

# Chapter 09 -- Investments and Endowments

*Date last revised: 10-09-2015*

*[see last page for list of amendments adopted]*

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## 09.00 Chapter definitions.

09.00.1 "IAC" means the Investment Advisory Committee.

09.00.2 "LTIF" means the Long Term Investment Fund.

09.00.3 "SITIF" means the Short/Intermediate Term Investment Fund.

09.00.4 "CIO" means the Chief Investment Officer of the TTU system.

09.00.5 "Treasurer" means the Assistant Vice Chancellor of Treasury & Cash Management of the TTU system.

## 09.01 Roles and responsibilities.

09.01.1 Investment Advisory Committee. The IAC is a special committee of indefinite duration as authorized by the board and is charged with the following duties and responsibilities:

- a. To meet at least quarterly with the CIO, investment counsel, investment managers and other appropriate TTU system officers and staff for the purpose of reviewing and consulting with these parties and advising the board and the board of directors of the Texas Tech Foundation on asset allocation, investment policy and performance; and
- b. For identifying fund managers, monitoring the performance of investments, evaluating fund manager performance and developing and recommending an asset allocation for the LTIF.

09.01.2 Investment consultant. The investment consultant shall assist the board, the IAC, and all investment officers in developing and modifying policy objectives and guidelines, including the development of asset allocation strategies, recommendations on long-term asset allocation and the appropriate mix of investment manager styles and strategies. The consultant also shall provide assistance in investment manager searches and selection, and in investment performance calculation, evaluation, and analysis. The consultant shall provide timely information, written and/or oral, on investment strategies, instruments, investment managers and other related issues, as requested by the board, the IAC, or any investment officer.

09.01.3 Chief investment officer.

- a. The CIO is responsible for the day-to-day investment activities related to the LTIF. The CIO recommends to the board and IAC changes to the investment program as warranted.
- b. The CIO, based on a recommendation from the IAC, is responsible for actual asset allocation, subject to the limitations and ranges designated in the applicable investment policy statement.
- c. The board delegates to the CIO the authority to:
  - (1) make investments recommended by the IAC; and
  - (2) increase the amount of funds committed to existing investment managers.

09.01.4 Treasurer. The Treasurer is responsible for the day-to-day investment activities related to the SITIF, with reporting responsibilities and delegated authority as defined in the Investment Policy Statement for the Short/Intermediate Term Investment Fund.

09.01.5 Investment managers. The duties and responsibilities of each of the investment managers retained by the board include:

- a. Managing the assets under its management in accordance with the policy guidelines and objectives expressed herein.
- b. Meeting or exceeding the manager specific benchmarks established by the CIO or Treasurer.
- c. Exercising investment discretion within the guidelines and objectives stated herein; and such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the investment manager's current investment strategy and as compatible with the investment objectives.
- d. Complying with all provisions pertaining to the investment manager's duties and responsibilities as a fiduciary, with fund assets being invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent professional investment manager, acting in a like capacity and familiar with such matters, would use in the investment of TTU system assets.
- e. Using best efforts to ensure that portfolio transactions are placed on a "best execution" basis.
- f. Exercising ownership rights, where available, through proxy solicitations, doing so strictly for the economic benefit of the LTIF or SITIF, as applicable.
- g. Meeting with the CIO and IAC or Treasurer at least annually or more frequently upon request; additionally, each investment manager shall report to the IAC, investment consultant, CIO, and/or Treasurer as outlined in the specific SITIF and LTIF investment policy statements.
- h. Acknowledging in writing to the CIO/Treasurer the investment manager's intention to comply with Section 09.01.5, *Regents' Rules*, as it currently exists or as modified in the future.

09.01.6 Bank custodian(s). The board shall select one or more unaffiliated custodian bank(s) that will be responsible for performing the following functions:

- a. accept daily instructions from designated investment staff;
- b. advise designated investment staff daily of changes in cash equivalent balances;
- c. immediately advise designated investment staff of additions or withdrawals from the custodial account;
- d. notify investment managers of proxies, tenders, rights, fractional shares or other dispositions of holdings;
- e. resolve any problems that designated investment staff may have relating to the custodial account;
- f. maintain safekeeping of securities;
- g. collect interest and dividends;
- h. perform daily cash sweep of idle principal and income cash balances;
- i. process all investment manager transactions;
- j. collect proceeds from maturing securities;
- k. disburse all income or principal cash balances as directed;
- l. provide monthly statements by investment account and a consolidated statement of all assets;
- m. work with the investment consultant and the TTU system accountant to ensure accuracy in reporting;
- n. manage the securities lending program; and
- o. provide written statements revealing monthly reconciliation of custody and investment managers' accounting statements.

09.02 **Short/Intermediate Term Investment Fund.** The policies for the investment of funds for the SITIF shall be those outlined in the INVESTMENT POLICY STATEMENT FOR THE SHORT/INTERMEDIATE TERM INVESTMENT FUND.

09.02.1 Investment authority. The *Texas Education Code* provides that the TTU system shall invest all funds in accordance with the prudent person standard. The prudent person standard requires making investments that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.

09.02.2 Investment concept. The SITIF shall employ a total return philosophy. Under such a concept, realized gains and losses will be recorded.

09.02.3 Authorized investment officers.

a. The chief financial officer is the authorized investment officer. At each August meeting, the board will delegate its authority, as necessary, to authorize and approve the sale, purchase, and transfer of stocks, bonds, and other securities, or authorize investment agreements with approved investment managers, funded with assets that are owned or controlled by the TTU system as part of the SITIF, provided such action is approved by any two of the officers listed below:

- (1) chief financial officer;
- (2) Treasurer;
- (3) CIO;
- (4) chief fiscal officers of the component institutions; or
- (5) designated investment staff.

- b. One of the following two officers must approve the sale of instruments contributed to the TTU system: vice chancellor for institutional advancement; or legal counsel for institutional advancement.

09.02.4 Potential conflicts of interest. An investment officer referenced in Section 09.02.3.a, *Regents' Rules*, is not permitted to have a personal business relationship with an entity seeking to sell an investment to the TTU system. An investment officer referenced in Section 09.02.3.a, *Regents' Rules*, who is related within the second degree of affinity or third degree of consanguinity (see the chart in Section 03.01.8, *Regents' Rules*) to an individual seeking to sell an investment to the TTU system shall file a statement disclosing that relationship. A statement required under this section of the policy statement must be filed with the board and the Texas Ethics Commission.

09.02.5 Securities dealer selection.

- a. The TTU system may rely on the information and advice of securities sales representatives concerning proposed investments, investment timing and pricing. It is essential that the TTU system have sufficient knowledge about the securities firms and personnel with whom they are doing business. Firms that are unwilling to provide complete and timely disclosure of their financial conditions will not be utilized.
- b. The following will be considered in the selection of securities firms:
  - (1) The ability of the securities dealer to fulfill commitments as evidenced by capital strength, liquidity and operating results. This evidence shall be gathered from current financial data, annual reports, credit reports, and other sources of financial information. The securities dealer will exhibit a minimum capital requirement of \$50 million.
  - (2) The dealers' general reputation for financial stability and fair and honest dealings with customers.

- (3) Information available from state or federal securities regulators and securities industry self-regulatory organizations, such as the National Association of Securities Dealers, concerning any formal enforcement actions against the dealer, its affiliates or associated personnel.
  - (4) A review of the background of the sales representative with whom business will be conducted in order to determine experience and expertise.
- c. A copy of Section 09.02.5, *Regents' Rules*, shall be provided to all securities dealers seeking to conduct securities transactions with the TTU system.
  - d. The TTU system shall make reasonable, good faith efforts to include woman-owned and minority-owned businesses in its investment process. For purposes of this policy, a minority-owned business is a business entity in which 51% of the ownership interests in the entity are held by one or more minority group members, and a woman-owned business is a business entity in which at least 51% of the ownership interests in the entity are held by one or more women.

09.02.6 Investment training. The officers identified in Section 09.02.3.a, *Regents' Rules*, shall attend at least one training session per year that addresses the responsibilities of the investment officers. The training should include education in investment controls, security risks, strategy risks, market risks, and compliance with certain state statutes and this policy statement. The chief financial officer shall be notified of the completion of the required training by the investment officers.

09.02.7 Internal management reports. Not less than quarterly, the chief financial officer shall prepare and submit to the chair, the chair of the Finance and Administration Committee, the chancellor, and the presidents of the component institutions a report of the status of investments.

- a. The report shall:
  - (1) describe the investment position of the SITIF; and

- (2) summarize the following:
  - (a) the beginning market value of the reporting period;
  - (b) additions and changes to the market value during the period;
  - (c) ending market value for the period;
  - (d) the book value and market value of investments at the beginning and the end of the reporting period by type of asset invested; and
  - (e) the compliance of the SITIF investments as they relate to this policy statement.

- b. The chief financial officer shall, at the beginning of each fiscal year, present a report to the board of the investments of the TTU system during the preceding fiscal year. The report will summarize all investment activity for the year, including total investment income and annual investment rate of return.

09.03 **Long Term Investment Fund (Endowment).** The policies for the investment of funds for the LTIF shall be those outlined in the INVESTMENT POLICY STATEMENT FOR THE LONG TERM INVESTMENT FUND.

09.04 **Proxy voting.**

09.04.1 Responsibility for the exercise of ownership rights through proxy solicitations shall rest solely with the investment managers, who shall exercise this responsibility strictly for the economic benefits of the SITIF and/or LTIF. Investment managers shall annually report to the CIO standing policies with respect to proxy voting, including any changes that have occurred in those policies.

09.04.2 Additionally, investment managers shall provide a written annual report of the proxy votes for all shares of stock in companies held in the SITIF and/or LTIF investment program. These reports shall specifically note and explain any instances where proxies were not voted in accordance with standing policy.



- 09.05 **Directed commissions.** Investment managers shall use their best efforts to ensure that portfolio transactions are placed on a “best execution” basis. Additionally, arrangements to direct commissions should only be implemented by specific authorization of the CIO.
- 09.06 **Commingled funds.** The board, in recognition of the benefits of commingled funds as investment vehicles (i.e., the ability to diversify more extensively than in a small, direct investment account and the lower costs that can be associated with these funds) may elect to invest in such commingled funds from time to time. The board recognizes that it cannot give specific policy directives to a commingled fund with pre-established policies; therefore, the board is relying on the CIO and the IAC to assess and monitor the investment policies of any commingled funds used by the TTU system.
- 09.07 **Mineral leases.** It is the intent of the board to lease oil, gas, sulfur, ore, water, and other mineral interests of the TTU system for development whenever there is a demand that will reasonably ensure that they may be leased advantageously and it is in the best interest of the TTU system. All leases will be executed in accordance with the applicable laws and with rules and regulations adopted by the board that are not inconsistent with the provisions of law. The reason for leasing minerals is to obtain additional income to be used by the board for the administration of the TTU system, for payment of principal of and interest on revenue bonds and notes issued by the board, and for any other purpose that in the judgment of the board may be for the good of the TTU system.
- 09.07.1 Lands under exclusive control of the board and owned by the state of Texas.
- a. Leases will be negotiated with prospective lessees to obtain their best offer above the minimum outlined in Section 09.07.1.c, *Regents’ Rules*.
  - b. Leases normally will be for oil and gas production only. Separate leases will be required for other mineral production, whether strip-mined or not.
  - c. The board may not sell a lease for less than the royalty and rental terms demanded at that time by the General Land Office of the State of Texas in connection with the sale of oil, gas, and other mineral leases of the public lands of this state. In addi-

tion, no bid or proposal shall be accepted that offers a royalty of less than one-quarter of production, a primary term greater than five years or a delay rental of less than \$5 per acre per year.

- d. No state lands shall be sold unless the mineral rights are retained by the state, unless impractical.
- e. Use of TTU system standardized oil and gas lease or oil and gas and mineral lease forms will be required for all leases.
- f. Use of TTU system standardized division order forms will be required for all division orders.

09.07.2 Mineral and royalty interests derived from trusts and gifts.

- a. Leases will be negotiated with prospective lessees to obtain their best offer above the minimums outlined in Section 09.07.2.c, *Regents' Rules*.
- b. Leases will normally be for oil and gas production only. Separate leases will be required for other mineral production, whether strip-mined or not.
- c. No proposal shall be accepted that offers a royalty of less than one-quarter of production, a primary term of more than five years or a delay rental of less than \$5 per year per mineral acre, beginning with the second year of the lease.
- d. Use of TTU system standardized oil and gas lease or oil and gas and mineral lease forms will be required for all leases.
- e. Use of TTU system standardized division order forms will be required for all division orders.

09.07.3 Approval. All leases and other documents relating to leasing shall be approved by the board, and then be signed by the chancellor.

***Dates Approved or Amended:***

- *Comprehensive review of chapter* .....08-08-2014   • amendments throughout
- *Miscellaneous cleanup revisions* .....10-09-2015   • to §09.07.3

*See also the document entitled “Comprehensive Reviews and Updates” for a more complete explanation of the amendments listed above.*