ITIF Investment Policy Statement

Texas Tech University System

INVESTMENT POLICY STATEMENT

Intermediate Term Investment Fund

Date adopted: 12-13-2019

Section 1 Introduction.

This policy statement shall guide the investment of the subset of institutional funds known as the Intermediate Term Investment Fund (“ITIF”) of the Texas Tech University System (“TTU system”). As a pooled fund for the investment of the TTU system’s operating funds, non-operating funds and other funds, the ITIF will consolidate identified cash and reserve balances in excess of current operating needs invested over the intermediate term for diversification and return maximization.

Section 2 Roles and Responsibilities.

2.1 Board of Regents (the “Board”). The Board will approve the investment policy, return objectives, risk tolerance, asset class target ranges (as defined in Section 5), and monitor performance. In addition, the Board will hire consultants, as necessary, to advise on the management of these funds. The Board grants the authority to manage the ITIF in accordance with this policy 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 funds in accordance with this policy. The CFO is responsible for all cash management activities and is authorized to set asset class targets within pre-approved ranges. The CFO may delegate asset allocation and/or investment decisions to the CIO.

2.3 Operating Funds Investment Committee (“OFIC”). The CFO will establish an Operating Funds Investment Committee, comprised of financial officers from various system components. The OFIC may meet periodically to provide guidance and oversight regarding the ITIF investment policy and strategic direction. Members will be appointed at the discretion of the CFO.

2.4 Investment Advisory Committee (“IAC”). The CFO may grant the IAC authority to provide guidance and oversight regarding Intermediate Pool (“ITIF”) asset allocation and investment management. The IAC is comprised of persons as described in Section 01.02.8(f), Regents’ Rules (the Bylaws of the Board of Regents of the TTU system).
2.5 **Treasurer.** The Treasurer, under the supervision of the CFO, is charged with monitoring and reporting the overall balances of the with the Short Term Investment Fund and ITIF for potential rebalancing between the two investment funds (defined in Section 6).

2.6 **Chief Investment Officer (“CIO”).** The CIO, under the supervision of the CFO and in consultation with the IAC, is charged with implementing and administering this investment policy statement in regard to the ITIF (defined in Section 4). The CIO is responsible for day-to-day portfolio management activities and operating procedures. In addition, the CIO shall be responsible for:

a. Monitoring external investment managers of the ITIF.

b. Reporting performance, investment manager and fund updates to the CFO, IAC, OFIC and Board of Regents on a quarterly basis.

c. Evaluating the effectiveness of policies, procedures, objectives and strategy, and proposing, when appropriate, modifications for recommendation to the CFO, IAC and the OFIC.

2.7 **Investment Consultant/Advisor.** The investment consultant’s/s’ primary responsibility is to provide independent information and advice to the Board, CFO, IAC, OFIC, and staff. Within its broad scope of services, the consultants will focus on the following:

a. Investment policy development;

b. Strategic asset allocation studies;

c. Assist in manager searches and selection;

d. External investment manager due diligence;

e. Monitor investment performance; and

f. Provide investment education.

2.8 **External Investment Managers.** External investment managers will be given full discretion, within established guidelines and policy limits, to select individual securities, and diversify their portfolios. Intermediate Term assets will be invested in unitized pools of the LTIF assets.

### Section 3  Investment Objectives.

The investment of funds for the ITIF shall provide incremental return to assist in meeting the operating needs of the TTU system. The ITIF shall employ a total return philosophy.
3.1 Investment objectives of the ITIF.

a. The investment of funds shall consider asset diversification, total return, suitability, and the experience, quality, and capability of investment personnel. The total fund and each pool shall consider the relevant investment horizon and shall be governed by the following investment objectives, in the following order of priority:

(1) maximize investment returns

(2) achieve incremental growth to preserve the purchasing power of ITIF assets; and

(3) prudently diversify with appropriate liquidity;

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.

(2) Whether the investment decision was consistent with this written policy.

Section 4 Investment Structure.

4.3 The ITIF is an intermediate and longer-term reserve fund designed to cover the needs of the TTU system over a time horizon of 5 to 7 years. 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 of the STIF and will be structured to generate a higher return over longer periods while retaining a profile that will be 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 ITIF, 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 TTU system resources.

Section 5 Asset Allocation, Target Ranges and Policy Benchmarks.

5.1 The Board will approve any changes to the target ranges for each asset class. The CFO is responsible for determining the appropriate asset allocation within each pool.
5.2 Asset allocation, subject to the ranges specified herein, is the responsibility of the CFO, in consultation with the IAC and OFIC.

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

Table 1 – Asset Allocation Target, Ranges & Policy Benchmark

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Policy Benchmark</th>
<th>Target Allocation</th>
<th>Target Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>N/A</td>
<td>0%</td>
<td>0% - 15%</td>
</tr>
<tr>
<td>Equity</td>
<td>MSCI AC World (gross, USD)</td>
<td>25%</td>
<td>20% - 30%</td>
</tr>
<tr>
<td>Debt</td>
<td>BC Global Aggregate (unhedged)</td>
<td>25%</td>
<td>20% - 30%</td>
</tr>
<tr>
<td>Diversifying Assets</td>
<td>HFRX Global</td>
<td>30%</td>
<td>25% - 35%</td>
</tr>
<tr>
<td>Private Assets</td>
<td>70% MSCI ACWI IMI; 15% Barclays US High Yield; 15% Barclays Global High Yield Trailing 5-year rolled quarterly 250 bps premium</td>
<td>20%</td>
<td>15% - 25%</td>
</tr>
<tr>
<td>Portfolio Hedge</td>
<td>N/A</td>
<td>0%</td>
<td>0% - 15%</td>
</tr>
</tbody>
</table>

5.4 Asset Class Investment Objectives.

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

b. Each investment manager will be evaluated versus a benchmark and/or a peer universe, as defined by the CIO and approved by the IAC. Managers should rank above the median over a rolling five-year period.

Section 6 Rebalancing.

6.1 Inter-portfolio Rebalancing.

a. It is the intent that the asset allocation for ITIF remains within the permissible target ranges and that the portfolio shall be rebalanced when the allocation deviates significantly from these ranges.

b. The minimum and maximum allocations should not be exceeded, except in unusual circumstances. Rebalancing may occur before these limits.
6.2 **Rebalancing between the STIF and the ITIF.**

a. The asset allocation between the STIF and the ITIF is set at 40% and 60% respectively.

b. Quarterly, the Treasurer will provide the CFO an asset summary of the STIF and ITIF. Periodically, the CFO may require the Treasurer and the CIO to rebalance between the STIF and ITIF. Contributions to the ITIF should be applied to, and payments by the ITIF withdrawn from, asset classes in such a way to bring the asset allocation back toward its target ranges.

**Section 7 Guidelines for Investments.**

The following list is indicative of the investment classes which are appropriate for the ITIF 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 CFO, IAC, and OFIC determine are appropriate, may also be held.

The ITIF 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 ITIF will be invested in unitized structures through external managers in separate accounts or commingled funds. The CIO is authorized to hire managers. The CIO may terminate an investment manager if necessary and will notify the IAC of the changes.

**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 ITIF policy statement.

**Section 9 Reporting.**

The CIO will prepare quarterly investment reports on the ITIF, which will be submitted to the CFO, IAC, OFIC and the Board. The reports will summarize asset allocation, liquidity, performance, and risk characteristics.
Section 10 Selection of Investment Managers.

10.1 External Investment Managers. The CIO may appoint investment managers to invest the ITIF assets under the terms of this policy or within the unitized structures according to the LTIF Investment Policy Statement. Investment managers will be delegated with discretion to manage the assigned assets to best achieve the objectives of the ITIF. Any investment manager hired to invest ITIF assets shall be a registered investment advisor under the Investment Advisors Act of 1940, or qualify to be exempt from registration.

10.2 Manager Selection. The manager selection process should incorporate review and analysis of the following factors:

a. Ability of the firm to achieve return and risk objectives of the investment pool.

b. Length and quality of experience of key investment professionals.

c. Consistency of investment strategy and results.

d. Historical growth of, and future plans for, assets under management.

e. Confidence that past performance can be sustained in the future.

f. Existence of a clear, concise and effective decision-making process.

g. Risk management tools and systems.

h. Sufficient organizational depth and continuity of personnel.

i. Adequate reporting, administration and back-office support.

Section 11 Responsibilities of Investment Managers.

11.1 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.

11.2 Adhere to the investment policies and guidelines prescribed by the TTU system and act in the best interest of the TTU system.

11.3 Each investment manager shall have full investment discretion regarding security selection, consistent with this policy and the manager’s established guidelines.

11.4 Make no material departures from the strategy for which the manager was hired.
11.5 Inform the consultant and CIO 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.

11.6 All investment managers must report their performance on a monthly or quarterly basis, and the reporting methodology must be in compliance with the standards outlined by the CFA Institute.

11.7 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.

11.8 Comply with CFA Institute Guidelines on Soft Dollar Standards.

11.9 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.

11.10 Meet with the CIO and other investment staff on a regular basis, either in person or by teleconference.

11.11 Provide the number of new clients and clients that have terminated on a quarterly basis.

11.12 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.

11.13 Securities or positions in any one industry should not exceed 25% of the investment manager’s portfolio at market value.

11.14 The market value of any single investment manager account may not exceed 10% of the applicable pool.

11.15 Currency hedging decisions are at the discretion of the manager.
Section 12 Spending Policy.

12.1 For the ITIF, a spending draw will be applied as it is managed on a total return basis. Distributions are to be made on a monthly 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 ITIF portion;
b. the purposes of the TTU system and the ITIF 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.

12.2 The annual spending percentage applied to average market value of the ITIF 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 CFO in consultation with OFIC based on inflation expectations and expected return.

Section 13 Management Fee.

13.1 The ITIF will be assessed an investment management fee for expenses associated with the management of the pool.

13.2 The ITIF will be charged an annual management fee for fees and expenses associated with the management of the pool.

13.3 The fee will be assessed on a quarterly basis, and average market value will be based on a 12-quarter rolling average of the total net asset value of the ITIF.

13.4 The TTUS Office of Investments (“TTUS OI”) shall be funded by a management fee assessed upon the LTIF of the TTU system and the ITIF.

13.5 The management fee rate shall be reviewed annually in conjunction with the preparation of annual operating budgets. Any recommendation will be communicated during the annual budget process as outlined in Section 07.04, Regents’ Rules.
Section 14  Securities Lending.

For funds managed in a separate account format, the ITIF may not participate in securities lending unless recommended by the CIO and approved by the IAC. Any authorization for securities lending in separate accounts must be reported in advance to the Board chair, the chair of the Finance and Administration Committee, and the IAC chair. Also, any such authorization shall be reported as an Information Agenda item at the next Board meeting. Commingled funds are exempt from this restriction.