

In the opinion of Bond Counsel (defined below), under existing law, and assuming compliance with certain covenants and the accuracy of certain representations made by the University, interest on the Tax-Exempt Notes (defined below) is excludable from gross income for federal income tax purposes and is not an item of tax preference under Section 57 of the Internal Revenue Code (the "Code") for purposes of computing the alternative minimum tax imposed pursuant to Section 55 of the Code. See "TAX MATTERS" herein and APPENDIX B – FORM OF BOND COUNSEL'S OPINION.

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: October 1, 2018

COMMERCIAL PAPER MEMORANDUM

DATED: October 1, 2018

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, 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 Initial Placement Agent and Commercial Paper Dealer 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, Winstead PC, 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 seven research and service agencies. For the 2017 Fall Semester the general academic institutions of the A&M System had a total enrollment of approximately 152,415 students, of which approximately 62,803 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 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 with two geographic centers. The Fiscal Year 2019 budget of the A&M System is approximately \$4.69 billion, and the A&M System benefits from endowments, subject to certain restrictions, with a market value of approximately \$13.6 billion as of August 31, 2018. Of this amount, \$43.7 million is attributable to funds held for investment on behalf of Stephen F. Austin University, Midwestern State University and 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.

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 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 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 August 31, 2018 of such investments and assets in the Permanent University Fund, the 10% Limit was approximately \$1,822,770,895. See "PERMANENT UNIVERSITY FUND — Constitutional Debt Power, Debt Limitations." As of August 31, 2018, \$1,175,445,000 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 Initial Placement Agent and Commercial Paper Dealer 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 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, 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 August 31, 2018 of \$1,175,445,000 (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 depository 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 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 and Texas A&M Veterinary Medical Diagnostic Laboratory, 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 \$391 million of additional Fund Priority Obligations during the Fiscal Year ending August 31, 2019. To date, no Fund Priority Obligations have been issued under this authorization. The Board may issue additional Notes from time to 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 Barclays Capital Inc. allows Barclays Capital Inc. to act as placement agent on behalf of the Board (the "Placement Agent") 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. Barclays Capital Inc. 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 (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

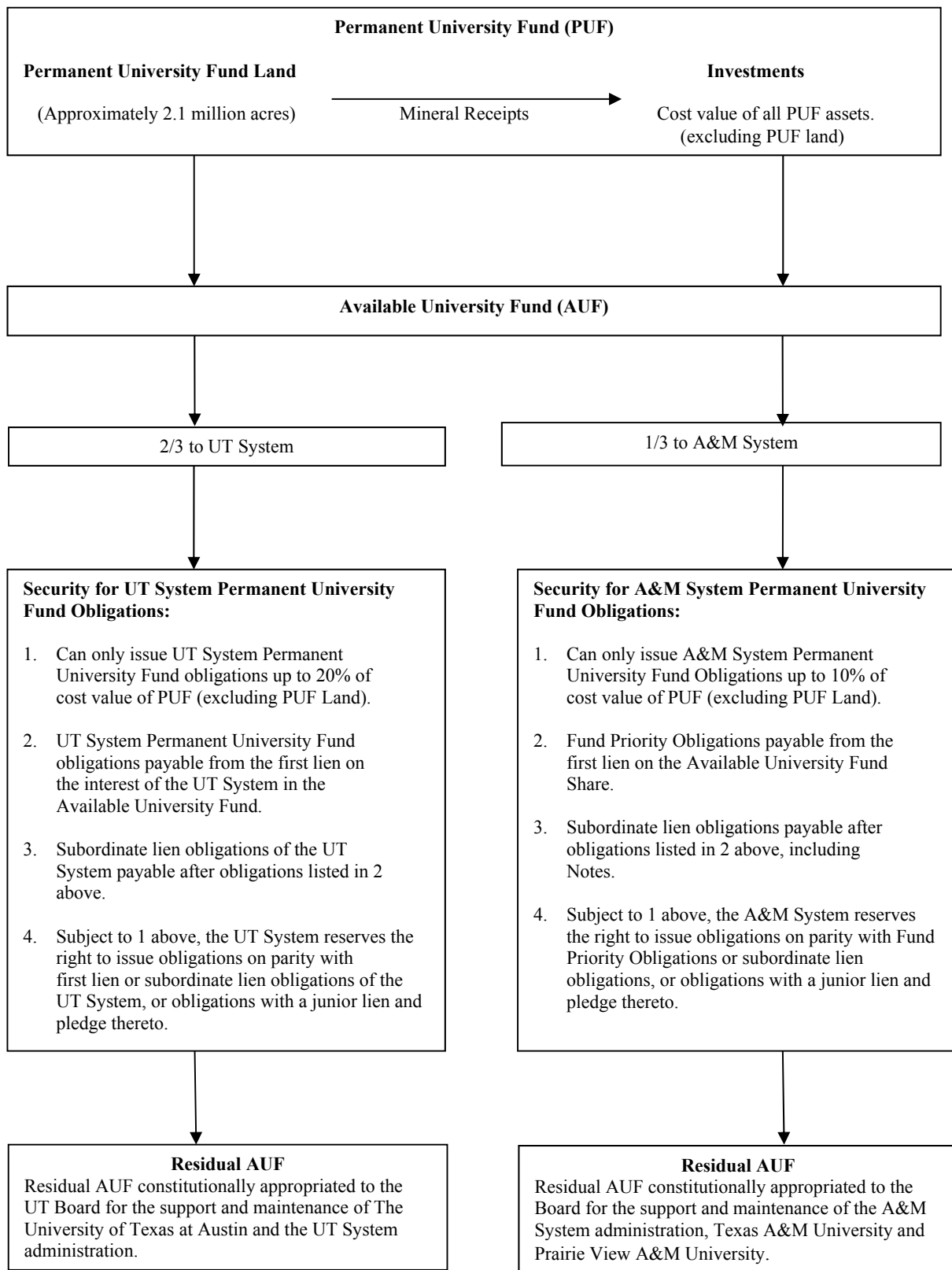
Introduction

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 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 and Texas A&M Veterinary Medical Diagnostic Laboratory). 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 ⁽¹⁾
(In Thousands)

Fiscal Year Ending August 31	AUF ⁽²⁾	Available University Fund Share	Other Income ⁽³⁾	Total Amounts Available to Pay Debt Service	Total Debt Service Paid from the Available University Fund Share ⁽⁴⁾	Coverage ⁽⁵⁾
2013	\$ 670,053	\$ 223,351	\$ 725	\$ 224,076	\$ 55,448	4.04x
2014	907,202	302,401	870	303,271	110,460	2.75x
2015	813,155	271,052	760	271,812	82,741	3.29x
2016	817,728	272,576	2,000	274,576	93,128	2.95x
2017	898,376	299,459	2,664	302,123	105,687	2.86x

(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. Amount shown for FY 2014 includes a special, supplemental distribution amount approved by the UT Board in August 2014 in the amount of \$188,008,674.

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

(4) Includes principal payment on Notes of \$48 million in Fiscal Year 2014, \$12.4 million in Fiscal Year 2015, \$14.7 million in Fiscal Year 2016, and \$29.6 million in Fiscal Year 2017.

(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 (the “Investment Policy Statement”) approved by the UT Board, and pursuant to the Constitutional Provision, the UT Board is required to determine the annual amount to be distributed from the total return on Permanent University Fund investments to the Available University Fund each fiscal year. Current UT Board rules require the UT Board, 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, and such rules provide that the annual distribution amount shall be equal to 4.75% of the trailing twelve quarter average of the Permanent University Fund investments unless the average annual rate of return of the Permanent University Fund investments over the trailing twelve quarters exceeds the expected return or benchmark return set out in the Investment Policy Statement by 0.25% or more, in which case the distribution shall be 5.0% of the trailing twelve quarter average. Notwithstanding the foregoing, 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. See “PERMANENT UNIVERSITY FUND – Available University Fund.” 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 UTIMCO (as defined herein). Each year, the distribution amount is used to prepare the budget for the upcoming fiscal year.

At its meeting on August 10, 2018, the UT Board approved the distribution amount of \$1,014,000,000 for fiscal year 2019. The total distribution amount approved by the UT Board, as a percentage of the applicable trailing twenty quarter average of Permanent University Fund investments, was 5.70% for fiscal year 2019. 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. For a description of additional restrictions on the UT Board, as contained in the Constitutional Provision, when determining distributions to the Available University Fund, see

“PERMANENT UNIVERSITY FUND – Available University Fund.” The distribution amounts approved by the UT Board are exclusive of any net income attributable to the surface of PUF Land.

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 August 31, 2018, the unaudited cost value of the Permanent University Fund, exclusive of PUF Land, was approximately \$18.23 billion and outstanding A&M System Permanent University Fund Obligations totaled approximately \$1.23 billion. Accordingly, using the August 31, 2018 valuation number and the August 31, 2018 outstanding indebtedness number (without taking into account the issuance of authorized but unissued Notes), the Board will be authorized to issue an additional \$589.7 million 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.

Table II shows the historical constitutional debt limits of the Permanent University Fund for Fiscal Years 2014 through 2017 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 <u>Ending August 31</u>	Book Value of Fund ⁽¹⁾	<u>UT System</u>		<u>A&M System</u>	
		<u>Constitutional Debt Limit</u>	<u>Outstanding</u>	<u>Constitutional Debt Limit</u>	<u>Outstanding</u>
2014	\$13,775,408	\$2,755,082	\$1,960,470	\$1,377,541	\$810,430
2015	14,773,099	2,954,620	2,169,085	1,477,310	953,145
2016	15,170,775	3,034,155	2,615,155	1,517,078	968,675
2017	16,345,254	3,269,051	2,695,035	1,634,525	932,850
2018	17,724,586	3,544,917	2,922,895	1,772,459	1,233,095

(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 September 17, 2018, the UT Board has issued and there is currently outstanding approximately \$2.923 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 The University of Texas Investment Management Company (“UTIMCO”), a Texas nonprofit corporation, 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 August 31, 2018, approximately 8.4% of Permanent University Fund investments (primarily fixed income, ETFs, futures contracts, and other derivatives) was managed internally with the remaining 91.6% 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; provided that it adheres to the prudent investor standard. See "Management of the Permanent University Fund."

The UT Board approved revisions to the Investment Policy Statement for the Permanent University Fund, which took effect September 1, 2018. The amendments remove specific references to investment types and reclassify the asset classes into three broad categories: Global Equity, Stable Value and Real Return. The UT Board’s Investment Policy Statement currently provides that the primary investment objective of the Permanent University Fund is to preserve the purchasing power of Permanent University Fund assets and annual distributions by earning an average annual real return over rolling ten-year periods or longer at least equal to the target distribution rate of the Permanent University Fund after all expenses. The current target distribution rate of the Permanent University Fund for the fiscal year ending August 31, 2019 is 5.70%. The target distribution rate is subject to adjustment from time to time consistent with the primary investment objectives for the Permanent University Fund and the restrictions

contained in the Constitutional Provision. See “- Permanent University Fund Spending Policy.” Investment returns are expressed net of all investment-related expenses. Investments must be within the asset class ranges, prudently diversified, and within approved policy risk bounds regarding one-year downside deviation, as defined in Exhibit A of 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:

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

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

Global Developed Public Equity – Global Developed Public Equity invests primarily in the equity securities of companies that are domiciled in the developed countries that are part of the MSCI World Index; however, the asset allocation between U.S. and non-U.S. may be variable over time. Global Developed Public Equity includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

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

Directional Hedge Funds – Directional Hedge Funds invest long and short in equities, fixed income, commodities, currencies and other global market instruments including derivatives. Directional Hedge Funds exhibit some market sensitivity as defined by beta to public equities. Strategies may include but are not limited to long/short equity, multi-strategy, event-driven, distressed and stressed credit and global macro.

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

Stable Value:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities, U.S. and non-U.S., that are rated investment grade. These include debt issued by

the Sovereign Governments, various government enterprises and agencies, and corporations. The principal securities include bonds, notes, bills and mortgage and asset backed securities. In addition, derivative applications that serve as a fixed income substitute may be classified as Investment Grade Fixed Income.

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

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

Cash – Cash consists of internal and external pooled investment funds, cash in foreign currencies, and other overnight funds that have not been allocated to a specific asset class.

Real Return:

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

Commodities – Commodities investments represent ownership of bulk physical goods such as metals, grains, foods and energy products. These investments can be made through actual physical ownership of the goods, or through financial ownership of the underlying goods achieved through the purchase of derivatives based on commodities or commodities indices.

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

Infrastructure – Infrastructure investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in ownership of companies or assets that provide an essential service that contributes to the economic or social productivity of an organization, community, or society at large with real assets in the water, transportation, energy, communication or social sectors. Investments generally have structure features that include a monopolistic or oligopolistic market position with high barriers to entry; a low elasticity of demand due to their essential functions; stable, predictable, and long-term revenue contracts; or inflation protection through inflation adjustment mechanisms in underlying contracts. Some Infrastructure investments may have transfer restrictions and may not be as liquid as publicly traded securities.

Public Real Estate – Public Real Estate invests principally in companies that are part of the FTSE/EPRA NAREIT Developed Index and that own or manage equity or debt interests in portfolios of real estate or real assets. These securities are traded in public markets (on an exchange, over the counter, or issued in an underwritten initial public offering) or are restricted but expected to become public or otherwise freely marketable within three years after the initial investment. Public Real Estate includes common stocks, depositary receipts, preferred stocks, exchange traded funds, and derivatives based on common stocks or equity indices (including convertibles, warrants, rights, options, and futures).

Private Real Estate – Private Real Estate investments are made directly, through private limited partnerships, joint ventures or other special purpose vehicles and result in a controlling or minority ownership interest in a real asset or a real estate focused company. Private Real Estate investments are acquired by purchasing physical real assets, physical real estate or publicly-traded or privately-issued securities including, but not limited to: common or preferred stock, secured or subordinated debt, mortgage-related investments, master limited partnerships (“MLPs”) and real estate investment trusts (“REITs”). Some Private Real Estate investments may have transfer restrictions and may not be as liquid as publicly traded securities. Private Real Estate investments are often classified by strategy including: core, core-plus, value-added, opportunistic and special situations.

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

Table III sets forth (i) the percentage allocation (as of August 31, 2018) 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, 2019, as determined by the UT Board. While specific asset class allocation positions may be changed by UTIMCO within the ranges specified in Table III based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval by the UT Board. The UT Board may, from time to time, implement further revisions to the Investment Policy Statement for the Permanent University Fund.

Table III
Permanent University Fund Asset Class Targets and Ranges
As of August 31, 2018

Asset Class	Actual Allocation	Min	FYE 2019 Target	Max
<u>Global Equity:</u>				
U.S. Public Equity	7.8%	2.0%	7.0%	12.0%
Non-U.S. Developed Public Equity	4.1%	0.0%	4.0%	10.0%
Global Developed Public Equity	8.2%	3.0%	8.0%	13.0%
<i>Total Developed Public Equity</i>	20.1%	12.0%	19.0%	26.0%
Emerging Markets Public Equity	10.5%	5.0%	10.0%	15.0%
<i>Total Public Equity</i>	30.5%	22.0%	29.0%	36.0%
Directional Hedge Funds	13.9%	7.0%	12.0%	17.0%
Private Equity	21.0%	18.0%	22.0%	27.0%
Total Global Equity	65.4%	56.0%	63.0%	70.0%
<u>Stable Value:</u>				
Investment Grade Fixed Income	7.0%	2.0%	9.5%	12.0%
Credit-Related Fixed Income	0.1%	0.0%	0.0%	5.0%
<i>Total Fixed Income</i>	7.1%	2.0%	9.5%	12.0%
Cash	2.5%	(5.0%)	1.0%	6.0%
Stable Value Hedge Funds	4.1%	2.0%	7.0%	12.0%
Total Stable Value	13.7%	11.5%	17.5%	23.5%
<u>Real Return:</u>				
Inflation Linked Bonds	0.0%	0.0%	0.0%	5.0%
Gold	1.5%	0.0%	1.5%	5.0%
Commodities	1.0%	0.0%	0.0%	6.0%
<i>Total Commodities</i>	2.5%	0.0%	1.5%	6.0%
Natural Resources	9.0%	0.0%	8.0%	12.0%
Infrastructure	1.7%	0.0%	2.0%	9.0%
Public Real Estate	0.1%	0.0%	0.0%	5.0%
Private Real Estate	7.6%	3.0%	8.0%	13.0%
Total Real Return	20.9%	13.5%	19.5%	25.5%
Total All Asset Classes	100.0%		100.0%	

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

The target and range percentages are as of fiscal year end. The percentage allocation for a particular asset class may occasionally fall outside of the stated range during the fiscal year.

Table IV shows the annual performance in the market value of the Permanent University Fund for fiscal years 2013 through 2017, 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 ⁽¹⁾	Ending Market Value
2013	\$13,470.3	\$856.5	\$1,170.1	\$(644.3)	\$14,852.5
2014	14,852.5	1,129.7	2,260.1	(877.4)	17,364.9
2015	17,364.9	806.7	82.0	(763.6)	17,490.0
2016	17,490.0	512.3	650.7	(772.9)	17,880.1
2017	17,880.1	688.7	2,183.4	(839.4)	19,912.8

(1) Represents the distribution amount approved by the UT Board, which is exclusive of any net income attributable to the surface of PUF Land. Amount shown for fiscal year 2014 includes a special, supplemental distribution amount approved by the UT Board in August 2014 in the amount of \$188,088,674. See “Permanent University Fund Spending Policy.”

As of August 31, 2018, the Permanent University Fund (exclusive of PUF Land) had an unaudited market value of approximately \$21.9 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, 2016 and 2017.

Table V⁽¹⁾
Permanent University Fund
Comparison Summary of Fiduciary Net Position
August 31, 2016 and August 31, 2017
(In Thousands)

	August 31, 2016		August 31, 2017	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Equity Securities				
Domestic Common Stock	\$689,588	\$733,608	\$541,987	\$579,453
Foreign Common Stock	1,277,674	1,365,704	1,367,345	1,625,371
Other	<u>24,560</u>	<u>25,131</u>	<u>30,864</u>	<u>35,208</u>
Total Equity Securities	1,991,822	2,124,443	1,940,196	2,240,032
Preferred Stocks				
Domestic Preferred Stock	520	618	50	110
Foreign Preferred Stock	<u>48,757</u>	<u>50,732</u>	<u>45,758</u>	<u>53,463</u>
Total Preferred Stocks	49,277	51,350	45,808	53,573
Debt Securities				
U.S. Govt. Obligations	149,253	153,316	285,701	288,717
Foreign Govt. and Provincial Obligations	580,665	565,986	678,843	693,067
Corporate Obligations	297,905	303,622	378,010	385,408
Other	<u>3,036</u>	<u>3,674</u>	<u>3,701</u>	<u>4,218</u>
Total Debt Securities	1,030,859	1,026,598	1,346,255	1,371,410
Purchased Options	6,447	2,640	3,952	5,571
Convertible Securities	460	579	464	882
Investment Funds				
Marketable Alternative	3,598,896	4,680,318	3,221,676	4,196,536
Private Markets	5,819,204	6,483,672	6,744,069	7,863,025
Developed Country Equity	932,964	1,624,155	1,160,898	2,021,348
Emerging Markets Equity	661,543	850,225	676,075	1,013,821
Fixed Income	24,777	19,941	28,353	21,579
Real Estate	945	0	8,689	0
Natural Resources	<u>2,237</u>	<u>0</u>	<u>14,561</u>	<u>234</u>
Total Investment Funds	<u>11,040,566</u>	<u>13,658,311</u>	<u>11,854,321</u>	<u>15,116,543</u>
Investment in Physical Commodities	<u>419,102</u>	<u>392,854</u>	<u>490,844</u>	<u>473,781</u>
Cash and Cash Equivalents⁽²⁾				
Money Markets & Cash Held				
at State Treasury	<u>665,398</u>	<u>665,234</u>	<u>622,376</u>	<u>622,545</u>
Total Cash and Cash Equivalents	<u>665,398</u>	<u>665,234</u>	<u>622,376</u>	<u>622,545</u>
Total Investments in Securities	15,203,931	17,922,009	16,304,216	19,884,337
Net Trade Receivables	(55,394)	(54,554)	14,124	12,057
Deposit with Brokers for Derivative Contracts	24,951	24,942	30,578	30,563
Payable to Brokers for Collateral Held	(2,501)	(2,501)	(4,708)	(4,708)
Net Swap Assets (Liabilities)	(1,610)	(3,460)	(313)	(1,942)
Options Written	(1,372)	(3,009)	(1,362)	(1,554)
Net Futures Assets (Liabilities)	1,628	1,628	1,191	1,191
Other Net Assets (Liabilities)	<u>1,142</u>	<u>(4,904)</u>	<u>1,528</u>	<u>(7,125)</u>
Value of Fund	<u>\$15,170,775</u>	<u>\$17,880,151⁽³⁾</u>	<u>\$16,345,254</u>	<u>\$19,912,819⁽³⁾</u>

(1) The information contained in this Table V was derived from the books and records of UTIMCO and certain supplemental schedules contained in the audited financial statements of the Permanent University Fund. See "Financial Information."

(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.

(3) The Fair Value of the Permanent University Fund Investments does not include the Fair Value of PUF Land, which was approximately \$6,185,785,106 as of August 31, 2016 and \$6,123,722,598 as of August 31, 2017.

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, 2017 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 year ended August 31, 2017 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 Initial Placement Agent and Commercial Paper Dealer 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 an Initial Placement Agent and Commercial Paper Dealer 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 ("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.

TAX MATTERS

Tax Treatment of Tax-Exempt Notes

Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements that must be met at and subsequent to the issuance of any Notes that are issued as Tax-Exempt Notes in order for interest on the Tax-Exempt Notes to be and remain excludable from federal gross income under Section 61 of the Code. These requirements include, but are not limited to, certain restrictions and prohibitions on the use of proceeds, restrictions on the investment of proceeds and other amounts, and requirements to rebate to the United States of certain earnings from investments. Failure to comply with these continuing requirements may cause interest on the Tax-Exempt Notes to become includable in gross income for federal income tax purposes, including, in some cases, retroactively to the date of their issuance. The University has covenanted to comply with the provisions of the Code applicable to the Tax-Exempt Notes and have covenanted to not take any action or fail to take any action the result of which would cause the interest on the Tax-Exempt Notes to be included in gross income under Section 61 of the Code or be treated as an item of tax preference under Section 57 of the Code.

Upon the issuance of any Tax-Exempt Notes, Bond Counsel will render its opinion that, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations made by the University, interest on the Tax-Exempt Notes is excludable from gross income for federal income tax purposes and is not an item of tax preference under Section 57 of the Code for purposes of computing the alternative minimum tax imposed pursuant to Section 55 of the Code. For taxable years that began before January 1, 2018, interest on the Tax-Exempt Notes owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

In rendering the foregoing opinion, Bond Counsel will rely upon the covenants and representations made by the University in the Resolution and a certificate delivered at closing.

Prospective purchasers of any Notes issued as Tax-Exempt Notes should be aware that ownership of, accrual or receipt of interest on, or disposition of the Tax-Exempt Notes may have collateral federal income tax consequences for certain taxpayers, including financial institutions, certain subchapter S corporations, United States branches of foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers eligible for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Tax-Exempt Notes should consult their tax advisors regarding any potential collateral tax consequences. Bond Counsel expresses no opinion regarding any such collateral tax consequences.

Under section 6012 of the Code, owners 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.

The statutes, regulations, published rulings, and court decisions on which Bond Counsel has based its opinion are subject to change by Congress, as well as to subsequent judicial and administrative interpretation by courts and the Internal Revenue Service (the "Service"). No assurance can be given that such law or its interpretation will not change in a manner that would adversely affect the tax treatment of receipt or accrual of interest on, or the acquisition, ownership, market value, or disposition of, the Tax-Exempt Notes. In addition, any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Tax-Exempt Notes.

No ruling concerning the tax treatment of any Notes issued as Tax-Exempt Notes has been sought from the Service, and the opinion of Bond Counsel is not binding on the Service. The Service has an ongoing audit program of tax-exempt obligations to determine whether, in the Service's view, interest on such tax-exempt obligations 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 University as the taxpayer, and owners of the Tax-Exempt Notes would have no right to participate in the audit process. In this regard, in responding to or defending an audit with respect to the Tax-Exempt Notes, the University might have different or conflicting interests from those of the owners of the Tax-Exempt Notes.

The opinions set forth above are based on existing law and Bond Counsel's knowledge of relevant facts on the date of issuance of the Tax-Exempt Notes. Such opinions are an expression of professional judgment and are not a guarantee of result. Bond Counsel expresses no opinion regarding any federal, state, or local tax consequences not specifically addressed in the opinion. Further, Bond Counsel assumes no obligation to update or supplement the opinion to reflect any facts or circumstances that may come to its attention or any changes in law that may occur after the issuance date of the Tax-Exempt Notes. In addition, Bond Counsel has not undertaken to advise in the future whether any events occurring after the issuance date of the Tax-Exempt Notes may affect the tax-exempt status of interest on the Tax-Exempt Notes.

NOTWITHSTANDING THE FOREGOING DISCUSSION, PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES PERTAINING TO THEIR OWNERSHIP OF THE NOTES.

Tax Treatment of the Taxable Notes

The Board has taken no action to qualify interest payable on any Notes issued as Taxable Notes as excludable from gross income for federal income tax purposes and therefore it is assumed that interest on the Taxable Notes is not excludable from gross income for federal tax purposes under existing law. Bond Counsel expresses no opinion as to the excludability from gross income for federal income tax purposes of interest payable on the Taxable Notes nor with respect to any other federal, state, or local tax consequence of the purchase, ownership, receipt of interest on, or disposition of the Taxable Notes. Purchasers of the Taxable Notes should consult their own tax advisers with respect to federal, state, or local tax consequences of the purchase, ownership, receipt of interest on, or disposition of the Taxable Notes.

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 believe 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.

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)*

_____, 201_

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; however, for taxable years beginning prior to January 1, 2018 interest on the Tax-Exempt Notes will be included in the “adjusted current earnings” of a corporation (other than an S corporation, a qualified mutual fund, a regulated investment company, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust) for purposes of computing its alternative minimum tax. Corporate purchasers of the Tax-Exempt Notes should consult their tax advisors regarding the computation of alternative minimum tax. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.]

[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,