for fiscal year 2025, which may include refunding opportunities that are economically beneficial. The Board may issue additional Notes from time to time, but no more than \$125 million will be outstanding at any time.

Potential purchasers of the Notes are advised that the Board reserves the right, subject to constitutional limitations, to issue additional bonds and notes secured by and payable from a lien on the Available University Fund Share, which lien may be superior to, on a parity with, or inferior to, the lien securing the Notes. See "PERMANENT UNIVERSITY FUND — Constitutional Debt Power, Debt Limitations."

### **SALES OF NOTES**

#### **Competitive Bidding Required for Certain Notes**

Pursuant to the Constitutional Provision, all Notes except Notes issued to refund outstanding Notes are required to be sold through competitive bidding. In connection with sales of such Notes, an authorized representative of the Board will arrange for a notice of sale and bidding instructions (each, a "Notice of Sale") setting forth the particular parameters of each such sale and the applicable method for the submission of bids to be made available to potential purchasers of such Notes.

Except as described below in "Subsequent Competitive Offering After Failed or Rejected Sale," at least twelve (12) hours prior to any competitive sale of Notes, the Board will arrange for a Notice of Sale to be communicated to the market through an accepted electronic financial notification service, such as Bloomberg or Parity.

The Board's agreement with the Placement Agent allows it to act in connection with conducting competitive bidding for such Notes. For such sales, the Placement Agent, acting in conjunction with an authorized representative of the Board, will assist in the preparation of the Notice of Sale and make such notice available to potential purchasers

of such Notes. The Placement Agent does not have the right to submit a bid for Notes in any competitive sale in which it acts as Placement Agent.

The Board also has the right to conduct any such competitive sale of Notes itself or through another party acting on its behalf, other than the Placement Agent. Barclays Capital Inc. does have the right, but not the obligation, to submit a bid for Notes in any such competitive sale where Barclays Capital Inc. is not acting as Placement Agent.

### **Basis for Award in Competitive Sale**

The Notes subject to competitive bidding will be awarded to the best bidder(s) based on the lowest yield bid, at par, for the applicable initial interest period(s) set forth in the Notice of Sale. An award may be made to any bidder(s) in a principal amount less than the principal amount of any Notes for which the bid is submitted; provided that no award will be made of any Notes in an aggregate principal amount which is not (i) an integral multiple amount of \$100,000 and (ii) in excess of \$1,000,000. In the event that two or more bidders offer identical bids for the Notes, the winning bid shall be the earlier bid received in the determination of the Board or, if applicable, the Placement Agent acting on behalf of the Board, whose determination shall be final.

Notwithstanding anything in this Commercial Paper Memorandum or a Notice of Sale to the contrary, the Board reserves the right to reject all bids received in a competitive sale of Notes and to waive any and all irregularities with respect to such a sale, except time of submission and compliance with the Interested Party Disclosure Act and the Covered Verifications (as described in the Notice of Sale).

### **Other Terms and Conditions of Competitive Bidding**

Each bid submitted shall be deemed an irrevocable offer to purchase the applicable Notes described in such bid on the terms provided in the Notice of Sale and this Commercial Paper Memorandum and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the Board.

None of the Placement Agent, the Board or any other party acting on behalf of the Board in connection with any competitive sale of Notes will be responsible or have any liability for (1) submitting any bids received after deadlines set forth in any Notice of Sale, (2) any irregularities associated with the submission of bids, (3) any malfunction or mistake made by, or as a result of the use of, any third party bidding platform or facility, the use of which is at the sole risk of the bidder or (4) any electronic malfunction or other communication disruption that prevents, disrupts, delays or otherwise impairs a bid or bids from being submitted on a timely basis.

For the purpose of determining compliance with any and all time deadlines set forth in a Notice of Sale or this Commercial Paper Memorandum for any competitive bidding procedures, the official time shall be the time maintained only by the Board or, if applicable, the Placement Agent acting on behalf of the Board, whose determination shall be final.

The Board will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe to any third party bidding platform or facility, including any electronic bidding system, used in a competitive sale of Notes.

### **Subsequent Competitive Offering After Failed or Rejected Sale**

In the event that insufficient bids are received to award the sale of an installment of Notes offered for sale by competitive bidding or the Board exercises its right to reject all bids received in a competitive offering, within one hour after the deadline for the submission of bids for such Notes, the Board may provide for the electronic posting of notice of a subsequent competitive sale for such installment of Notes and such subsequent competitive sale may occur as early as two hours after the posting of such subsequent notice. Each such subsequent notice shall be considered an amendment to the applicable Notice of Sale. Any such subsequent competitive offering of such installment of Notes may be conducted by the Board, the Placement Agent or another party acting on behalf of the Board, regardless of whether such party conducted the prior competitive bidding for such installment of Notes.

## **Sales of Notes Issued to Refund Outstanding Notes**

Notes issued to refund outstanding Notes are not required to be sold by competitive bidding and may be sold in any manner deemed to be most economically advantageous by an authorized representative of the Board.

### **PERMANENT UNIVERSITY FUND**

#### **Introduction**

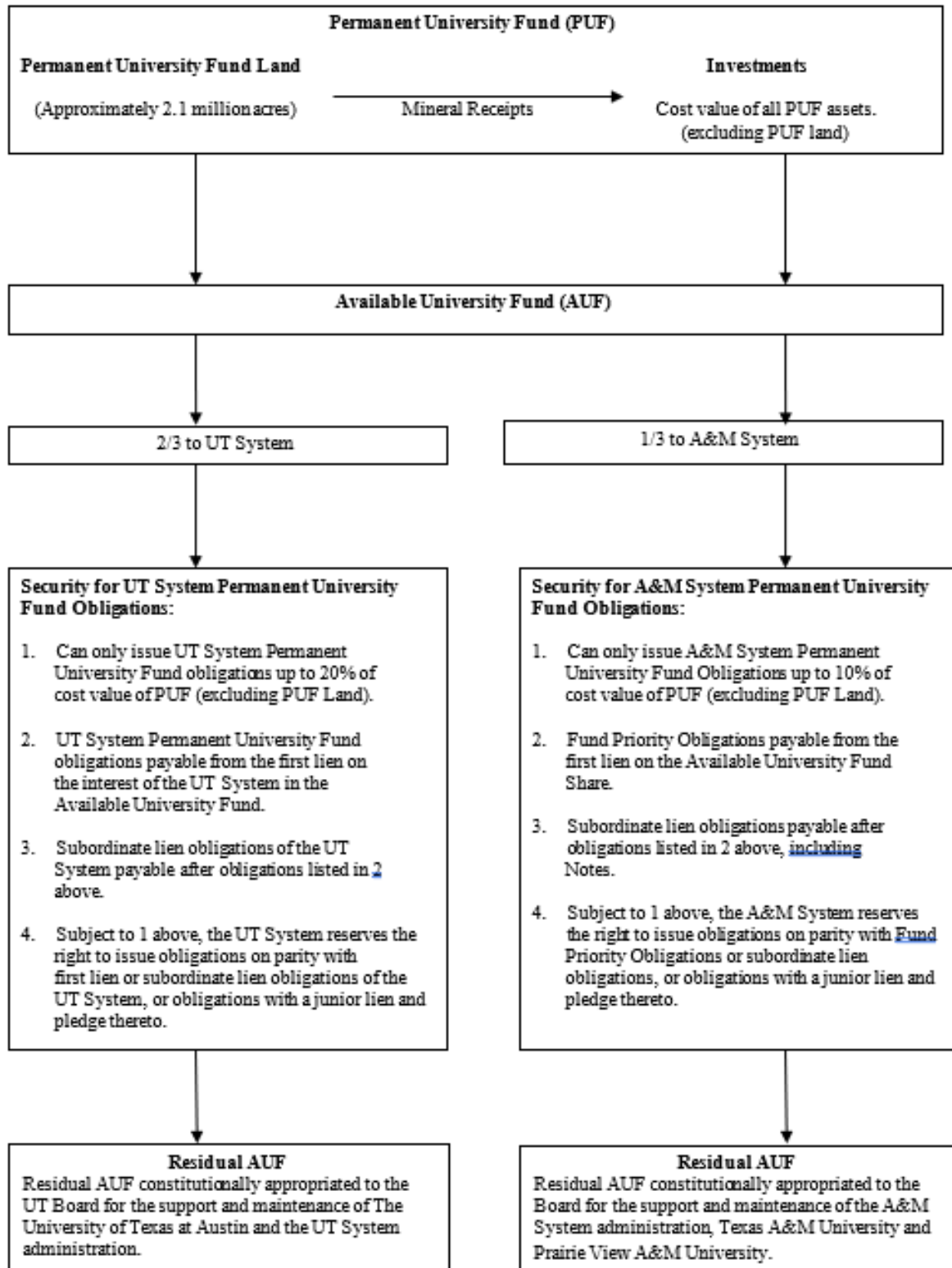
The Permanent University Fund is a constitutional fund created in the Texas Constitution of 1876. The assets and earnings of the Permanent University Fund are dedicated to the uses and purposes of the A&M System and The University of Texas System (the "UT System").

The Permanent University Fund is a public endowment contributing to the support of institutions of the UT System and eligible institutions of the A&M System (other than East Texas A&M University, Texas A&M University – Corpus Christi, Texas A&M University – Kingsville, Texas A&M International University, West Texas A&M University, Texas A&M University – Texarkana, Texas A&M Veterinary Medical Diagnostic Laboratory and Texas Division of Emergency Management). The Texas Constitution of 1876 established the Permanent University Fund through the appropriation of land grants previously given to The University of Texas at Austin plus one million acres. The land grants to the Permanent University Fund were completed in 1883 with the contribution of another one million acres. Today, the Permanent University Fund contains approximately 2.1 million acres located in 24 Texas counties (the "PUF Land").

A graphic summary and analysis of the relationship among the Permanent University Fund, the Available University Fund, the A&M System and the UT System follows. Said summary and analysis is qualified in its entirety by reference to the full text of this Commercial Paper Memorandum and to the documents, laws, and constitutional provisions referred to herein.

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## Historical Distributions, Debt Service Requirements and Coverage

Table I below sets forth historical distributions (in the amounts approved by the Board of Regents (the "UT Board") of the UT System, plus net income attributable to the surface of PUF Land) to the Available University Fund, together with the debt service requirements of the outstanding Permanent University Fund Obligations, including the Notes, and the coverage thereof.

**Table I**  
**Historical Available University Fund <sup>(1)</sup>**  
**(In Thousands)**

Fiscal Year Ending <u>August 31</u>	<u>AUF <sup>(2)</sup></u>	Available University <u>Fund Share</u>	Other <u>Income <sup>(3)</sup></u>	Total Amounts Available to Pay Debt <u>Service</u>	Total Debt Service Paid from the Available University <u>Fund Share <sup>(4)</sup></u>	<u>Coverage <sup>(5)</sup></u>
2020	\$1,387,096	\$462,365	\$10,004	\$472,369	\$98,943	4.77x
2021	1,174,074	391,358	2,092	393,450	156,103	2.52x
2022	1,256,543	418,848	3,256	422,104	156,272	2.70x
2023	1,350,682	450,227	23,420	473,647	117,099	4.04x
2024	1,995,051	665,017	37,605	702,622	205,551	3.42x

(1) The amounts are unaudited amounts reflected on the books of the A&M System.

(2) Includes distribution amount approved by the UT Board, plus net income attributable to the surface of PUF Land.

(3) Represents earnings on investments of the Available University Fund Share.

(4) Includes principal payment on Notes of \$50.0M in Fiscal Year 2021, \$50.0M in Fiscal Year 2022, and \$85.0M in Fiscal Year 2024.

(5) Represents Total Amounts Available to Pay Debt Service divided by Total Debt Service Paid from the Available University Fund Share.

### Available University Fund

The Available University Fund is defined by 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 PUF Land, in the amounts determined by the UT Board. 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 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 by the UT Board and the Board 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 by the UT Board and the Board 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. The other one-third of the amounts attributable to the Available University Fund is constitutionally appropriated to the A&M System. The Constitutional Provision appropriates the annual distributions from the Permanent University Fund to the Available University Fund to the UT Board and the 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 PUF Land) and by the Board to 10% of such cost value.

After the payment of annual debt service on all bonds and notes payable from the Available University Fund Share, the Constitutional Provision appropriates the remaining amount attributable to the Available University Fund Share (the "Residual AUF") to the Board for the support and maintenance of the A&M System administration, Texas A&M University and Prairie View A&M University.

Money credited to the Available University Fund is administered by the Comptroller of Texas and, along with other funds of the State of Texas, is invested in accordance with Texas State law. Earnings on that portion of the Available University Fund appropriated to the A&M System accrue to and become a part of the Available University Fund Share.

### **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. 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 PUF 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 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, in May of each year, 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. Each year, the distribution amount is used to prepare the budget for the upcoming Fiscal Year.

At its meeting on May 9, 2024, the UT Board approved the distribution amount of \$1,524,925,000 from the Permanent University Fund for Fiscal Year 2025. Such distribution amount (i) reflects a 18.47% decrease over the aggregate distribution amount approved by the UT Board for Fiscal Year 2024; and (ii) as a percentage of the applicable trailing twenty-quarter average of the net asset value of the Permanent University Fund, was 5.25%. At its meeting on August 24, 2023, the UT Board approved the distribution amount of \$1,407,795,000 from the Permanent University Fund for Fiscal Year 2024. Such distribution amount (i) reflects a 14.35% increase over the distribution amount approved by the Board for Fiscal Year 2023, and (ii) as a percentage of the applicable trailing twenty-quarter average of the net asset value of the Permanent University Fund, was 5.27%. At its meeting on November 16, 2023, the UT Board approved a supplemental distribution amount of \$462,680,000 for Fiscal Year 2024. The total distribution amount approved by the UT Board from the Permanent University Fund for Fiscal Year 2024, as a percentage of the applicable twenty-quarter average of the net asset value of the Permanent University Fund, was 7.00%. 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.

### **Constitutional Debt Power, Debt Limitations**

The discretion to direct the use of the Available University Fund Share for constitutionally authorized purposes is vested in the Board.

The Constitutional Provision authorizes the Board to issue bonds and notes, payable from all or any part of the Available University Fund Share for the purpose of (a) acquiring land, with or without permanent improvements, (b) constructing and equipping buildings or other permanent improvements, (c) making major repair and rehabilitation of buildings and other permanent improvements, (d) acquiring capital equipment, library books and library materials, and (e) refunding bonds or notes issued under such Constitutional Provision or prior law at or for A&M System administration and certain member institutions of the A&M System. The pledge and security interest made and granted in the Resolution is accomplished pursuant to the Constitutional Provision.

The Constitutional Provision limits the aggregate amount of bonds and notes secured by the Available University Fund Share that may be issued by the Board to 10% of the cost value of investments and other assets of the Permanent University Fund, exclusive of PUF Land. As of January 31, 2025, the unaudited cost value of the Permanent University Fund, exclusive of PUF Land, was approximately \$32.57 billion and outstanding A&M System Permanent University Fund Obligations totaled approximately \$1.59 billion. Accordingly, using the January 31, 2025 valuation number and the January 31, 2025 outstanding indebtedness number (without taking into account the issuance of authorized but unissued Notes, including the contemplated issuance of Notes that is the subject of this Commercial Paper Memorandum), the Board will be authorized to issue an additional \$1.67 billion of Permanent University Fund Obligations without violating the 10% Limit. For the purpose of making these calculations, "cost value" and "book value" are treated as equivalent terms.

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Table II shows the historical constitutional debt limits of the Permanent University Fund for Fiscal Years 2020 through 2024 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 A&M System and the UT System.

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

Fiscal Year Ending August 31	Book Value of Fund <sup>(1)</sup>	UT System		A&M System	
		Constitutional Debt Limit	Outstanding	Constitutional Debt Limit	Outstanding
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
2022	27,255,875	5,451,175	3,498,090	2,725,588	1,462,180
2023	29,254,432	5,850,886	3,620,770	2,925,443	1,523,285
2024	31,198,111	6,239,622	3,761,555	3,119,811	1,524,535

(1) Excludes PUF Land.

Note: Debt limits are based on the Permanent University Fund's book value which includes investments, receivables and payables. None of the Board, the UT Board or UTIMCO make any representation as to the future performance of the Permanent University Fund.

As of January 31, 2025, the UT Board has issued and there is currently outstanding approximately \$4.01 billion in aggregate principal amount of bonds and notes secured by and payable from the interest of the UT System in the Available University Fund.

### 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 PUF 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 three must be members of the UT Board, three must have a 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 Board (at least one of whom must have a substantial background and expertise in investments).

### 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 January 31, 2025, approximately 4.5% of Permanent University Fund investments (primarily fixed income, ETFs, futures contracts, and other derivatives) were managed internally with the remaining 95.5% managed externally by unaffiliated investment managers.

## **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 bonds and notes issued pursuant to the Constitutional Provision by the Board and the UT Board ("PUF Debt"), are exempt from the yield restriction and rebate requirements otherwise imposed on tax-exempt obligations 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 PUF Land) (the "20-Percent Limit"). The A&M System and the UT System, however, are permitted by the Constitutional Provision to issue PUF Debt in an aggregate 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 PUF Land) at the time of issuance thereof, as described above.

The outstanding principal amount of tax-exempt PUF Debt for the UT System and 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 have indicated that certain actions may be taken to mitigate the effect of imposing such yield restrictions.

## **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 if it adheres to the prudent investor standard. See "- Management of the Permanent University Fund."

On August 22, 2024, the UT Board approved revisions to the Investment Policy Statement for the Permanent University Fund, which took effect September 1, 2024. The amendments reflect changes to the strategic asset allocation framework and set forth revised Asset Class targets and ranges effective September 1, 2024. The UT Board's Investment Policy Statement 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 and investment type 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, investment type ranges, liquidity, and benchmarks for the Permanent University Fund.

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). Active extension strategies involve the use of leverage and include offsetting long and short exposures, often targeting 100% net long exposure. Active extension strategies may be classified as Developed Public Equity, provided that these strategies target a combined market sensitivity, defined by beta to the relevant benchmark, of approximately 1.0.

**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, depository receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures). Active extension strategies involve the use of leverage and include offsetting long and short exposures, often targeting 100% net long exposure. Active extension strategies may be classified as Emerging Markets Public Equity, provided that these strategies target a combined market sensitivity, defined by beta to the relevant benchmark, of approximately 1.0.

**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 moderate market sensitivity as defined by beta to public equities. Strategies may include but are not limited to long/short equity, multi-strategy, event-driven, credit (loans, bonds, asset-backed securities, direct lending and distressed) 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, mortgage and asset-backed securities and ETFs. 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, bills and ETFs. 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 public equities, and have an absolute return orientation. Strategies may include but are not limited to market-neutral equity, multi-strategy, re-insurance, risk premia, relative value, trend following, direct lending, specialty credit and global macro.

**Cash** – Cash has the same meaning as given to the term “Cash” in the UT Board’s 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 ETFs and 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 Gross Total Return Index (RMSG) 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 trusts (“REITs”) or any other instrument commonly used by institutional investors and derivatives based 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.

#### **Cross-Asset Strategies:**

**Cross-Asset Strategies** – Portable alpha strategies are investment strategies within and across regimes and generally involve the use of leverage. Such strategies are permitted in the Developed Public Equity, Emerging Markets Public Equity and the Long Treasuries Asset Classes, provided that such strategies target a combined market sensitivity (defined by beta to the relevant benchmark for the particular Asset Class) of approximately 1.0. For example, portable alpha strategies may include, but are not limited to, the use of fixed income or hedge fund overlays within an equity portfolio to target a combined market sensitivity of approximately 1.0.

#### **Innovation and Disruption:**

**Innovation and Disruption** –The Innovation and Disruption portfolio comprises investments in emerging asset types or industries that are innovative or disruptive. Innovation and Disruption investments have the potential to become large and institutional markets over time. This portfolio provides a nimble and timely means to identify and invest in these opportunities with the primary objectives of developing a deeper understanding of the assets and benefitting from the returns earned by early movers. To manage the risk of this portfolio, UTIMCO will develop and maintain portfolio guidelines that determine the investment selection process and limit the maximum size of the portfolio and the maximum size of individual investments. Over time, UTIMCO will assess if these investments should become larger and more permanent elements of funds managed by UTIMCO, either as part of an existing or a newly defined Asset Class.

Table III sets forth (i) the percentage allocation (as of January 31, 2025) 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, 2025, which became effective on September 1, 2024. 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 Board. The Board may, from time to time, implement further revisions to the Investment Policy Statement for the Permanent University Fund.

**Table III**  
**Permanent University Fund**  
**Asset Class Targets and Ranges**

Asset Class	Actual Allocation (As of 1/31/2025)	FYE 2025		
		Min v Target	Target	Max v Target
<u>Global Equity:</u>				
Developed Public Equity	23.1%	-5.0%	20.0%	+15.0%
Emerging Market Public Equity	5.3%	-5.0%	6.4%	+5.0%
<i>Total Public Equity</i>	<i>28.4%</i>	<i>-5.0%</i>	<i>26.4%</i>	<i>+15.0%</i>
Directional Hedge Funds	6.3%	-5.0%	6.0%	+5.0%
Private Equity	26.7%	17.5%	27.5%	37.5%
<b>Total Global Equity</b>	<b>61.4%</b>	<b>-7.0%</b>	<b>59.9%</b>	<b>+15.0%</b>
<u>Stable Value:</u>				
Investment Grade Fixed Income	0.0%	-5.0%	0.0%	+5.0%
Long Treasuries	4.5%	-5.0%	5.1%	+5.0%
Credit-Related Fixed Income	0.1%	-5.0%	0.0%	+5.0%
<i>Total Fixed Income</i>	<i>4.6%</i>	<i>-5.0%</i>	<i>5.1%</i>	<i>+5.0%</i>
Cash	2.3%	-5.0%	2.0%	+5.0%
Stable Value Hedge Funds	10.6%	-5.0%	10.5%	+5.0%
<b>Total Stable Value</b>	<b>17.5%</b>	<b>-10.0%</b>	<b>17.6%</b>	<b>+6.0%</b>
<u>Real Return:</u>				
Inflation Linked Bonds	0.0%	-5.0%	0.0%	+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	2.9%	0.0%	3.3%	8.0%
Infrastructure	4.6%	0.0%	4.5%	10.0%
Real Estate	8.4%	5.0%	9.7%	15.0%
<b>Total Real Return</b>	<b>15.9%</b>	<b>-6.0%</b>	<b>17.5%</b>	<b>+6.0%</b>
<b>Strategic Partnerships</b>	<b>5.1%</b>	<b>-5.0%</b>	<b>5.0%</b>	<b>+5.0%</b>
<b>Innovation and Disruption</b>	<b>0.1%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>5.0%</b>
<b>Total All Asset Classes</b>	<b>100.00%</b>		<b>100%</b>	<b>110%</b>

Notes: The total Asset Class exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 110% 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, Private Real Estate, Natural Resources and Infrastructure, will be set each month as the average ending actual weight of the PUF and General Endowment Fund 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 100% of Developed Equity. 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.

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Table IV shows the annual performance in the market value of the Permanent University Fund for fiscal years 2020 through 2024, 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 IV**  
**Annual Permanent University Fund Growth**  
**(in Millions)**

Fiscal Year Ending <u>August 31</u>	Beginning Market Value	PUF Mineral <u>Receipts</u>	Net Investment <u>Return</u>	Distributions to the Available University Fund <sup>(1)</sup>	Ending Market Value
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
2022	31,969.3	2,124.6	(2,043.3)	(1,161.8)	30,888.8
2023	30,888.8	1,864.4	1,488.1	(1,231.1)	33,010.2
2024	33,010.2	1,850.3	3,478.9	(1,870.5)	36,468.9

(1) Represents the distribution amount approved by the UT Board, which is exclusive of any net income attributable to the surface of PUF Land. See "Permanent University Fund Spending Policy."

As of January 31, 2025, the Permanent University Fund (exclusive of PUF Land) had an unaudited market value of approximately \$38.0 billion. None of the Board, the UT Board or UTIMCO make any representation as to the future performance of the Permanent University Fund. See "OTHER MATTERS."

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Table V shows a summary comparison of the fiduciary net position of the Permanent University Fund as reported by UTIMCO, excluding the PUF Land, for Fiscal Years ended August 31, 2023 and 2024.

**Table V<sup>(1)</sup>**  
**Permanent University Fund**  
**Comparison Summary of Fiduciary Net Position**  
**August 31, 2023 and August 31, 2024**  
**(In Thousands)**

	<b>August 31, 2023</b>		<b>August 31, 2024</b>	
	<b><u>Book Value</u></b>	<b><u>Fair Value</u></b>	<b><u>Book Value</u></b>	<b><u>Fair Value</u></b>
<b>Equity Securities</b>				
Domestic Common Stock	\$1,504,309	\$1,727,271	\$1,562,510	\$1,999,687
Foreign Common Stock	1,811,714	1,896,000	1,429,711	1,690,320
Other	<u>7,972</u>	<u>6,675</u>	-	<u>1</u>
<b>Total Equity Securities</b>	3,323,995	3,629,946	2,992,221	3,690,008
<b>Preferred Stocks</b>				
Domestic Preferred Stock	-	-	-	-
Foreign Preferred Stock	<u>39,433</u>	<u>47,344</u>	<u>32,453</u>	<u>41,872</u>
<b>Total Preferred Stocks</b>	39,433	47,344	32,453	41,872
<b>Debt Securities</b>				
U.S. Govt. Obligations	2,087,575	1,868,520	1,685,223	1,633,392
Foreign Govt. and Provincial Obligations	283,032	227,831	328,321	327,082
Corporate Obligations	182,245	178,529	167,905	172,131
Other	<u>-</u>	<u>-</u>	<u>55</u>	<u>55</u>
<b>Total Debt Securities</b>	2,552,852	2,324,880	2,181,504	2,132,660
<b>Purchased Options</b>	30,280	23,508	1,691	540
<b>Convertible Securities</b>	-	-	-	-
<b>Investment Funds</b>				
Marketable Alternative	5,037,537	5,948,610	6,263,136	7,715,271
Private Markets	12,688,237	14,330,658	14,115,346	15,402,893
Developed Country Equity	3,443,030	4,418,057	3,438,364	4,986,728
Emerging Markets Equity	1,169,723	1,316,171	1,285,727	1,571,181
Fixed Income	66,030	87,819	67,673	98,193
Other	<u>23,680</u>	<u>23,405</u>	<u>34,358</u>	<u>31,260</u>
<b>Total Investment Funds</b>	22,428,237	26,124,720	25,204,604	29,805,526
<b>Cash and Cash Equivalents<sup>(2)</sup></b>				
Money Markets & Cash Held at State	<u>1,169,602</u>	<u>1,170,017</u>	<u>707,695</u>	<u>708,385</u>
<b>Total Cash and Cash Equivalents</b>	1,169,602	1,170,017	707,695	708,385
<b>Total Investments in Securities</b>	29,544,399	33,320,415	31,120,168	36,378,991
<b>Net Trade Receivables</b>	(417,985)	(417,955)	(180,760)	(178,421)
<b>Deposit with Brokers for Derivative</b>	149,803	149,804	257,247	257,247
<b>Payable to Brokers for Collateral Held</b>	(10,582)	(10,583)	(14,410)	(14,410)
<b>Net Swap Assets (Liabilities)</b>	(1,903)	(13,900)	10,969	21,104
<b>Options Written</b>	(10,345)	(8,612)	(1,430)	(1,187)
<b>Net Futures Assets (Liabilities)</b>	(816)	(816)	(481)	(481)
<b>Other Net Assets (Liabilities)</b>	<u>1,861</u>	<u>(8,119)</u>	<u>6,808</u>	<u>6,025</u>
<b>Value of Fund</b>	\$29,254,432	\$33,010,234 <sup>(3)</sup>	\$31,198,111	\$36,468,868 <sup>(3)</sup>

- (1) Certain of the information contained in this Table V was derived from the audited financial statements of the Permanent University Fund, which are attached hereto as Appendix A. Other information has been derived from the books and records of UTIMCO. See also, "-Financial Information." None of, the Board, the UT Board, or UTIMCO makes any representation as to the future performance of the Permanent University Fund. See "OTHER MATTERS."
- (2) Cash and Cash Equivalents include 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 (equity, fixed income).
- (3) The Fair Value of the Permanent University Fund Investments does not include the Fair Value of PUF Land, which was approximately \$11,111,083,413 as of August 31, 2023 and \$10,391,422,332 as of August 31, 2024.

## **Financial Information**

The State issues audited financial statements, prepared in accordance with generally accepted accounting principles for the State government as a whole. The statements are prepared by the Comptroller and are audited by the State Auditor's office. The State Auditor expresses an opinion on the financial statements of the State but does not express an opinion on the financial statements of individual component units, including those of the A&M System and the Permanent University Fund.

The scope of the State Auditor's audit includes tests for compliance with the covenants of bond issues of the State or its component agencies and institutions. In addition, supplementary schedules are included in the State financial statements, providing for each bond issue, information related to pledged revenues and expenditures, coverage of debt service requirements, restricted account balances, and/or other relevant information which may feasibly be incorporated. The State Auditor expresses an opinion on such schedules in relation to the basic financial statements taken as a whole. Any material compliance exceptions related to bond covenants are disclosed in the notes to the financial statements and all compliance exceptions related to bond covenants are addressed in the overall management letter for the State audit.

Beginning with the Fiscal Year ended August 31, 1996, the UT Board has commissioned annual audits of the financial statements (in conformity with accounting principles generally accepted in the United States of America) of the Permanent University Fund. The annual audited financial statements for the fiscal year ended August 31, 2024, for the Permanent University Fund have been filed with the Municipal Advisory Council of Texas and the Municipal Securities Rulemaking Board, and contain the report of the independent auditors, Deloitte & Touche LLP, with respect thereto. Such annual audited financial statements are incorporated by reference herein. Deloitte & Touche LLP has not reviewed, commented on or approved, and is not associated with, this Commercial Paper Memorandum. The report of Deloitte & Touche LLP, relating to the financial statements of the Permanent University Fund for the fiscal years ended August 31, 2023 and August 31, 2024, is incorporated by reference in this Commercial Paper Memorandum. However, Deloitte & Touche LLP has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the Permanent University Fund, including without limitation any of the information contained in this Commercial Paper Memorandum, and has not been asked to consent to the incorporation of its report, or otherwise be associated with this Commercial Paper Memorandum. See "INFORMATION INCLUDED BY SPECIFIC CROSS-REFERENCE."

## **LIQUIDITY SUPPORT**

### **General**

The Notes are not currently supported by a letter of credit or other credit facility. The Board will notify the Placement Agent and the holders of outstanding Notes prior to entering into a Liquidity Agreement (as defined in the Resolution) to provide the Board with liquidity with regard to its obligations under the Notes. In addition, no such Liquidity Agreement will be entered into with respect to or supporting then outstanding Notes. The liquidity support for the Notes is provided by various funds under the control of the Board.

### **Note Purchase Agreement**

Pursuant to the Resolution, the Board is obligated pay the principal and interest due on maturing Notes that are not renewed or refunded by using lawfully available funds. In order to manage such obligations, the Board has entered into a certain "Note Purchase Agreement" (the "Note Purchase Agreement") with UTIMCO, acting as the investment manager of the Permanent University Fund. See "PERMANENT UNIVERSITY FUND – Investment Governance and Management Structure."

Under the terms of the Note Purchase Agreement, UTIMCO has agreed, in the event the Placement Agent has been unable to sell Notes to renew or refund Notes on their respective maturity dates, to purchase such Notes in the aggregate principal amounts up to, but not exceeding \$125,000,000, as investments for the Permanent University Fund, provided that certain conditions in the Note Purchase Agreement are satisfied. Under the Note Purchase Agreement, UTIMCO is only obligated to purchase \$25,000,000 in principal amount of Notes on any purchase date. The Note Purchase Agreement is scheduled to terminate on September 1, 2038.

A failure of UTIMCO to purchase Notes under such circumstances or to provide funds to the Board for such purposes will not relieve the Board of its obligation to the owners of such Notes.

THE NOTE PURCHASE AGREEMENT DOES NOT CONSTITUTE SECURITY OR CREDIT ENHANCEMENT FOR THE NOTES BUT MERELY SERVES AS A SOURCE OF LIQUIDITY TO PAY THE PRINCIPAL AND INTEREST DUE ON MATURING NOTES.

### **ABSENCE OF LITIGATION**

Neither the Board nor the A&M System is a party to any litigation or other proceeding pending or, to the knowledge of the General Counsel to the A&M System, threatened, in any court, agency, or other administrative body (either state or federal) which, if decided adversely to either such party, would have a material adverse effect on the financial condition of the Permanent University Fund or the Available University Fund Share, and no litigation of any nature has been filed or, to the knowledge of the General Counsel to the A&M System threatened which seeks to restrain or enjoin the issuance or delivery of the Notes or which would affect the provisions made for their payment or security, or which in any manner questions the validity of the Notes.

### **RATINGS**

Ratings on the Notes have been received from Fitch Ratings Inc. ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and S&P Global Ratings, a division of Standard and Poor's Financial Services LLC ("S&P"). Fitch has assigned a rating of "F1+" to the Notes. Moody's has assigned a rating of "P-1" to the Notes. S&P has assigned a rating of "A-1+" on the Notes.

An explanation of the significance of each such rating may be obtained from the company furnishing such rating. The ratings reflect only the views of such rating companies at the time such ratings were given, and the Board makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of such rating companies, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Notes.

Periodically, rating agencies will evaluate and, on occasion as a result of these evaluations, revise their rating methodologies and criteria for municipal issuers such as the Board. A revision in a rating agency's rating methodology could result in a positive or negative change in a rating assigned by that agency, even if the rated entity has experienced no material change in financial condition or operation. Any of the rating agencies at any time while the Notes remain outstanding could undertake such an evaluation process.

### **TAX MATTERS**

#### **Certain Federal Income Tax Considerations of Tax-Exempt Notes**

*General.* On the date of initial delivery of the Tax-Exempt Notes, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the Board, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Tax-Exempt Notes for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Tax-Exempt Notes will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the Board will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix B -- Form of Bond Counsel's Opinion.

In rendering its opinion, Bond Counsel to the Board will rely upon (a) the Board's federal tax certificate and (b) covenants of the Board with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Tax-Exempt Notes and certain other matters. Failure of the Board to comply with these representations or covenants could cause the interest on the Tax-Exempt Notes to become includable in gross income retroactively to the date of issuance of the Tax-Exempt Notes.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Tax-Exempt Notes in order for interest on the Tax-Exempt Notes to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Tax-Exempt Notes to be included in gross income retroactively to the date of issuance of the Tax-Exempt Notes. The opinion of Bond Counsel to the Board is conditioned on compliance by the Board with the

covenants and the requirements described in the preceding paragraph, and Bond Counsel to the Board has not been retained to monitor compliance with these requirements subsequent to the issuance of the Tax-Exempt Notes.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Tax-Exempt Notes.

A ruling was not sought from the Internal Revenue Service by the Board with respect to the Tax-Exempt Notes or the facilities financed or refinanced with the proceeds of the Tax-Exempt Notes. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the Board that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Tax-Exempt Notes, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Board as the taxpayer and the holders of Tax-Exempt Notes may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

*Federal Income Tax Accounting Treatment of Original Issue Discount.* The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Tax-Exempt Notes may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Tax-Exempt Notes less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

*Collateral Federal Income Tax Consequences.* The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Tax-Exempt Notes. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE TAX-EXEMPT NOTES.

Interest on the Tax-Exempt Notes may be includable in certain corporation's "adjusted financial statement income" determined under section 56A of the Code to calculate the alternative minimum tax imposed by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Tax-Exempt Notes, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

In Notice 94-84, 1994-2 C.B. 559, the Service has generally provided that until further guidance is given on how to treat stated interest payable at maturity on short-term tax-exempt bonds, taxpayers may treat such interest either as includible in the stated redemption price at maturity of the bond or as qualified stated interest for all tax-exempt bonds issued after April 4, 1994. Taxpayers should consult their own tax advisors with respect to the tax consequences of purchase, ownership and disposition of the Tax-Exempt Notes.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Tax-Exempt Notes, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such Tax-Exempt Notes; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

*State, Local and Foreign Taxes.* Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Tax-Exempt Notes under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

*Information Reporting and Backup Withholding.* Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Tax-Exempt Notes will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of foreign investors, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

*Future and Proposed Legislation.* Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Tax-Exempt Notes under Federal or state law and could affect the market price or marketability of the Tax-Exempt Notes.

Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Tax-Exempt Notes should consult their own tax advisors regarding the foregoing matters.

### **Certain Federal Income Tax Considerations of Taxable Notes**

*General.* The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Taxable Notes and is based on the Code, the regulations promulgated thereunder, published rulings and pronouncements of the Internal Revenue Service ("IRS") and court decisions currently in effect. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS, has been, or is expected to be, sought on the issues discussed herein. Any subsequent changes or interpretations may apply retroactively and could affect the opinion and summary of federal income tax consequences discussed herein.

The following discussion is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of the Taxable Notes and does not address U.S. federal gift or estate tax or (as otherwise stated herein) the alternative minimum tax, state, local or other tax consequences. This summary does not address special classes of taxpayers (such as partnerships, or other pass-thru entities treated as a partnerships for U.S. federal income tax purposes, S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the U.S., broker-dealers, traders in securities and tax-exempt organizations, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be subject to branch profits tax or personal holding company provisions of the Code or taxpayers qualifying for the health insurance premium assistance credit) that are subject to special treatment under U.S. federal income tax laws, or persons that hold Taxable Notes as a hedge against, or that are hedged against, currency risk or that are part of hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the "U.S. dollar". This summary is further limited to investors who will hold the Taxable Notes as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Code. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

As used herein, the term "U.S. Holder" means a beneficial owner of a Taxable Note who or which is: (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized under the laws of the United States or any political subdivision thereof or therein, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (iv) a trust, if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes. As used herein, the term "Non-U.S. Holder" means a beneficial owner of a Taxable Note that is not a U.S. Holder.

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF TAXABLE NOTES IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE HOLDERS OF THE TAXABLE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE TAXABLE NOTES BEFORE DETERMINING WHETHER TO PURCHASE TAXABLE NOTES. THE FOLLOWING DISCUSSION IS NOT INTENDED OR WRITTEN TO BE USED TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED THEREIN. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF RECENTLY ENACTED LEGISLATION OR THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE TAXABLE NOTES UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE.

FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO NON-U.S. HOLDERS.



Certain U.S. Federal Income Tax Consequences to U.S. Holders. Periodic Interest Payments and Original Issue Discount. The Taxable Notes are not obligations described in Section 103(a) of the Code. Accordingly, the stated interest paid on the Taxable Notes or original issue discount, if any, accruing on the Taxable Notes will be includable in "gross income" within the meaning of Section 61 of the Code of each owner thereof and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to such owner.

Disposition of Taxable Notes. An owner will recognize gain or loss on the redemption, sale, exchange or other disposition of a Taxable Note equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner's tax basis in the Taxable Notes. Generally, a U.S. Holder's tax basis in the Taxable Notes will be the owner's initial cost, increased by income reported by such U.S. Holder, including original issue discount and market discount income, and reduced, but not below zero, by any amortized premium. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the Taxable Notes has been held for more than one year.

Defeasance of the Taxable Notes. Defeasance of any Taxable Note may result in a reissuance thereof, for U.S. federal income tax purposes, in which event a U.S. Holder will recognize taxable gain or loss as described above.

State, Local and Other Tax Consequences. Investors should consult their own tax advisors concerning the tax implications of holding and disposing of the Taxable Notes under applicable state or local laws, or any other tax consequence, including the application of gift and estate taxes. Certain individuals, estates or trusts may be subject to a 3.8% surtax on all or a portion of the taxable interest that is paid on the Taxable Notes. PROSPECTIVE PURCHASERS OF THE TAXABLE NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE FOREGOING MATTERS

Information Reporting and Backup Withholding. Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Taxable Notes will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to withholding under sections 1471 through 1474 or backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the withholding or backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders. A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the U.S. in addition to its ownership of a Series B Taxable Note, will not be subject to U.S. federal income or withholding tax in respect of such Taxable Note, provided that such Non-U.S. Holder complies, to the extent necessary, with identification requirements including delivery of a signed statement under penalties of perjury, certifying that such Non-U.S. Holder is not a U.S. person and providing the name and address of such Non-U.S. Holder. Absent such exemption, payments of interest, including any amounts paid or accrued in respect of accrued original issue discount, may be subject to withholding taxes, subject to reduction under any applicable tax treaty. Non-U.S. Holders are urged to consult their own tax advisors regarding the ownership, sale or other disposition of a Taxable Note.

The foregoing rules will not apply to exempt a U.S. shareholder of a controlled foreign corporation from taxation on the U.S. shareholder's allocable portion of the interest income received by the controlled foreign corporation.

## INFORMATION INCLUDED BY SPECIFIC CROSS-REFERENCE

Pursuant to the rules of the Municipal Securities Rulemaking Board (the "MSRB") the participating underwriters ("Underwriters") of certain of the Board's Permanent University Fund Obligations have been and may be required to file the final official statements for such Permanent University Fund Obligations with the MSRB. Also, Rule 15c2-12 of the Securities and Exchange Commission requires such Underwriters to obtain a contractual undertaking from the Board to provide to the MSRB (i) annual reports of financial information and operating data with respect to the Permanent University Fund and the Available University Fund Share of the general type included in such official statements ("Continuing Disclosure Annual Reports"), and (ii) notice of certain specified events with respect to such Permanent University Fund Obligations.

**The Board has not contractually agreed with the Holders of the Notes to provide any of the information, data, financial statements or notices described above and the Holders of the Notes have no right to compel the Board to provide the same.**

The financial information and operating data with respect to the Permanent University Fund and the Available University Fund Share set forth in any final official statement for Permanent University Fund Obligations hereafter filed with the MSRB and in any Continuing Disclosure Annual Report relating to Permanent University Fund Obligations hereafter filed with the MSRB (and any specified event notices hereafter filed with the MSRB) are hereby incorporated by reference into this Commercial Paper Memorandum. The information contained in each such document incorporated by reference speaks only as of its respective date(s) and automatically updates and supersedes any corresponding or inconsistent information contained (or previously incorporated into) this Commercial Paper Memorandum. As of the date of this Commercial Paper Memorandum, such financial information and operating data may be examined using the MSRB's Electronic Municipal Market Access system. Prospective purchasers of the Notes should read such incorporated financial information and operating data for further information regarding the Permanent University Fund and the Available University Fund Share.

#### **OTHER MATTERS**

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than as contained in this Commercial Paper Memorandum in connection with the offering described herein and, if given or made, such other information or representation must not be relied upon as having been authorized. This Commercial Paper Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Notes, nor shall there be any offer or solicitation of an offer or sale of the Notes, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Commercial Paper Memorandum nor the sale of any of the Notes implies that the information herein is correct as of any time subsequent to the date hereof.

The financial data and other information contained herein have been obtained from the Board's records, financial statements, and other sources, which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects. Copies may be obtained from the Board.

Historical financial information in this Commercial Paper Memorandum with respect to the performance of investments in the Permanent University Fund and the Available University Fund does not represent a guarantee of future results for such investments.

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## APPENDIX A

### BOOK-ENTRY ONLY SYSTEM

*This Appendix describes how ownership of the Notes is to be transferred and how the principal of, premium, if any, and interest on the Notes are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Notes are registered in the name of Cede & Co., its nominee name. The information in this section concerning DTC and the book-entry-only system has been provided by DTC for use in disclosure documents such as this Commercial Paper Memorandum. The Board believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The Board cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Notes or notices to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Notes) or notices to the Beneficial Owners, or that they will do so on a timely basis or (3) DTC will serve and act in the manner described in this Commercial Paper Memorandum. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act initially as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered master note will be issued for the Tax Exempt Notes and for the Taxable Notes and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase.

Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction.

Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co., or such other DTC nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may

or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Issuing and Paying Agent and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or the Issuing and Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Issuing and Paying Agent, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Issuing and Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the Board or the Issuing and Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, certificates for the Notes are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered.

In reading this Commercial Paper Memorandum it should be understood that while the Notes are in the Book-Entry-Only System, references in other sections of this Commercial Paper Memorandum to registered owners should be read to include the person for which the Participant acquires an interest in the Notes, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the resolution will be given only to DTC.

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the Board, its Financial Advisor and the Initial Placement Agent and Commercial Paper Dealer believe to be reliable, but the Board, its Financial Advisor and the Initial Placement Agent and Commercial Paper Dealer take no responsibility for the accuracy thereof.

### **Discontinuation of Book-Entry-Only System**

In the event that the Board determines to remove the Securities Depository, the Board will (i) appoint a successor Securities Depository and transfer one or more separate Note certificates to such successor or (ii) notify the Securities Depository and DTC Participants identified by DTC of the availability through the Securities Depository of Note certificates and transfer one or more separate Note certificates to the Participants of the Securities Depository having Notes credited to their accounts with the Securities Depository. In such event, the Notes will no longer be restricted to being registered in the Note register in the name of the Securities Depository, or its nominee, but may be registered in the name of any successor Securities Depository, or its nominee, or in whatever name or names the Securities Depository receiving Notes designates, in accordance with the provisions of the Resolution.

## **APPENDIX B**

### **FORM OF BOND COUNSEL OPINION**

*(Bracketed text is to be included when  
Tax-Exempt Notes are issued)*

February \_\_, 2025

#### **BOARD OF REGENTS OF THE TEXAS A&M UNIVERSITY SYSTEM PERMANENT UNIVERSITY FUND COMMERCIAL PAPER NOTES, SERIES A**

We have acted as “Bond Counsel” to Board of Regents of The Texas A&M University System (the “System Board”) in connection with the issuance by the System Board of its [Permanent University Fund Tax-Exempt Commercial Paper Notes, Series A (the “Tax-Exempt Notes”), and its] Permanent University Fund Taxable Commercial Paper Notes, Series A (the [“Taxable Notes” and, together with the Tax-Exempt Notes, the ]“Notes”) for the sole purpose of providing legal advice and traditional legal services to the System Board including rendering an opinion with respect to the legality and validity of the Notes under the Constitution and laws of the State of Texas [and with respect to the exclusion of interest on the Tax-Exempt Notes from gross income for federal income tax purposes]. We have not investigated or verified original proceedings, records, data, or other material, but we have relied solely upon the transcript of certified proceedings, certifications, and other documents described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the System Board or the disclosure thereof in connection with the sale of the Notes. We have relied solely on information and certifications furnished to us by the System Board with respect to the current outstanding indebtedness of the System Board.

The Notes are being issued in accordance with the provisions of a resolution establishing a commercial paper program adopted by the System Board on September 26, 2008, as amended by a resolution adopted by the System Board on February 4, 2011 (the “Resolution”), providing for the issuance from time to time of commercial paper notes; provided that the aggregate principal amount of commercial paper notes outstanding at any one time under the Resolution may not exceed \$125,000,000. The proceeds of commercial paper notes are to be used, pursuant to the terms and provisions of the Resolution to provide interim financing to pay the costs and expenses incurred in relation to certain Eligible Projects (as defined in the Resolution) and to refinance, renew or refund commercial paper notes or other Permanent University Fund Obligations (as defined in the Resolution), all in accordance with the provisions of Section 18 of Article VII of the Constitution of the State of Texas, as amended, and Chapter 1371, Texas Government Code, as amended. Capitalized terms used herein and not otherwise defined have the meaning assigned to them in the Resolution.

In our capacity as Bond Counsel, we have examined the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the System Board pertaining to the Notes, customary certificates of officers, agents and representatives of the System Board, and other public officials; and other documents relating to the issuance of the Notes. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. [We have also examined applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations and published rulings of the Internal Revenue Service (the “Service”) existing on the date hereof as we have deemed relevant.] We have also examined the opinion of the Attorney General of the State of Texas approving the Resolution.

Based on said examination and in accordance with customary legal practice, it is our opinion that:

1. Under the Constitution and laws of the State of Texas as they exist on the date of this opinion, such transcript of proceedings evidences lawful authority for the issuance, reissuance and sale of the Notes from time to time by the System Board, pursuant and subject to the provisions, terms and conditions of the Resolution. We are also of the opinion that the Resolution has been duly and lawfully adopted by the System Board and that, except as may be limited by sovereign immunity, bankruptcy, insolvency, reorganization, moratorium, and other laws for the relief of debtors and by general principles of equity that permit the exercise of judicial discretion, the Resolution constitutes a valid and binding agreement of the System Board.

2. Under the Constitution and laws of the State of Texas as they exist on the date of this opinion, upon due execution, authentication and delivery and upon compliance by the System Board with conditions and covenants of the Resolution, and except as may be limited by sovereign immunity, bankruptcy, insolvency, reorganization, moratorium and other laws for the relief of debtors and by general principles of equity that permit the exercise of judicial discretion, the Notes will constitute valid and binding special obligations of the System Board, secured by and payable from, together with other sources described in the Resolution, a pledge of and lien on the Available University Fund Share pursuant to Section 18 of Article VII of the Constitution of the State of Texas, which pledge and lien are of equal rank and dignity with the pledge of and lien on such Available University Fund Share securing payment of the Flexible Rate Notes of the System Board now outstanding or hereafter issued, but are junior and subordinate to the pledge of and lien on such Available University Fund Share securing payment of certain Fund Priority Obligations of the System Board now outstanding or hereafter issued. The System Board reserves the right in the Resolution, and the Resolution permits the System Board, to issue additional obligations payable from the same sources securing the Notes, prior in right and claim to, or junior and subordinate to, the lien on and pledge of such sources, or equally and ratably secured by a pledge of such sources, subject to any terms, conditions and limitations as may be applicable thereto. The Notes are not and do not otherwise create or constitute in any way an obligation, a debt, or a liability of the State of Texas or create or constitute a pledge, giving or lending of the faith, credit, or taxing power of the State of Texas.

[3. Interest on the Tax-Exempt Notes is excludable from gross income for federal income tax purposes under section 103 of the Code and is not an item of tax preference for purposes of the federal alternative minimum tax.] OR [Interest on the Notes is not excludable from gross income for federal income taxes under section 103 of the Code.]

[In rendering these opinions, we have relied upon representations and certifications of the System Board, the System Board's Financial Advisor, and the System Board's initial placement agent and dealer with respect to matters solely within the knowledge of such parties, respectively, which we have not independently verified, and we assume continuing compliance by the System Board with covenants pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Tax-Exempt Notes for federal income tax purposes. If such representations and certifications are determined to be inaccurate or incomplete, or the System Board fails to comply with the foregoing covenants, interest on the Tax-Exempt Notes could become includable in gross income retroactively to the date of issuance of the Tax-Exempt Notes, regardless of the date on which the event causing such inclusion occurs. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based on our review of existing law, and are made in reliance on the representations and covenants referenced above that we deem relevant to such opinions.]

[The Service has an ongoing audit program of tax-exempt obligations to determine whether, in the Service's view, interest on the Tax-Exempt Notes is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Tax-Exempt Notes. If such an audit were to be commenced, under current procedures, the Service would treat the System Board as the taxpayer, and owners of the Tax-Exempt Notes would have no right to participate in the audit process. We observe that the System Board has covenanted not to take any action, or omit to take any action within its control, that, if taken or omitted, respectively, may result in the

treatment of interest on the Tax-Exempt Notes as includable in gross income for federal income tax purposes.]

[Except as stated above, w/]We express no opinion as to any [other] federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on or the acquisition, ownership, or disposition of the Notes.

The opinions set forth above are based on existing laws of [the United States and] the State of Texas, which are subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Commercial Paper Memorandum relating to the Notes.

This legal opinion expresses the professional judgment of this firm as to the legal issues explicitly addressed therein. In rendering a legal opinion, we do not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,