Texas Tech University System

INVESTMENT POLICY STATEMENT

Comprehensive Cash Pool

Date adopted: 12-10-2020

Section 1 Introduction.

This policy statement shall guide the investment of institutional operating funds known as the Comprehensive Cash Pool ("CCP") of the Texas Tech University System ("TTU system"). As a pooled fund for the collective investment of the operating funds, non-operating funds and other funds of the system and component institutions, the CCP 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, excluding bond proceeds and certain gifted assets.

Section 2 Roles and Responsibilities.

2.1 **Board of Regents (the "Board").** The Board through the Finance, Administration and Investment Committee ("FAI Committee") will approve the investment policy, return objectives, risk tolerance, pool allocation ranges and monitor performance. The Board grants the authority to manage the CCP 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 the CCP in accordance with this policy under the oversight of the FAI Committee of the Board. The CFO is responsible for all cash management activities and is authorized to set pool allocation targets within pre-approved ranges. The CFO may procure and retain investment consultant services through a competitive-bid process to advise on the management of these funds. The CFO may delegate investment and transaction responsibilities to the Treasurer.

2.3 **Pool Advisory Committee ("PAC").** The CFO will establish a Pool Advisory Committee, comprised of financial officers from various system components. The PAC may meet periodically to provide guidance and oversight regarding CCP investment policy and strategic direction. Members will be appointed at the discretion of the CFO.

2.4 **Treasurer.** The Treasurer, under the supervision of the CFO, is charged with implementing and administering the CCP in accordance with the rules and guidelines set forth in this Investment Policy Statement. The Treasurer is responsible for day-to-day portfolio management activities, investment vehicle recommendations, and operating procedures. In addition, the Treasurer will be responsible for:

a. Monitoring, reporting and reconciliation on the performance of investments in the CCP.

b. Recommending new investment vehicles to the CFO and PAC.

c. Evaluating the effectiveness of policies, procedures, objectives and strategy, and proposing, when appropriate, modifications for recommendation to the 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 CCP assets.

2.5 **Investment Consultant/Advisor.** The investment consultant's/s' primary responsibility is to provide independent information and advice to the CFO, PAC, Treasurer 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 manager searches and selection;

e. Monitor investment performance; and

f. Provide investment education.

2.6 **External Investment Managers.** External investment managers may invest CCP 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 CCP shall provide incremental return to assist in meeting the operating needs of the TTU system.

3.1 **Investment objectives of the CCP.**

a. The investment of funds shall consider asset diversification, suitability, and the experience, quality, and capability of financial firm and personnel. The fund 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.

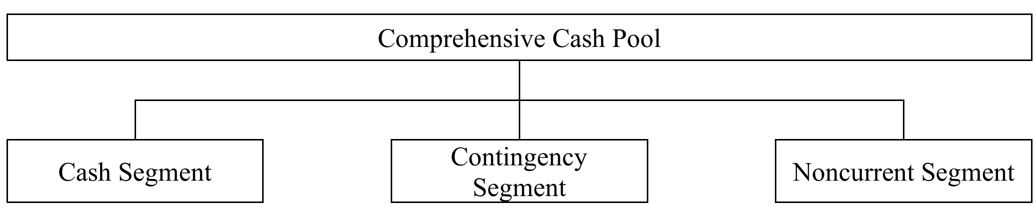
b. In determining whether the objectives in Section 3.1.a have been met, the following shall be taken into consideration:

(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.

CCP 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:

4.1 **Cash Segment.** The Cash Segment is designed to meet the current operating needs of the TTU system. 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.

4.2 **Contingency Segment.** The Contingency Segment 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 any 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. These funds will be invested only in fixed income securities issued by the United States government, US agencies and instrumentalities, or US municipalities or the highest quality commercial paper. Only securities with maturities ranging between overnight and five years are eligible.

4.3 **Noncurrent Segment.** The assets remaining in the Pool that are not needed in the Cash and Contingency Segments may be invested in the Noncurrent Segment. Funds will be invested over a time horizon of five years or greater. This segment has an investment objective of income with growth and will be invested in a diversified asset mix of liquid or semi-liquid securities. This segment 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.

Section 5 Asset Class Allocation, Target Ranges and Policy Benchmarks.

Asset class allocation, subject to the ranges specified herein, is the responsibility of the 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 FAI committee and may be changed from time to time based on the economic and investment outlook.

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

5.2 **Target Allocation.** The CFO is responsible for determining the appropriate asset allocation within each segment. Note, analyzing monthly net cash flows for the past three fiscal years will be the basis for the Cash Segment target allocation.

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

Table 1 – Asset Allocation Target, Ranges & Policy Benchmarks

Asset Class	Benchmark	Target Allocation	Target Range
Cash Segment	Barclays Capital 1-3 Month U.S. Treasury Bill Index	10%	5% — 20%
Contingency Segment	ICE BofA Merrill Lynch 0-3 Year US Treasury & Agency Index	30%	20% — 40%
Noncurrent Segment	Blended based on Table 2	60%	45% — 75%

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

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

5.4 **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 will be evaluated versus a benchmark and/or a peer universe. Investment vehicles should rank above the median over a rolling five-year period.

Section 6 Rebalancing.

6.1 **Rebalancing.**

a. It is the intent of the Board that the asset allocation for the CCP remains within the permissible ranges and that the portfolio shall be rebalanced when the allocation deviates significantly from these ranges. Contributions to the CCP should be applied to, and payments by the CCP 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.

c. Noncurrent Segment funds accounting for less than or equal to 5% of the Pool's asset value may be withdrawn upon the request of the CFO with 3 business days' notice. Withdrawals in excess of the 5% threshold will require up to 30 days' notice and 90 days for distribution.

Section 7 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. 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 determine are appropriate, may also be held.

7.1 **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 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 will have CCP 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.

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 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.

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 **Contingency Segment.** The Contingency Segment will be invested in the following types of securities with maturities of 60 months or less.

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. The weighted average duration of this segment should be 30 months or less.

e. Bond mutual funds invested in securities defined in 6.2a-c are permitted.

7.3 **Noncurrent Segment.** The Noncurrent Segment will be structured as a total return portfolio. The investment strategy for this segment 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 this segment will be invested through external managers and/or commingled funds. The Treasurer may develop investment management guidelines for each external investment manager.

Section 8 Reporting.

The Treasurer will prepare quarterly investment reports on the CCP, which will be submitted to the CFO, published on the Office of System CFO's website and provided to the FAI Committee. The reports will summarize asset allocation, liquidity, performance, and risk characteristics.

Section 9 Cash Segment - Cash Management and Relationships with Depositories.

9.1 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.

9.2 The CFO is responsible 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 TTU system.

9.3 The system is authorized to maintain primary time and demand depository accounts with only those depositories recommended by the Chancellor and approved by the Board resulting in an executed a 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 CFO. The Treasurer is authorized to select secondary depository accounts and imprest funds with approval from member institution CFO as requested with an explicit business need.

9.4 The Cash Segment will provide competitive and enhanced returns for each member institution. Any and all depository fees assessed monthly through depository account analysis statements will be charged directly to the respective member institutions.

Section 10 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 CFO.

Section 11 Selection of External Investment Managers.

11.1 **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 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 consultant and 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 or quarterly 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 applicable pool.

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 CCP. Distributions are to be made on a monthly basis.

13.2 For the Cash Segment and Contingency Segment, funds to be distributed will be current income earned on an accrual basis.

13.3 For the Noncurrent Segment, a spending withdrawal or distribution will be applied as it is managed on a total return basis. Distributions will be physically withdrawn out of the dedicated investment custodial account. With expected greater returns, the Noncurrent Segment earnings are relied on more heavily than the other CCP segments as a financial resource applicable to unrestricted operating budgets. In turn, it is crucial to generate a stable distribution of earnings consistent to projections set in the budgeting process. 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% on an average of a fiscal year rolling 12-quarter ending market values and will be applied monthly, during the current quarter based on an annualized spending rate (set percentage divided by 12). Note: The same calculated 12-quarter market value will be used for a current fiscal quarter's spending calculation. The Treasurer will conduct an annual review of the investment policy to determine that it is consistent with the distribution target set in the budgeting process, recognizing the potential for short-term fluctuations in investment returns. The annual spending percentage set each fiscal year ahead of the budgeting process by the CFO, in consultation with the PAC, based on inflation expectations and expected return.

Section 14 Management Fee.

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

14.2 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 the CCP.

14.3 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.

Section 15 Securities Lending.

The CCP may not participate in securities lending unless approved by the CFO and PAC. Any authorization for securities lending in separate accounts must be reported in advance to the FAI Committee. Also, any such authorization shall be reported as an Information Agenda item at the next Board meeting. Commingled funds are exempt from this restriction.