

Texas Tech University System

INVESTMENT POLICY STATEMENT

**Short/Intermediate Term Investment Fund**

***Dates Approved or Amended:***

- *Initial adoption of policy statement*.....02-26-2010
  - *Comprehensive rewrite* .....03-02-2012
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  - *Amendment to Sec. 7.1.a* .....10-14-2016
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**Section 1 Introduction.**

This policy statement shall guide the investment of the subset of institutional funds known as the Short/Intermediate Term Investment Fund (“SITIF”) of the Texas Tech University System (“TTU system”). As a pooled fund for the collective investment of operating funds, the SITIF will consolidate cash and reserve balances to optimize system-wide liquidity management, improve diversification, and increase efficiencies with regard to investment pricing, custody, and administration.

All institutional funds not invested in the Long Term Investment Fund (“LTIF”) will be invested in accordance with this policy statement, excluding bond proceeds and certain gifted assets.

**Section 2 Roles and Responsibilities.**

- 2.1 **Board of Regents (the “Board”).** The Board will establish investment policies, return objectives, risk tolerance, broad asset allocation ranges, and monitor performance. In addition, the Board will hire consultants, as necessary, to advise on the management of these funds. Authority to manage the SITIF in accordance with this policy is granted to the Vice Chancellor and Chief Financial Officer of the TTU system.
- 2.2 **Vice Chancellor and Chief Financial Officer of the TTU system (“CFO”).** The CFO shall manage all operating funds in accordance with this policy under the oversight of the Finance and Administration Committee of the Board. The CFO is responsible for all cash management activities, and is authorized to set asset allocation targets within pre-approved ranges, select and terminate external investment managers, and execute security transactions. The CFO shall delegate certain responsibilities for cash management and investment transactions to the Assistant Vice Chancellor of Treasury & Cash Management.

At his or her discretion, the CFO can establish an Operating Funds Investment Committee, comprised of financial officers from various system components. This committee will provide advice, guidance, and oversight for the management of operating funds.

- 2.3 **Operating Funds Investment Committee (“Committee”).** The Committee will meet periodically to provide guidance and oversight regarding investment policy and strategic direction. Also, the Committee must approve staff recommendations on asset allocation, investment structure, and external investment manager selection and termination.

The CFO and the Associate Vice Chancellor and Chief Investment Officer will be permanent members of the Committee. Other members will be appointed at the discretion of the CFO.

- 2.4 **Assistant Vice Chancellor of Treasury & Cash Management (“Treasurer”).** The Treasurer, under the supervision of the CFO, is charged with implementing and administering this investment policy statement. The Treasurer is responsible for day-to-day portfolio management activities, investment manager recommendations, and operating procedures. In addition, the Treasurer shall be responsible for:

- a. Monitoring external and internal asset managers.
- b. Recommending new investment managers to the CFO and Committee.
- c. Evaluating the effectiveness of policies, procedures, objectives and strategy, and proposing, when appropriate, modifications for recommendation to the Committee and the Board.
- d. Providing quarterly reports to the Finance and Administration Committee of the Board.

- 2.5 **Investment Consultant.** The investment consultant’s primary responsibility is to provide independent information and advice to the Board, CFO, Committee, Treasurer, and staff. Within its broad scope of services, the consultant will focus on the following:

- a. Investment policy development;
- b. Strategic asset allocation studies;
- c. External investment manager due diligence;
- d. Monitor investment performance; and
- e. Performance measurement and reporting.

- 2.6 **External Investment Managers.** External investment managers will invest SITIF assets in accordance with established guidelines but will apply their own judgment regarding security selection. External investment managers will be given full discretion, within established guidelines and policy limits, to select individual securities, and diversify their portfolios.

### Section 3 Investment Objectives.

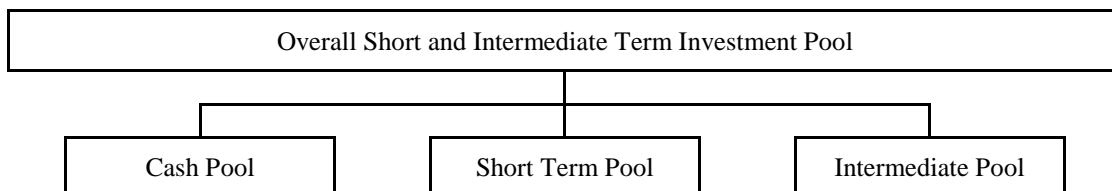
The investment of funds for the SITIF shall provide incremental return to assist in meeting the operating needs of the TTU system. The SITIF shall employ a total return philosophy. Under such a concept, realized gains and losses will be recorded.

#### 3.1 Investment objectives of the SITIF.

- a. The investment of funds shall consider asset diversification, total return, suitability, and the experience, quality, and capability of investment personnel. It will be governed by the following investment objectives, in the following order of priority:
  - (1) preservation and safety of principal;
  - (2) liquidity; and
  - (3) return.
- b. In determining whether the objectives in Section 3.1.a have been met, the following shall be taken into consideration:
  - (1) The investment of all funds, rather than a consideration as to the prudence of a single investment; and
  - (2) Whether the investment decision was consistent with this written policy.

### Section 4 Investment Structure.

SITIF assets will be segmented into three tiers of liquidity based on the cash flow requirements of the TTU system.



The approved liquidity tiers and a general investment strategy for each are as follows:

- 4.1 **Cash Pool (Tier 1).** The cash pool is designed to meet the current operating needs of the TTU system. This tier is expected to offer the highest level of liquidity. Funds should be available on a daily basis. These funds will be invested primarily in high quality money market funds or other instruments widely considered as cash equivalents, such as collateralized bank deposits, local government investment pools, and fully collateralized repurchase agreements.
- 4.2 **Short Term Pool (Tier 2).** The short term pool is a contingency fund designed to provide a margin of safety in the unlikely event that the cash pool is insufficient to meet any current or unplanned expenditures. A secondary objective is to provide enhanced financial flexibility during any unexpected market disruptions, when commingled funds can be susceptible to redemption risk. This tier will seek preservation of capital and incremental investment income above money market fund yields. These funds will be invested only in fixed income securities issued by the United States government, or its agencies and instrumentalities, or the highest quality commercial paper. Only securities with maturities ranging between overnight and three years are eligible.
- 4.3 **Intermediate Pool (Tier 3).** The intermediate pool is a longer-term reserve fund to cover the needs of the TTU system over a time horizon of five years or greater. As such, these assets will be invested with a total return objective. This pool has an investment objective of growth with income, and will be invested in a diversified asset mix of liquid or semi-liquid securities. This pool will be more broadly diversified than either the cash pool or the short term pool and will be structured to generate a higher return over longer periods while remaining liquid enough to serve as a source of funds under extreme circumstances. Because of the very low likelihood that these funds would be needed to meet cash flow requirements, a greater degree of principal risk is acceptable in order to obtain a higher return.

The intermediate pool may be invested in any asset classes approved by the CFO and Committee.

The intermediate pool, where possible and appropriate, can use the same external investment managers as the LTIF to take advantage of economies of scale and to achieve the most efficient use of staff resources. However, given the need for greater liquidity, commingled funds with illiquid assets and lock-up periods longer than one year are inappropriate for this tier.

## **Section 5 Asset Allocation.**

Asset allocation is the primary determinant of investment performance and, subject to the ranges specified herein, is the responsibility of the CFO, in consultation with the Committee. Changes to the asset allocation ranges and limitations are the responsibility of the Board and may be changed from time to time based on the economic and investment outlook.

- 5.1 **Allocation of Assets by Pool.** The allocation of operating funds among the cash pool, short term pool, and intermediate pool is the responsibility of the CFO.
- 5.2 **Target Asset Allocation and Permissible Ranges.**

Table 1 – Asset Allocation by Pool

Segments	Target Allocation	Permissible Ranges
Cash Pool	10%	10% — 30%
Short Term Pool	40%	25% — 50%
Intermediate Pool	50%	30% — 70%

- 5.3 **Changes to Asset Allocation.** The Board will approve any changes to the permissible ranges for each segment. The CFO is responsible for determining the appropriate asset allocation within each pool.

## Section 6 Rebalancing.

### 6.1 Rebalancing.

- a. It is the intent of the Board that the asset allocation for the SITIF remains within the permissible ranges and that the portfolio shall be rebalanced when the allocation deviates significantly from these ranges. Contributions to the SITIF should be applied to, and payments by the SITIF withdrawn from, asset classes in such a way so as to bring the asset allocation back toward its target ranges.
- b. The minimum and maximum allocations should not be exceeded, except in unusual circumstances. Rebalancing may occur before these limits.

## Section 7 Guidelines for Investments.

In today’s rapidly changing and complex financial world, no list of types of categories of investments can provide continuously adequate guidance for achieving investment objectives. Any such list is likely to be too inflexible to be suitable for all market environments in which investment decisions must be made. Therefore, it is the process by which investment strategies and decisions are developed, analyzed, adopted, implemented, and monitored, and the overall manner in which investment risk is managed, which determines whether an appropriate standard of reasonableness, care, and prudence has been met for these investments.

The following list is indicative of the investment classes which are appropriate for each pool based on return objectives and liquidity requirements. It should not be construed as an exhaustive list of “allowable” asset types. Security types and/or strategies not specifically enumerated, but which the Committee determine are appropriate, may also be held.

- 7.1 **Cash Pool.** The cash pool will be invested primarily in money market funds and other cash instruments:
- a. Any money market fund or mutual fund that is AAA rated, or its equivalent, by at least two nationally recognized rating services. All funds in this category must be offered at a constant \$1.00 net asset value and comply with the diversification, quality, liquidity, and maturity requirements of SEC regulation 2a-7 under the Investment Company Act of 1940.
  - b. Collateralized bank deposits with a state or national bank domiciled in the State of Texas, provided:
    - (1) Such deposits must be insured by the Federal Deposit Insurance Corporation or its successor, with the remainder fully collateralized as required in the *Texas Education Code*, except that surety bonds are not authorized as collateral. The pledged collateral shall be placed in a custodian bank or banks named by the TTU system. Deposits will be collateralized in an amount equal to or greater than 102% of the amount of funds on deposit at the bank. In no event will the custodian be affiliated with the depository bank.
    - (2) On any given day, no depository bank shall have SITIF funds on deposit in an amount that exceeds any one of the following limits:
      - (a) 25% of the total funds available for investment by the TTU system; or
      - (b) based upon the bank's latest regularly published statement of financial condition: 15% of its total deposits; or an amount equal to the sum of its capital, permanent surplus, retained earnings, and reserves.
    - (3) The limitations in Section 7.1.b of this policy statement shall not be construed to establish a commitment and/or guarantee on the part of the TTU system to deposit any particular amount in any one bank.
  - c. Local government investment pools, which are specialized money market funds designed to offer a convenient and cost-effective investment vehicle for public entities.
  - d. Repurchase agreements.
    - (1) For the purpose of this policy, a repurchase agreement is an investment transaction between an investor and a bank or securities dealer, in which the bank or dealer agrees to sell a particular instrument to the investor and simultaneously agrees to repurchase that investment at a certain date in

the future at a market value of not less than the principal amount of the funds disbursed.

- (2) A fully collateralized repurchase agreement is an authorized investment if the repurchase agreement is secured by U.S. Government Securities and require the securities being purchased to be pledged to the TTU system and deposited at the time the investment is made with a third party selected and approved by TTU system. The value of all collateral shall be maintained at 102% of the notional value of the repurchase agreement (valued daily). Repurchase agreements must be placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas.
- (3) There shall be no limitation on the amount invested, provided the vehicle is collateralized by U.S. government securities.
- (4) Reverse repurchase agreements are not permitted.

7.2 **Short Term Pool.** The short term pool will be invested in the following types of securities with maturities of 36 months or less.

- a. Obligations issued or guaranteed by the United States Federal Government, United States Federal Agencies, or United States government-sponsored corporations and agencies.
- b. “Prime quality” commercial paper with a maturity of one year or less, issued by domestic corporations (corporations organized and operating under the laws of the United States or any state thereof) provided that the issuing corporation, or its guarantor, has a short-term debt rating of no less than “A-1” (or its equivalent) by at least two of the national rating services.
- c. The weighted average duration of the short term pool should be 24 months or less.

7.3 **Intermediate Pool.** The intermediate pool will be structured as a total return portfolio. The investment strategy for this pool is that its time horizon, and flexibility, is such as to permit investments in a diversified mix of assets that will collectively offer greater returns than short term fixed income securities. The goal is to diversify investments across multiple asset classes, including equities, which will enhance total return over the long term, while avoiding undue risk concentrations in any single asset class or investment category.

The assets of the intermediate pool will be invested through external managers and/or commingled funds approved by the Committee.

The Treasurer shall develop investment management guidelines for each external investment manager.

All major sectors of the capital markets, with the exception of private equity, should be considered eligible for inclusion in the intermediate pool to diversify and minimize overall risk. Such asset classes may include, but are not limited to, cash instruments, publicly traded equities (U.S. equity, Non-U.S. equity and Emerging Markets equity), U.S. fixed income, Non-U.S. fixed income, high yield, convertible debt, inflation-linked bonds, emerging market debt, publicly traded real estate securities and alternative investments (hedge funds and commodities).

The Committee may select any asset class or investment category it believes is appropriate for the intermediate pool, subject to the return objectives, risk tolerance, and liquidity needs of the overall SITIF.

A report shall be provided each month to the Finance and Administration Committee of the Board of Regents. This report should provide information on actual asset allocation, asset allocation target, and manager performance.

## **Section 8 Use of Pooled Funds.**

The use of pooled funds (e.g., commingled funds, mutual funds, common trust funds, etc.) is permitted when it is deemed to be in the best interest of the TTU system. These investment vehicles may have investment guidelines that are different than those described in the SITIF policy statement. In these cases, the CFO and Treasurer are authorized to review and approve the investment documents, and these guidelines supersede those of the TTU system.

## **Section 9 Performance Benchmarks.**

A customized total portfolio benchmark will be designed by the investment consultant to measure the overall performance of the SITIF. This benchmark will blend the returns of the three benchmarks specified below, weighted according to the target allocation for each respective tier.

Table 2 – Asset Class Performance Benchmarks

<b>Segments</b>	<b>Benchmark</b>
Cash Pool	Barclays Capital 1-3 Month U.S. Treasury Bill Index
Short Term Pool	Barclays Capital 1-3 Year U.S. Treasury Bond Index
Intermediate Pool	Customized Benchmark

### **9.1 Return objectives.**

- a. The total return goal for each category of investments is expected to match or exceed the performance of the appropriate benchmark index over a rolling three-year period.



- b. The performance of each investment manager will be evaluated against a comparable index for its asset class and should outperform that index over a rolling three-year period. Managers underperforming over that period will be considered by the Committee for replacement.

## **Section 10 Reporting.**

The Treasurer will prepare quarterly investment reports, which will be submitted to the CFO, Committee and the Finance and Administration Committee of the Board. The reports will summarize asset allocation, investment holdings, liquidity, performance, and risk characteristics.

## **Section 11 Selection of Investment Managers.**

- 11.1 **External Investment Managers.** The CFO can appoint external investment managers to invest the SITIF assets under the terms of this policy. Investment managers will be delegated with discretion to manage the assigned assets to best achieve the objectives of the SITIF. Any investment manager hired to invest SITIF assets shall be a registered investment advisor under the Investment Advisors Act of 1940, or qualify to be exempt from registration.
- 11.2 **Manager Selection.** The manager selection process should incorporate review and analysis of the following factors:
  - a. Ability of the firm to achieve SITIF return and risk objectives.
  - b. Length and quality of experience of key investment professionals.
  - c. Long-term track record evaluated on both a risk and return basis.
  - d. Consistency of investment strategy and results.
  - e. Historical growth of, and future plans for, assets under management.
  - f. Confidence that past performance can be sustained in the future.
  - g. Existence of a clear, concise and effective decision-making process.
  - h. Risk management tools and systems.
  - i. Sufficient organizational depth and continuity of personnel.
  - j. Adequate reporting, administration and back-office support.

## **Section 12 Responsibilities of Investment Managers.**

- 12.1 Invest the assets of the TTU system with the care, skill, prudence, and diligence that a prudent professional investment manager, familiar with such matters and acting in like capacity, would use in the investment of such assets, consistent with the guidelines outlined herein.
- 12.2 Adhere to the investment policies and guidelines prescribed by the TTU system and act in the best interest of the TTU system.
- 12.3 Each investment manager shall have full investment discretion with regard to security selection, consistent with this policy and the manager's established guidelines.
- 12.4 Make no material departures from the strategy for which the manager was hired.
- 12.5 Inform the Treasurer about all significant matters pertaining to the investment of TTU system assets. These matters include the following:
  - a. Substantive changes in investment strategy or portfolio structure.
  - b. Significant changes in ownership, affiliations, organizational structure, financial condition and professional staffing of the investment management organization.
  - c. Any regulatory actions being pursued or taken against the firm or any of its employees.
- 12.6 All investment managers must report their performance on a monthly basis, and the reporting methodology must be in compliance with the standards outlined by the CFA Institute.
- 12.7 Seek best price/execution when purchasing or selling securities at all times. Each investment manager must recognize that brokerage is an asset of the TTU system, not the investment manager. Also, investment managers must disclose any affiliated brokerage relationships.
- 12.8 Comply with CFA Institute Guidelines on Soft Dollar Standards.
- 12.9 Vote all proxies after careful assessment of the issues involved, with particular emphasis on items that might reduce the economic value of stockholders' rights of ownership and thereby adversely impact the performance of the TTU system's assets.
- 12.10 Meet with the Treasurer and other investment staff on a regular basis, either in person or by teleconference.
- 12.11 Provide the number of new clients and clients that have terminated on a quarterly basis.

- 12.12 Securities or positions in a single company or issuer must not exceed 10% of the investment manager's portfolio measured at market value. However, money market funds and obligations issued by the U.S. federal government are exempt from this restriction.
- 12.13 Securities or positions in any one industry should not exceed 25% of the investment manager's portfolio at market value.
- 12.14 The market value of any single investment manager account may not exceed 10% of the total SITIF.
- 12.15 Currency hedging decisions are at the discretion of the manager.

### **Section 13 Spending Policy.**

- 13.1 The Board recognizes the need for distributions to institutional funds comprising the SITIF. Distributions are to be made on a monthly basis.
- 13.2 For the cash and short term pools of the SITIF, funds to be distributed will be current income earned on an accrual basis.
- 13.3 For the Intermediate pool of the SITIF, a spending percentage will have to be applied as it is managed on a total return basis. The following spending policy reflects an objective to distribute as much total return as is consistent with overall investment objectives defined herein while protecting the inflation-adjusted value of the principal. The following factors are considered in the spending policy:
  - a. the duration and preservation of the Intermediate pool portion;
  - b. the purposes of the TTU system and the Intermediate pool portion;
  - c. general economic conditions;
  - d. the possible effect of inflation or deflation;
  - e. the expected total return from income and the appreciation of investments;
  - f. other resources of the TTU system; and
  - g. the overall investment policy.
- 13.4 In order to provide for stability and predictability in distributions, funds to be distributed from the Intermediate pool will be based on an average of market value. Average market value will be determined at each month-end based on the number of months from inception of the Intermediate pool, until the number of months reaches 36. From that point forward, the average will be a 36-month rolling average.

To provide for timely distributions coinciding with the closing of monthly accounting periods and account for when investment manager statements are normally received, the current month's market value will be determined with a one-month lag after accounting for cash inflows/outflows to the Intermediate pool.

- 13.5 The annual spending percentage applied to average market value shall not exceed 6% nor be less than 2%. The initial annual spending percentage is set at 3% and will be applied monthly by dividing the percentage by 12. The annual spending percentage will be reviewed and set each year by the Operating Funds Investment Committee based on inflation expectations and expected return.

#### **Section 14 Management Fee.**

- 14.1 The TTU system will assess and retain an investment management fee at the annual rate of 0.1% of the average market value of the SITIF.
- 14.2 The fee will be assessed on a quarterly basis, and average market value will be based on month-end values during the calendar quarter just ended. As in Section 13.4, Intermediate Pool values will be on a one-month lag, accounting for cash inflows/outflows. The fee rate will be reviewed annually, with any recommended changes submitted to the Board for approval.

#### **Section 15 Securities Lending.**

The SITIF may not participate in securities lending unless approved by the Operating Funds Investment Committee. Commingled funds are exempt from this restriction.

#### **Section 16 Amendment of Investment Policy Statement.**

The Board will review and, if necessary, update the SITIF investment policy statement on an annual basis.

#### **Section 17 Effective Date.**

This investment policy statement was approved initially by the Board on March 2, 2012, and by the Texas Tech Foundation, Inc. on May 11, 2012.