Texas Tech University System

INVESTMENT POLICY STATEMENT

Comprehensive Cash and Investment Pool

Dates Approved or Amended:

-- Initial adoption of policy statement........ 12-10-20
-- Amendments throughout to…………………......11-14-2024

- *Updated the naming convention from Comprehensive Cash Pool (CCP) to Comprehensive Cash and Investment Pool (CCIP). Additionally, the following updates were made to: Roles and Responsibilities section of CCIP policy statement to include the Chief Investment Officer role with primary responsibilities for implementing and administering the Noncurrent Segment of the CCIP; 2) segment allocation targets, between cash, contingency, and noncurrent segments; 3) asset allocation from a 60/40 approach to a 70/30 split, growth/stable value, for Noncurrent Segment; 4) benchmarks in the CCIP policy statement; and 5) other editing and minor changes*

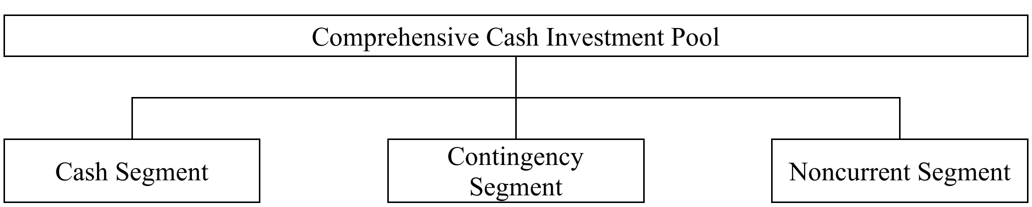
Section 1 Introduction.

This policy statement shall guide the investment of institutional operating funds known as the Comprehensive Cash and Investment Pool ("CCIP") of the Texas Tech University System ("TTUS"). As a pooled fund for the collective management and investment of all operating funds, non-operating funds, and other funds of the system and component institutions, the CCIP is established to optimize system-wide liquidity and earnings, protect and preserve balances, and control costs of administering the pool and managing the system's assets.

All institutional funds not invested in the Long-Term Investment Fund ("LTIF") will be invested in accordance with this policy statement, possibly excluding bond proceeds, certain gifted assets, and Mission Driven Investments.

Section 2 Investment Structure.

CCIP assets will be structured into three segments based on cash flow requirements to provide sufficient liquidity covering operating outflows as well as preserving the system's excellent credit ratings.



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

2.1 **Cash Segment.** The Cash Segment, with delegated authority to the Treasurer, is designed to meet the current operating needs of the TTUS. This segment is expected to offer the highest level of liquidity and protect the nominal value of principal. Funds will be invested primarily in high quality money market funds or other instruments widely considered as cash equivalents, such as collateralized depository demand and/or interest earning accounts, local government investment pools, and fully collateralized repurchase agreements.

2.2 **Contingency Segment.** The Contingency Segment, with delegated authority to the Treasurer, is designed to provide a margin of safety to meet any current or unplanned expenditures. A secondary objective is to provide enhanced financial flexibility during unexpected market disruptions, when commingled funds can be susceptible to redemption risk. This segment will seek preservation of capital and incremental investment income typically above money market fund yields and comparable high grade fixed income. These funds will be invested only in fixed income securities that are readily convertible to cash and issued in U.S. dollar denominated assets by the United States government, US agencies and instrumentalities, US municipalities, US government sponsored entities, or the highest quality commercial paper. The portfolio will be managed within a weighted average duration between two and seven years. The intent of this segment is to hold securities to maturity, with rare liquidations as necessary to unplanned events, as listed in the two objectives above.

2.3 **Noncurrent Segment.** The Noncurrent Segment, with delegated authority to the Office of Investments, Chief Investment Officer ("CIO"), comprises assets remaining in the CCIP not needed in the Cash and Contingency Segments. This segment has an investment objective of income with growth and will be invested in a diversified asset mix of liquid, semi-liquid and private securities, in accordance with the approved asset allocation. This segment will be structured to generate a higher return over longer periods while retaining a liquidity and risk profile that is aligned with the approved asset allocation.

Section 3 Roles and Responsibilities.

3.1 **Board of Regents (the "Board").** The Board through the Finance and Investment Committee ("FI Committee") will approve the investment policy. The Board grants the authority to manage the CCIP in accordance with this policy to the Vice Chancellor and Chief Financial Officer of the TTUS.

3.2 **Vice Chancellor and Chief Financial Officer of the TTUS ("VC/CFO").** The VC/CFO shall manage the CCIP in accordance with this policy under the oversight of the FI Committee of the Board. The VC/CFO is accountable for all cash management activities and is authorized to set pool allocation targets within pre-approved ranges. The VC/CFO may procure and retain investment consultant services through a competitive bid process to advise on the management of these funds. The VC/CFO may delegate investment and transaction responsibilities of the Cash Segment and Contingency Segment to the Treasurer. The VC/CFO may delegate investment and transaction responsibilities of the Noncurrent Segment to the CIO.

3.3 **Pool Advisory Committee ("PAC").** The VC/CFO will establish and lead a Pool Advisory Committee, comprised of financial officers from the component institutions. The PAC will meet no less than quarterly to provide guidance and oversight regarding CCIP investment policy and strategic direction. Members shall include the Chief Financial Officer of each component institution and/or his/her delegate.

3.4 **Treasurer.** The Treasurer, in conjunction with TTUS Accounting and under VC/CFO supervision, is charged with implementing and administering the Cash and Contingency segments of the CCIP within the confines of this policy. In addition, the Treasurer is responsible for:

a. Evaluating banks, bank products and investments or investment strategies, in consultation with the PAC, for the Cash and Contingency segments of the CCIP within the confines of this policy.
b. Monitoring, reporting and reconciliation of the segment bank and investment portfolios, including levels of collateral pledged on bank deposits.
c. Evaluating the effectiveness of policies, procedures, objectives and strategy, and proposing modifications to the VC/CFO.
d. Maintaining internal controls to provide for responsible separation of duties and adequacy of an audit trail.
e. Complying with applicable laws regarding the essential safekeeping and trading of underlying Cash and Contingency assets.

3.5 **CIO.** The CIO, in conjunction with TTUS Accounting and under VC/CFO supervision, is charged with implementing and administering the Noncurrent Segment of the CCIP within the confines of this policy. In addition, the CIO is responsible for:

a. Evaluating and executing public and private investments for the growth and stable value allocations to the noncurrent segment of the CCIP within this policy.
b. Reporting and reconciliation of the noncurrent segment of the CCIP, including performance evaluation of existing investments in conjunction with the PAC.
c. Evaluating the effectiveness of policies, procedures, objectives and proposing modifications to the VC/CFO and at times, the PAC.
d. Monitoring and managing the portfolio on a day-to-today basis with the authority to hire, terminate, or change managers, strategies, or allocations within the confines of this policy.
e. Maintaining internal controls to provide for responsible separation of duties and adequacy of an audit trail.
f. Complying with applicable laws regarding the essential safekeeping and trading of underlying noncurrent assets.

3.6 **Investment Consultant/Advisor.** The investment consultant(s) primary responsibility is to provide independent information and advice to the VC/CFO, PAC, Treasurer, CIO, and staff. Within its broad scope of services, the consultant(s) may focus on the following:

a. Investment policy development;

b. Strategic asset allocation studies;

c. Assist in investment recommendations, manager searches and selection;

e. Monitor investment performance; and

f. Provide investment education.

3.7 **External Investment Managers.** The CIO must ensure that external investment managers are an appropriate fit within the overall segment (portfolio) which is in accordance with this policy. External investment managers will be given full discretion, within established guidelines as defined by separate account guidelines, or if a fund, by the governing documents.

Section 4 Investment Objectives.

4.1 Investment objectives of the Cash Segment and Contingency Segment.

a. The Treasurer shall consider asset diversification, suitability, tax implications, and the experience, quality, and capability of financial firm and personnel. The Treasurer shall consider the relevant investment horizon and shall 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 4.1a have been met, the following shall be taken into consideration:

(1) The investment of all funds within the Cash and Contingency pool, rather than a consideration as to the prudence of a single investment.

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

4.2 Investment objectives of the Noncurrent Segment.

a. The CIO shall consider asset diversification aligned with the approved asset allocation, suitability, tax implications, and the experience, quality, and capability of financial firms and personnel. The CIO shall consider the relevant investment horizon and shall be governed by the following investment objectives, in the following order of priority:

(1) compliance with the risk profile as implied by the approved asset allocation;

(2) liquidity as implied by the approved asset allocation; and

(3) risk and return as implied by the approved asset allocation and the stated benchmarks.

b. In determining whether the objectives in Section 4.2a 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 5 Guidelines for Investments.

The following list is indicative of the investment classes which are appropriate for each segment based on return objectives and liquidity requirements. For the avoidance of doubt, this list should not be construed as an exhaustive list. Security types and/or strategies not specifically enumerated, but which the Treasurer or CIO determine are appropriate, may also be held with approval from the VC/CFO.

5.1 **Cash Segment.** The Cash Segment will be invested primarily in money market funds and other cash instruments:

a. 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 TTUS. 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.

b. Any money market fund or mutual fund, provided:

(1) Such funds is AAA rated, or its equivalent, by at least two nationally recognized rating services.
(2) Such funds must comply with the diversification, quality, liquidity, and maturity requirements of SEC regulation 2a-7 under the Investment Company Act of 1940.

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 TTUS and deposited at the time the investment is made with a third party selected and approved by TTUS. 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.

5.2 **Contingency Segment.** The Contingency Segment will be invested in the following types of securities:

a. Obligations issued or guaranteed by the Unites States Federal Government, United States Federal Agencies, or United States government-sponsored corporations and agencies.

b. Obligations of states, agencies, counties, cities and other political subdivisions of any state and rated A or better.

c. 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-2" or "P-2" (or its equivalent) by at least two of the national rating services.

d. Bond mutual funds are permitted.

5.3 **Noncurrent Segment.** The Noncurrent Segment will be structured to comply with the approved asset allocation which specifies acceptable asset classes along with any explicitly stated liquidity profile as specified by the PAC.

The assets of this segment will be invested through external managers and/or commingled funds.

Section 6 CCIP Segment Allocation and Segment Ranges

The Board of Regents sets segment allocation targets. The TTUS VC/CFO has the authority to reach the segment allocation targets within a set range as detailed in table below. Allocation to the segments will be based on estimated liquidity needs of the aggregate component institutions and forward-looking views.

Segment:	Target Segment Allocation	Segment Range:
Cash	10%	5-15%
Contingency	30%	20-40%
Noncurrent	60%	50-70%

Section 7 Asset Class Allocation, Asset Class Target Ranges, and Policy Benchmarks.

Asset class allocation, subject to the ranges specified herein, is the responsibility of the VC/CFO, in consultation with the PAC. Changes to the asset class target ranges and limitations are the responsibility of the Board as communicated to the FI committee and may be changed from time to time based on the economic and investment outlook.

7.1 **Target Ranges.** The Board must approve any changes to the target ranges for each asset class.

7.2 **Target Allocation.** The VC/CFO is responsible for determining the appropriate asset allocation within each segment. Note, analyzing historical monthly net cash flows and anticipated cash needs will be the primary basis for the Cash Segment target allocation.

7.3 **Benchmarks.** A customized total portfolio benchmark will be designed to measure the overall performance of the CCIP. This benchmark will blend the returns of the benchmarks specified below, weighted according to the target allocation for each respective tier.

Table 1 – **Cash and Contingency Segments** – Benchmarks, Segment Allocation and Segment Ranges

Segment	Benchmark	Segment Allocation	Segment Range
Cash Segment	Blmbg. U.S. Treasury Bills 1-3 Months	10%	5% — 15%
Contingency Segment	0-5 Yr BofA Merrill Lynch US Treasury and Agency Index	30%	20% — 40%

Table 2 – **Noncurrent Segment** - Asset Class Allocation, Asset Class Target Ranges & Policy Benchmarks

Asset Class	Benchmark	Target Allocation	Target Range
Growth	**MSCI ACWI ND + 100 bps**	**70%**	**50% - 80%**
Global Public Equity		50%	40% - 60%
Private Equity: Secondaries		20%	10% - 30%
Stable Value	**Bloomberg Global Aggregate + 100 bps**	**30%**	**20% - 50%**

7.4 **Investment Return objectives.**

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

b. Each investment vehicle in the Noncurrent segment will be evaluated versus a benchmark and a peer universe. Investment vehicles should rank above the median over a rolling five-year period.

Section 8 Rebalancing.

8.1 **Rebalancing.**

a. The VC/CFO will monitor CCIP and ask for a rebalance plan from the Treasurer and CIO on a reasonable basis to keep the segments (portfolios) within permissible ranges. This plan will then be approved or disapproved by the VC/CFO, in consultation with the PAC.

b. The minimum and maximum allocations should not be deviated from, except in unusual circumstances.

Section 9 Reporting.

The Treasurer and CIO will prepare quarterly investment reports for their segment(s) of the CCIP, which will be submitted to the VC/CFO, published on the Office of System VC/CFO's website and provided to the FI Committee and PAC.

Section 10 Cash Segment - Cash Management and Relationships with Depositories.

10.1 The centralized Cash Segment will be maintained with the objective that all available cash and cash equivalents are invested and reported in accordance with applicable rules and regulations.

10.2 The VC/CFO is accountable for the overall coordination and direction of banking relationships, to include investments, deposits, custody and other services with banking and similar financial institutions for the TTUS.

10.3 The system is authorized to maintain primary time and demand depository accounts with only those depositories recommended by the Chancellor or VC/CFO/Chancellor designee and approved by the Board resulting in an executed master depository agreement. Master depository agreements will be executed in accordance with Regents' Rules Chapter 7 Fiscal Management Section 07.12 Contracting policies and procedures. Primary depositories will be selected based on competitive bids, and the bids will be reviewed by the VC/CFO. The Treasurer is authorized to select secondary depository accounts and funds with approval from the VC/CFO as requested with an explicit business need.

Section 11 Selection of Broker/Dealers.

The Treasurer and staff shall engage with vetted Broker/Dealers for the Contingency Segment investments. The selection shall be recommended by the Treasurer and approved by the VC/CFO. The Treasurer will complete a due diligence review of any proposed Broker/Dealers prior to recommendation to the VC/CFO.

Section 12 Selection of External Investment Managers.

12.1 **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 13 Responsibilities of Investment Managers.

13.1 Invest the assets of the TTUS 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.

13.2 Adhere to the investment policies and guidelines prescribed by the TTUS and act in the best interest of the TTUS.

13.3 Each investment manager shall have full investment discretion with regard to security selection, consistent with this policy and the manager's established guidelines.

13.4 Make no material departures from the strategy for which the manager was hired.

13.5 Inform the consultant and CIO about all significant matters pertaining to the investment of TTUS 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.

13.6 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.

13.7 Seek best price/execution when purchasing or selling securities at all times. Each investment manager must recognize that brokerage is an asset of the TTUS, not the investment manager. Also, investment managers must disclose any affiliated brokerage relationships.

13.8 Comply with CFA Institute Guidelines on Soft Dollar Standards.

13.9 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 TTUS's assets.

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

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

13.12 Currency hedging decisions are at the discretion of the manager.

Section 14 Spending Policy.

14.1 The Board recognizes the need for distributions to institutional funds comprising the CCIP. Distributions are to be made on a monthly basis.

14.2 For the Cash Segment and Contingency Segment, funds to be distributed will be current income earned on an accrual basis. For the Noncurrent Segment, the rate to be used for the monthly distribution will be determined by the VC/CFO in consultation with the PAC.

14.3 For the Noncurrent Segment, a spending withdrawal or distribution outside of the monthly distribution may be called by the VC/CFO to 1) rebalance the CCIP segments or 2) for unforeseen operational budgetary needs. Given the stated function of the Noncurrent Segment as a tertiary backup pool to the two liquid Cash Segment and Contingency segment, and as evidenced by the approved asset allocation policy, called spending, withdrawal or distribution may take up to 180 days from the initial notice to the CIO.

Section 15 Management Fee.

15.1 The CCIP will be assessed an investment management fee in accordance with the details below.

15.2 The fee will be assessed on a quarterly basis (fiscal year quarters), and average market value will be based on the average of a fiscal year 12-quarter ending market values of the total net asset value of each segment.

15.3 The management fee rate shall be reviewed annually in conjunction with the preparation of annual operating budgets in consultation with the PAC. Any recommendation will be communicated during the annual budget process as outlined in Chapter 07.04 of the TTUS Regents' Rules.