

**Texas Tech University System**  
**INVESTMENT POLICY STATEMENT**  
**Long Term Investment Fund**

***Dates Approved or Amended:***

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**Section 0     Definitions.**

- 0.1     “Board” — Board of Regents, Texas Tech University System.
- 0.2     “CIO” — Chief Investment Officer of the Texas Tech University System.
- 0.3     “Foundation” — Texas Tech Foundation, Inc.
- 0.4     “IAC” — Investment Advisory Committee.
- 0.5     “LTIF” — Long Term Investment Fund.
- 0.6     “NAV” — Net Asset Value.
- 0.7     “SEC” — Securities and Exchange Commission.
- 0.8     “SITIF” — Short/Intermediate Term Investment Fund.
- 0.9     “TTUS OI” — Office of Investments, Texas Tech University System.
- 0.10    “TTUS OI employees” — the Chief Investment Officer and the Investments Manager.
- 0.11    “TTU system” or “TTUS” — Texas Tech University System.
- 0.12    “TTUS VC and CFO” — the Vice Chancellor and Chief Financial Officer of the Texas Tech University System.
- 0.13    “UPMIFA” — Uniform Prudent Management of Institutional Funds Act.

## **Section 1     Introduction.**

This policy statement shall guide the investment of endowment and long-term institutional funds of the TTU system. This policy statement is issued for the guidance of the IAC, TTUS IO, consultants, and investment managers. This policy statement is intended to set forth an appropriate set of goals and objectives for the LTIF and to define guidelines within which the investment managers may formulate and execute their investment decisions.

## **Section 2     Endowment Funds.**

Endowment funds are funds given to the TTU system with a donor-imposed restriction that the corpus is not to be expended but is to be invested for the purpose of producing returns on invested capital. Endowment funds may also include: term endowment funds for which the donor stipulates that the principal may be expended after a stated period or upon the occurrence of a certain event; and funds functioning as endowments (quasi-endowments). A quasi-endowment fund is a fund established by the Board to function like an endowment fund, which may be totally expended at any time at the discretion of the Board.

## **Section 3     Funds Functioning as Endowments.**

The Board delegates to the Chancellor, or the Chancellor's designee, the authority to establish a quasi-endowment fund when such a fund totals less than \$250,000.

## **Section 4     Investment of Non-Endowment Institutional Funds in the LTIF.**

Institutional funds are defined in Section 51.002, *Texas Education Code*, as amended or modified. In this policy statement, long-term institutional funds are all non-endowment institutional funds approved by the Board, for investment purposes, for inclusion in the LTIF.

## **Section 5     Fiduciary Responsibility.**

The Board recognizes its fiduciary responsibility to comply with the restrictions imposed by the donors of endowment funds. The Board acknowledges its legal responsibility to ensure that the management of endowment and other institutional funds is in compliance with state law, including the UPMIFA, per Section 163, *Texas Property Code*, as amended or modified.

## **Section 6     Management Procedures.**

- 6.1 No endowment or other institutional fund shall be considered for management under this policy unless it is under the sole control of the Board, with full discretion as to investment of principal and expenditure of funds eligible for distribution. Although

certain assets of the Foundation are invested in the LTIF, the Foundation's Board of Directors and its officers are legally responsible for the management and control of those assets. The Vice Chancellor for Institutional Advancement shall ensure there are no donor-imposed restrictions preventing the use of the LTIF. Funds excluded from consideration under this policy statement will be invested in the SITIF, or, if instructed by the donor and approved by the Board, will be managed and safeguarded in their original form.

- 6.2 The LTIF is the TTU system's commingled endowment/institutional fund. The LTIF shall be unitized and each new endowment gift added to the fund shall receive units in the fund based upon the market value of the gift and the NAV of the fund at the latest month-end preceding the date the gift is added to the fund. The NAV will be calculated as the month-end market value of the LTIF divided by the number of outstanding units in the LTIF. Earnings determined under the policy statement's spending policy shall be calculated on a unit basis for distribution purposes.
- 6.3 Professional services (investment managers and advisors) deemed appropriate for the management and investment of the fund may be retained. All investment managers and advisors who are required to be registered under the Investment Advisors Act of 1940 shall provide the most recent Form ADV filed with the SEC.

## **Section 7 Long-term Institutional Funds Authorized Withdrawal.**

Upon the approval of the TTUS VC and CFO and the appropriate Chief Fiscal Officer of the TTU system, long-term institutional funds may be withdrawn from their investment in the LTIF. This withdrawal/reallocation will be made one year from the date of approval by the TTUS VC and CFO. The dollar amount of the withdrawal will equal the number of units withdrawn times the NAV as of the end of the most recent valuation of the LTIF. Because of changes in the NAV from the time of initial deposit, the dollar amount of withdrawal may be more or less than the original investment.

## **Section 8 Administration and Management of the LTIF.**

- 8.1 The Board, IAC, and institutional personnel of the TTU system shall exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the action or decision. In managing and investing the LTIF, the Board, IAC, and institutional personnel shall consider all of the following:
  - a. general economic conditions;
  - b. the possible effect of inflation or deflation;
  - c. the expected tax consequences, if any, of investment decisions or strategies;

- d. the role that each investment or course of action plays within the overall investment portfolio of the fund;
  - e. the expected return based on levels of liquidity and investment risk that are prudent and reasonable under present circumstances, and such circumstances may change over time;
  - f. the expected total return from income and appreciation of investments;
  - g. other resources of the TTU system;
  - h. the needs of the TTU system and the fund to make distributions and to preserve capital; and
  - i. an asset's special relationship or special value, if any, to the charitable purposes of the institution.
- 8.2 Management and investment decisions about an individual asset must be made not in isolation but rather in the context of the LTIF's portfolio of investments as a whole and as part of an overall investment strategy having risk and return objectives reasonably aligned with the LTIF's stated goals and objectives.

## **Section 9 Spending Policy.**

- 9.1 The Board recognizes the need for distributions to the beneficiaries of the endowment and long-term institutional funds under its control. 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 LTIF;
  - b. the purposes of the TTU system and the LTIF;
  - 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.

- 9.2 The distribution of spendable earnings to each unit of the LTIF shall not exceed 6% nor be less than 4% of the average NAV of the LTIF for the 12 quarters just ended. Distribution shall be made quarterly, as soon as practicable after the last calendar day of November, February, May, and August.
- 9.3 The target annual distribution rate shall be reviewed annually by the Board.

## **Section 10 Core Beliefs.**

This section outlines the core beliefs for the overall governance and investment of the LTIF. These beliefs will serve as guiding principles in the decision making and implementation of the LTIF's investment mandate.

- 10.1 A well-defined governance structure with clearly delineated responsibilities is critical in achieving consistent, long term performance objectives.
- 10.2 Strategic Asset Allocation, through longer term, static risk, return and correlation estimates, sets the amount of risk spent on each asset class, and drives the overall volatility of the portfolio and the majority of the expected return.
- 10.3 Tactical Allocation should be exploited to take advantage of dislocations in markets, or changes in the expected risk, return and/or correlations.
- 10.4 Prices are driven by expectations – sentiment, technical and fundamental factors.
- 10.5 Absent a strategic or tactical view, the base case portfolio should be a risk balanced portfolio.
- 10.6 The opportunity for active manager out performance (alpha) is not uniformly distributed across asset classes or strategies.
- 10.7 Be “risk-focused” with an opportunistic mindset.
- 10.8 Leverage, both directly and indirectly, can improve a program's overall risk and return profile, but only when structured appropriately.
- 10.9 Management of liquidity risk is paramount in order to be opportunistic in market dislocations.
- 10.10 Contractual income is important in stabilizing portfolio volatility.

## **Section 11 Statement of Goals and Objectives.**

By achieving the detailed objectives consistently, the longer term goals of the LTIF are expected to be achieved. The majority of the LTIF return is attributable to the Asset Allocation approved by the Board. Staff and the consultant are expected to deliver excess return beyond the passive target Policy Index through manager selection and adjustments to allocations.

The multiple investment objectives and goals are outlined as follows:

### *Total Fund Objectives:*

- 11.1 To outperform the target weighted Policy Index over rolling three year periods.
- 11.2 To outperform a 60/40 portfolio consisting of the MSCI ACWI and Barclays Global Aggregate Bond Index (unhedged) over rolling three year periods.
- 11.3 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 three-year period.

### *Total Fund Goals:*

- 11.4 The financial goal for management of endowment and long-term institutional funds is to preserve the real (inflation-adjusted) purchasing power of principal and earnings after accounting for endowment spending, inflation, and costs of investment management. The total return goal for the LTIF is to exceed the Consumer Price Index plus 5% over rolling ten-year periods.
- 11.5 To consistently rank in the top half of the NACUBO universe, defined as peers with portfolios ranging from 750 million to 1.5 billion dollars, over rolling one-year periods and top quartile over rolling three-year periods.

## Section 12 Governance.

Governance Oversight				
For approval of:	CIO	IAC	Board	Comment
<b>Investment Policy Ranges/ Targets</b>	Recommend	Recommend	Approve	Long-term ranges for broad asset classes, with ranges that provide the IAC flexibility to adjust the target asset allocation. See Schedule A.
<b>Tactical Allocation Ranges/ Targets</b>	Recommend	Approve	Review	Short- to medium-term targets and ranges, with tighter bands that provide guidelines to the CIO but still flexibility for tactical implementation. See Schedule A.
<b>Asset Class Structures</b>	Recommend	Approve	— — —	The target allocation.
<b>Manager Selection &amp; Redemption</b>	Approve	Review	— — —	The CIO, in conjunction with the consultant, is authorized to hire and redeem managers, absent a majority negative consent from IAC members within 5 business days.
<b>Tactical Rebalancing</b>	Approve	Review	— — —	The CIO is authorized to tactically over- or underweight against the targets as defined in Schedule A, part II.

### 12.1 Determination and implementation of asset allocation.

- a. Asset allocation is the primary mechanism to select the types of broad categorical risks which drive investment return. To achieve the goal and objectives of the LTIF, the fund's assets may be invested in the categories listed in Schedule A of this policy statement ("Schedule A"). The LTIF shall be diversified both by asset class and, within asset classes. Consideration shall be given to economic sectors, industries, global regions, market capitalizations (size), factors, and economic environments. The purpose of diversification is to limit the risk associated with any single security or class of securities. Any changes to the ranges for each asset class must be approved in advance by the Board, and Schedule A shall be revised accordingly.

- b. The CIO is responsible for implementing the target asset allocation. The CIO, in conjunction with the consultant and staff, will recommend asset class structures for review and approval by the IAC. An asset class structure represents the allocation to sub-strategies within an asset class. After approval of the target allocation and ranges of the structure, the CIO has authority to implement the approved structure.

## 12.2 Monitoring and rebalancing of asset allocation.

- a. The asset allocation shall be monitored on an ongoing basis and rebalanced as needed by the CIO. The CIO may manage cash inflows and outflows among investment managers in accordance with the approved Tactical Rebalancing Ranges. The lower and upper bounds on the ranges should not be exceeded, except in unusual circumstances. In the event the bounds are exceeded, the IAC must be notified. However, the CIO may rebalance before reaching those limits, or set exposures anywhere within the Tactical Rebalancing Policy ranges.
- b. The CIO is considered in compliance with this policy if certain illiquid asset classes breach a range due to market volatility in other asset classes or substantial increases in unrecognized gains for illiquid investments.
- c. The CIO has the authority to substitute synthetic exposure in lieu of like physical exposure, and vice versa, within the portfolio or as an overlay, as approved by the IAC. In addition, buy-write and put-write strategies are acceptable as equity beta replacements, subject to the following:
  - (1) Buy-write strategies are limited to 25% of the equity allocation.
  - (2) Put-write strategies are limited to 5% of assets, with minimum 20% collateral.
  - (3) Over- or underweights to private asset classes will impact the allocation to other asset classes.
  - (4) OTC exposure is limited to 20% of plan assets.
- d. The CIO has the authority to physically rebalance between manager accounts and/or utilize forwards, futures, swaps, swaptions, options or other synthetic exposures as a way to adjust exposures tactically within Tactical Rebalancing ranges.



## **Section 13 Investment Manager Guidelines.**

Investment manager guidelines for the LTIF apply to investments in non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the LTIF. Although policy cannot be dictated to pooled/mutual fund investment managers, the Board's intent is to select and retain only pooled/mutual funds with policies that are similar to this policy statement. In addition:

- 13.1 Specific guidelines may be established with each individual outside investment manager.
- 13.2 Each investment manager must agree to the performance objectives and asset allocation guidelines.
- 13.3 Each investment manager shall have full investment discretion with regard to security selection, consistent with this policy.
- 13.4 Each investment manager, where applicable, shall handle the voting of proxies and tendering of shares in a manner that is in the best interest of the LTIF and consistent with the investment objectives contained herein.
- 13.5 All purchases and sales transactions shall be conducted to obtain the best net execution.

## **Section 14 Investment Manager Selection and Termination.**

- 14.1 The LTIF will be managed primarily by external investment management organizations. Investment managers will be delegated with the discretion to manage the assigned assets to best achieve the goal and objectives of the LTIF.
- 14.2 The CIO is authorized to hire and terminate external investment managers.
  - a. In the exercise of this delegation of authority, standard actions regarding legal and due diligence review shall be conducted. Certain review considerations in hiring Hedge Funds and Private Equity managers are listed in Schedule C.
  - b. Investment managers hired under this delegation of authority will be reported to the IAC at a regularly scheduled meeting.
- 14.3 Investment manager termination. In most cases any action to terminate an investment manager should be taken by the CIO. If the CIO determines that termination is necessary, the IAC will be notified.

## Section 15 Standards of Conduct for Investment Managers and Advisors.

The following standards of conduct for investment managers and advisors are derived from the *CFA Institute Code of Ethics and Standards of Professional Conduct* and include:

- 15.1 Code of ethics. Investment managers and advisors employed by the TTU system shall:
- a. act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, and colleagues in the investment profession and other participants in the global capital markets;
  - b. place the interest of clients, the interest of their employer, and the integrity of the investment profession above their own personal interest;
  - c. use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, or engaging in other professional activities;
  - d. practice, and encourage others to practice, in a professional and ethical manner that will reflect credit on themselves and the profession;
  - e. promote the integrity of and uphold the rules governing global capital markets; and
  - f. maintain and improve their professional competence.
- 15.2 Standards of professional conduct:
- a. Knowledge of the law. Investment managers and advisors must understand and comply with all applicable laws, rules, and regulations of any government agency, regulatory organization, licensing agency, or professional association governing their professional activities. Investment managers and advisors must not knowingly participate or assist in any violation of such laws, rules, or regulations.
  - b. Independence and objectivity. Investment managers and advisors must use reasonable care and judgment to achieve and maintain independence and objectivity in their professional activities. Investment managers and advisors must not offer, solicit, or accept any gift, benefit, compensation, or consideration that could be reasonably expected to compromise their own or another's independence and objectivity.
  - c. Misrepresentation. Investment managers and advisors must not knowingly make any statement that misrepresents facts relating to investment analysis, recommendations, actions, or other professional activities.

- d. Misconduct. Investment managers and advisors must not engage in any conduct involving dishonesty, fraud, deceit, or commit any act that reflects adversely on their integrity, trustworthiness, or professional competence.

15.3 Investment analysis and recommendations. Investment managers and advisors shall:

- a. exercise diligence, independence, and thoroughness in conducting investment analysis, making investment recommendations, and taking investment actions; and
- b. have a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, and action.

15.4 Disclosure and conflicts of interest:

- a. Managers, advisors, and potential managers must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with their respective duties to the TTU system.
- b. Managers and advisors must, on an annual basis, ensure that such disclosures are prominently set forth, are delivered in plain language, and communicate the relevant information using the Texas State Auditor's Uniform Disclosure Form.
- c. Managers, advisors, and potential managers are investing public funds and are subject to the Texas Open Records Act.

**Section 16 Conflicts of Interest on Investments and Restrictions on Investments for Board Members, IAC Members, and Employees of the TTUS Office of Investments.**

16.1 Introduction.

- a. It is the policy of the TTU system that members of the Board, members of the IAC, and TTUS OI employees having authority over, or input into, the selection of investments or investment managers shall act in a manner consistent with their responsibilities to the TTU system and avoid circumstances in which their financial or other ties to outside persons or entities could present an actual, potential, or apparent conflict of interest or impair the reputation of the TTU system.
- b. Board members, IAC members, and TTUS OI employees should avoid any actions or situations that might result in or create the appearance of using their association with the TTU system for private gain, according unwarranted preferential treatment to any outside individual or organization, losing

independence or impartiality, or adversely affecting the reputation of or public confidence in the integrity of the TTU system. Toward this end, it is the responsibility of each Board member, IAC member, and TTUS OI employee to ensure that the system is made aware of situations that involve personal, familial, or business relationships that could jeopardize the reputation of or public confidence in the TTU system by complying with this policy and making all disclosures and certifications as set forth herein.

- c. For the purposes of this section, “business entity” means: any entity recognized by law through which business is conducted, including a sole proprietorship, partnership, firm, corporation, limited liability company, holding company, joint stock company, receivership, or trust.

16.2 Conflict of interest. A conflict of interest arises when the TTU system has or is considering a transaction or other business relationship with a Board member, an IAC member, a TTUS OI employee, or a family member of one of these individuals (defined to include a spouse and any dependent relatives or household members). For this reason, any transaction or other business relationship between the TTU system and a Board member, an IAC member, a TTUS OI employee, or any family member of one of these individuals is prohibited.

16.3 Presumed conflict of interest.

- a. A conflict of interest is presumed to arise when the TTU system has or is considering an investment in a business entity in which a Board member, an IAC member, a TTUS OI employee, or a family member of any of these individuals has a substantial financial interest. A financial interest is presumed to be substantial if it entails:
  - (1) any ownership or investment interest in a business entity (including stock, options, a partnership interest, or any other ownership or investment interest) valued at more than \$10,000, except equity in a company amounting to less than 10% ownership interest in the company;
  - (2) receipt of funds from the business entity that exceed 10 percent of the Board member’s gross income for the previous year, or the expectation of the receipt of such funds in the future;
  - (3) any ownership interest in real property, personal property, intellectual property or any other interest valued at \$10,000 or more;
  - (4) a position of real or apparent authority in a business entity such as director, officer, trustee, partner, agent, controlling shareholder, shareholder with a 10% or more voting interest, or a direct or indirect participating interest in any shares, stock or otherwise, regardless of

whether voting rights are included, in 10% or more of the profits, proceeds or capital gains of the entity involved; or

(5) any position as an employee of the entity involved.

- b. A Board member, an IAC member, or a TTUS OI employee is not deemed to have a substantial financial interest in a publicly traded entity by reason of an investment in that entity by another publicly traded entity, such as through a mutual fund or non-discretionary managed account or PIPE, of which the Board member does not control investment decisions.

16.4 Determination of a conflict of interest. In a situation where a Board member, IAC member, or TTUS OI employee has a presumed conflict of interest but contends that there is no actual conflict of interest, the TTUS VC and CFO shall make the determination of whether there is an actual conflict of interest and shall advise all involved parties of the determination.

16.5 Restriction on parallel investments.

- a. A conflict of interest also may arise when a Board member, an IAC member, a TTUS OI employee, or a family member of any of these individuals has or is considering an investment in a business entity, including a fund or partnership, that may or may not be publicly traded and in which the TTU system has or is considering an investment. Such parallel investments may create at least an appearance that the Board member, IAC member, or TTUS OI employee is benefiting from the TTU system's participation in the business entity. When these individuals have any financial interest in any such business entity in which the individual otherwise knows the TTU system has or is considering an investment, these individuals should promptly disclose to the TTUS VC and CFO as follows: in the case of a publicly traded business entity, any substantial financial interest; or in the case of a privately held or traded business entity, any financial interest. The individual should not participate in any decisions whatsoever regarding such investment by the TTU system.
- b. Privately held or traded business entity. In order to avoid the perception of a conflict of interest between the TTU system and any Board member, IAC member, or TTUS OI employee, the TTU system shall not invest in any privately held or traded business entity in which any of these individuals, or a family member has any financial interest. Likewise, these individuals shall not invest in a privately held or traded business entity in which the TTU system has a financial interest. Such restrictions on investments shall continue to apply for one year after the departure of the Board member from the Board, the IAC member from the IAC, or the TTUS OI employee from the TTU system.

- c. Any investment made on behalf of a Board member from the Board, the IAC member from the IAC, or the TTUS OI employee from the TTU system in any investment is not deemed in conflict if within a non-discretionary investment vehicle.

16.6 Certification that no conflict exists on transactions with privately held entities.

- a. Prior to the TTU system entering into a private investment transaction, each Board member, IAC member and TTUS OI employee must certify in writing, or by electronic submission, that he or she does not have any financial interest in the entity being invested in and is not aware of any conflict of interest in connection with the proposed investment.
- b. In the instance where a conflict exists, the Board member, IAC member and TTUS OI employee must certify in writing, or by electronic submission, that he or she has not been involved in any decision regarding the proposed investment.

16.7 Annual requirements.

- a. Each IAC member annually shall:
  - (1) review this policy on conflicts of interest and restrictions on investments;
  - (2) acknowledge by his or her signature that he or she has read and understood the policy and is and has been in full compliance with the letter and spirit of this policy;
  - (3) disclose all publicly traded entities in which an IAC member, or the family members of an IAC member, has an ownership interest of 10% or more;
  - (4) disclose all employer-employee relationships of the IAC member and the family members of the IAC member; and
  - (5) disclose any position as a director or officer of a publicly traded company.
- b. All Board members and TTUS OI employees annually shall:
  - (1) review this policy on conflicts of interest and restrictions on investments;
  - (2) acknowledge by his or her signature that he or she has read and understood the policy and is and has been in full compliance with the letter and spirit of this policy; and

- (3) in the case of members of the Board, file financial disclosures as required by Section 03.03.4, *Regents' Rules*; or
  - (4) in the case of TTUS OI employees, file the disclosure statement as required by Section 03.04.4, *Regents' Rules*.
- c. All disclosures required under this section shall be filed with the office of the TTUS VC and CFO.

## **Section 17 Communications and Reporting.**

- 17.1 The investment managers are responsible for frequent and open communication to the TTU system administration on all significant matters pertaining to the investment policies and the management of the LTIF assets.
- 17.2 The reporting responsibilities include:
  - a. communicating major changes in the investment managers' investment outlook, strategy, and portfolio structure;
  - b. communicating significant changes in the ownership, organizational structure, financial condition, or personnel staffing;
  - c. communicating, on a monthly or quarterly basis, all investment activities during the preceding month or quarter and providing valuation reports of the month- or quarter-end portfolio holdings;
  - d. communicating, on a quarterly basis, the performance of investment managers' activities; and
  - e. meeting at least annually, to discuss the managers' performance, investment outlook, investment strategy and portfolio re-balancing strategies.
- 17.3 Any breach of guidelines will be promptly reported to the CIO.

## **Section 18 Management Reports.**

- 18.1 Not less than quarterly, the CIO shall submit to the Chair of the Board, the Chair of the Board's Finance and Administration Committee, the Chancellor, and the Presidents of the component institutions a written report of the status of the investments portfolio.

- 18.2 The report required by Section 18.1 shall contain a summary of the following:
- a. asset balances, at book value, by asset class;
  - b. asset balances, at market value, by asset class;
  - c. performance, absolute, relative and risk-adjusted measures and attribution analysis;
  - d. benchmarks; and
  - e. beginning and ending market values for the quarter, with additions and changes.

## **Section 19 Policy for Reporting Fair Market Value and Performance Measurement for Alternative Assets.**

- 19.1 In order to assure timely reporting, market values for alternative assets will be recorded for performance measurement purposes using estimates. Staff will begin with the investment managers' reported fair market value from the past quarter and make adjustments for any interim cash flows (calls/distributions).
- 19.2 Once all quarterly reports have been received from the investment managers, staff will compare the recorded estimates to the actual reported fair market values for the quarter. If the difference between the estimates and actual represents greater than 1% of the LTIF quarter ending fair market value, the appropriate adjusting entries will be made to correctly record these assets.
- 19.3 The corrected fair market value of the LTIF and corrected performance measures will be reported to the IAC in a timely manner on or before the next IAC meeting, along with an explanation of where and why the largest discrepancies occurred.

## **Section 20 Management Fee.**

- 20.1 The IAC will review and recommend a budget annually for the TTUS OI consistent with the available management fee. This recommended budget will be submitted to the TTUS VC and CFO for his submission to the Chancellor. The Chancellor will determine and approve a proposed budget for submission to the Board for final approval as part of the Texas Tech University System Administration's annual operating budget.
- 20.2 The TTUS OI shall be funded by a management fee assessed upon the endowments of the TTU system. The TTUS OI shall have available to support its operations 50% of this management fee. This assessment shall be used to manage the ongoing operational costs of managing the investment operations. Unused management fee



shall be carried over for use by the TTUS OI in future budgets in accordance with Section 20.1.

- 20.3 The remainder of the management fee may be utilized to offset a portion of the costs of fund raising for those entities utilizing the services of the TTUS Office of Institutional Advancement or the Angelo State University Development Office. This budget will be approved through the regular budget process.
- 20.4 The management fee rate shall be reviewed annually by the IAC and the TTUS VC and CFO, with any recommended changes submitted to the Board for approval. The Board will approve the allocation of the fee to the TTUS OI and Office of Institutional Advancement, as set forth in the Section 07.04, *Regents' Rules*, regarding budget rules and procedures.
- 20.5 If as the result of extraordinary and unexpected circumstances, the annual budgets may be amended by the Board.

## **Section 21 Securities Lending.**

- 21.1 For funds managed in a separate account format, the LTIF 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 Chair of the Board, the Chair of the Board's Finance and Administration Committee, and the Chair of the IAC. Also, any such authorization shall be reported as an Information Agenda item at the next Board meeting.
- 21.2 Commingled funds are exempt from this restriction.

## **Section 22 Placement Agents and Other Third-Party Marketers.**

- 22.1 Placement agents are any person or entity hired by or acting on behalf of an investment manager to market, solicit, or raise money either directly or indirectly from the TTU system. The purpose of this policy is to bring transparency to placement agent activity in connection with the LTIF and to help ensure that all investment decisions are made solely on merit.
- 22.2 Prior to the LTIF investing with any manager, the CIO shall obtain a written representation from the investment manager stating that the investment manager has not used a placement agent in connection with the TTU system's investment, or if the manager has used a placement agent, it will disclose the following:
  - a. the name of the placement agent;
  - b. the fee paid or payable to the placement agent;

- c. a copy of the agreement between the manager and placement agent;
- d. representation that the fee is the sole obligation of the investment manager and not of the TTU system or the LTIF;
- e. current or former Board members, IAC members, TTUS OI employees, or consultants or a member of the immediate family of any such person that are either employed or receiving compensation from the placement agent;
- f. the regulatory agencies with which the placement agent or any of its affiliates are registered, such as the SEC, Financial Industry Regulatory Authority (“FINRA”), or any similar regulatory agency; and
- g. the licenses (Series 7, for example) held by the placement agent professional primarily used for solicitation of the TTU system’s investment.

### **Section 23   Amendment of Investment Policy Statement.**

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

### **Section 24   Effective Date.**

This investment policy was approved by the Board on May 19, 2017.

## Schedule A

### 1. POLICY ALLOCATION TARGET & RANGES

Asset Class	Policy Benchmark	Target	Range
Cash	90-day T Bills	0.0%	0% – 10%
Equity	MSCI AC World (gross, USD)	30.0%	20% – 50%
Fixed	BC Global Aggregate (unhedged)	25.0%	10% – 40%
Diversifying Assets	HFRX Global	15.0%	0% – 20%
Private Equity	Venture Economics All PE Qtr Lag	10.0%	5% – 20%
Private Debt	Venture Economics All PE Qtr Lag	10.0%	5% – 20%
Private Real Assets	Venture Economics All PE Qtr Lag	5.0%	0% – 20%
Real Estate	NCREIF	5.0%	0% – 20%
TOTAL		100.0%	

### 2. TACTICAL REBALANCING TARGET & RANGES

Asset Class	Policy Benchmark	Target	Range
Equity	MSCI AC World (gross, USD)	30.0%	20% – 40%
Fixed	BC Global Aggregate	25.0%	20% – 30%
Cash	90-day T Bills	0.0%	0% – 10%
Diversifying Assets	HFRX Global	15.0%	10% – 20%
Private Equity	Venture Economics All PE Qtr Lag	10.0%	5% – 20%
Private Debt	Venture Economics All PE Qtr Lag	10.0%	5% – 20%
Private Real Assets	Venture Economics All PE Qtr Lag	5.0%	0% – 15%
Real Estate	NCREIF	5.0%	0% – 10%
TOTAL		100.0%	

### **3. ALPHA POOL AND BETA OVERLAY**

The LTIF will target 25% of asset class exposure, or beta exposure, through low cost derivatives. The collateral will be invested in a diversified mix of absolute return strategies and liquid fixed income strategies referred to as the Alpha Pool. The use of derivatives (per Schedule D) will be implemented at the direction of the CIO through a derivatives manager acting as a fiduciary to the plan.

### **4. ASSET CLASS DESCRIPTIONS, INVESTMENT STRATEGIES, AND LEGAL STRUCTURES**

#### **a. Equity:**

- (1) Equity represents residual ownership of public and private companies after obligations to debt holders have been satisfied. Over longer periods of time, the higher risk of equity ownership should result in higher expected returns relative to cash, bonds and other securities with more senior claims in the capital structure.
- (2) Investment strategies: U.S. Equity, Developed Market International Equity, Emerging Markets Equity, Private Equity, Hedge Funds, and derivatives and equity oriented or volatility based strategies, such as put-write and buy-write strategies.

#### **b. Fixed Income:**

- (1) Credit and fixed-income instruments are securities issued by governments, government-related entities and public and private companies that generally contain contractual obligations from the issuer to make interest and principal repayments to investors over the duration of the negotiated term agreement.
- (2) Investment strategies: Cash, Cash Equivalents, Government Debt, Debt Issued by Government Agencies, Investment Grade Debt, Below Investment Grade Debt, Private Placement Debt, Asset-backed Securities, Hedge Funds, and Distressed Debt.

#### **c. Diversifying Assets:**

- (1) Diversifying assets are investments that may be liquid or semi-liquid with expected low correlation to public equities.
- (2) Investment strategies: Commodities-related strategies, reinsurance, life settlements, trade finance, royalties, factoring, macro, CTA's and other less correlated arbitrage trading strategies. These may include inflation sensitive assets as well.

d. Private Equity:

- (1) Any of several non-financial assets that are less liquid and less transparent than public equity, for which both risk and return are relatively higher. Private equity funds make investments directly into private companies and may also conduct buyouts of public companies.
- (2) Investment strategies: Venture capital, growth equity, buyouts, distressed, mezzanine, secondaries and fund of funds.

e. Private Debt:

- (1) Private debt investments that typically provide capital to private sector borrowers.
- (2) Investment strategies: Direct lending, venture lending, mezzanine, distressed, private credit, structured credit, securitization of hard assets and fund of funds.

f. Real Estate:

- (1) Institutional real estate represents a range of properties (for example, office buildings, malls, industrial properties, apartment complexes, hotels) which provide income and/or appreciation potential. Investments in real estate can be structured as public or private debt and/or equity, and can be in the U.S. or foreign countries.
- (2) Investment strategies: Real estate investment trusts (REITS); core, value-add, and opportunistic real estate funds; direct real estate holdings; mezzanine debt investments; and fund of funds.

g. Illiquid Real Assets:

- (1) Illiquid real assets represent ownership claim to an actual, finite asset or property. Returns may be amplified by leverage and are generated from current income and capital appreciations. Relative to liquid real assets, these funds tend to provide greater return expectations but have longer investment horizons. Such assets serve as an inflation hedge and can also provide downside portfolio protection.
- (2) Investment strategies: Energy, infrastructure, factoring, royalties, minerals, land rights, farmland, timber and commodities. Structured assets based on underlying hard assets, such as rail cars and commercial airlines, are additional examples of permissible strategies. Real estate also can be classified under the broader illiquid real asset umbrella.

h. Legal Structures (as defined in Schedule B.):

- (1) Separately Managed Accounts (SMA): A privately managed investment account where the investor has direct look-through (full transparency) and control of the underlying securities. This type of account has more liability than a pooled account, but also can be tailored to the investor's specific requirements, typically with staff discretion.
- (2) Mutual Funds or Pooled Accounts: A separate legal entity where funds from multiple investors are pooled together under the same investment strategy. All investors are treated the same. There is less liability, but also less transparency.
- (3) Limited Partnerships: A contractual agreement between two parties that explicitly defines an agent-principle relationship. In particular, the investor (or limited partner, "LP") becomes the agent and has limited liability while the investment manager (or general partner, "GP") becomes the principal and bears liability.
- (4) Joint Ventures: An enterprise with an expected terminal lifespan created by pooled equity capital between two parties. The parties involved control the enterprise, and thus, share revenues and expenses.
- (5) Master Limited Partnerships: A partnership whereby approximately 90% of the cash flows are generated from natural resources, commodities or real estate. The limited partners provide capital to the general partner who is responsible for managing the Master Limited Partnership.
- (6) Master Custody Accounts: An account that allows multiple products, allocation between products, as well as direct and/or co- investments to be structured with a single manager typically with substantial fee breaks and explicit guidelines, typically with staff discretion.

## **Schedule B**

### **GLOSSARY OF INVESTMENT STRATEGY DESCRIPTIONS**

1. “Agency Debt” is debt issued by government-related agencies; level of government backing/sponsorship varies; primarily mortgages; domestic only; denominated in U.S. dollars.
2. “60/40” is a naive portfolio of 60% global equities and 40% global bonds. This 60/40 portfolio is essentially a measure of how a liquid, passively invested portfolio would perform.
3. “Alpha Pool” is a portfolio of investment strategies managed to have a low correlation with the overall program asset allocation, low to moderate volatility, and seeking to generate consistent returns above cash to enhance the total return of the overall program.
4. “Below Investment Grade Debt,” also known as high yield or junk bonds, are low-quality bonds that may be in danger of default because of relatively high levels of debt that the issuing company has relative to the amount of equity; under the current credit rating system, bonds with ratings below BB (S&P), Ba1 (Moody’s), or B (Fitch) are considered low credit quality and are commonly referred to as junk bonds or high-yield bonds.
5. “Cash Equivalents” encompass a wide spectrum of generally liquid assets, including bank deposits, money market mutual funds, U.S. Treasury bills, federal agency securities, repurchase agreements, stable value funds, short-term bond funds, some medium-term notes, and commercial paper.
6. “Commodities” are investments in global natural resources; includes physical commodities as well as derivative instruments (such as futures); generally, commodities are divided into the following categories: energy (such as oil and gas), precious metals (such as gold), industrial metals (such as aluminum and copper), agriculture (such as wheat and corn), and livestock (such as cattle and hogs).
7. “CTAs/Managed Futures” is a strategy that invests in listed financial and commodity futures markets and currency markets around the world; the managers are usually registered as Commodity Trading Advisors, or CTAs; trading disciplines are usually classified as systematic or discretionary; systematic traders tend to use price and market specific information (often technical) to make trading decisions, while discretionary managers use a judgmental approach based on fundamental analysis.
8. “Developed Market International Equity” are equity securities of non-companies located in the most developed countries and regions of the world such as Canada, the United Kingdom, the European Union, Switzerland, Scandinavia, Japan, New Zealand, and Australia.

9. “Derivatives” are securities or contractual agreements which derive their value from some underlying security, commodity, currency, or index. This includes both Derivative Contracts (Forwards, Futures, Swaps, and so forth) and Derivative Securities (CMOs, Structured Notes).
10. “Distressed Debt” are debt securities of companies or government entities that are either already in default, under bankruptcy protection, or in distress and heading toward such a condition; although there is no precise definition, fixed income securities with a yield to maturity in excess of 1000 basis points over the risk free rate of return are commonly thought of as being distressed.
11. “Event Driven” is a strategy by which managers take significant positions in a limited number of companies with special situations; the situations of these companies often are complex in a variety of ways and offer profit opportunities from depressed valuations, mergers and acquisitions, reorganizations, and so forth.
12. “Emerging Markets Equity” are equity securities of companies located in less-developed regions of the world such as Asia, Latin America, Africa, Eastern Europe, and the Middle East.
13. “Government Debt” is debt issued by sovereign governments, domestic or international, developed or emerging; may or may not be denominated in U.S. dollars.
14. “Global Macro” is a strategy by which global macro managers carry long and short positions in any of the world’s major capital or derivatives markets; these positions reflect their views on overall market direction as influenced by major economic trends and/or events; the portfolios of these managers can include stocks, bonds, currencies and commodities in the form of securities and/or derivative instruments.
15. “Hedge Funds” are not an asset class *per se*, but are a form of a privately organized, pooled investment vehicle, which seeks to achieve consistently positive absolute returns independent of market conditions, typically through the use of a wide range of traditional and non-traditional securities as well as directional and non-directional strategies.
  - a. “Long/Short Hedge Funds” is a directional strategy that involves equity or credit investing on both the long and short sides of the market; managers have the flexibility to shift from a net long position to a net short position; managers may use individual securities or futures and options to hedge their positions; some managers attempt to be market neutral which, if properly executed, is a non-directional strategy that eliminates market risk (beta) so that returns are driven purely by stock selection.
  - b. “Multi-Strategy Hedge Funds” are, by definition, multi-strategy funds that engage in a variety of investment strategies; under normal market conditions, the diversification may reduce volatility compared to single strategy funds; strategies employed in multi-strategy funds may include, but are not limited to, convertible bond arbitrage, equity long/short, merger arbitrage, and event driven.



16. “Infrastructure” is investments in the basic facilities, services and installations needed for the functioning of a community or society, such as transportation and communications systems, water and power lines, utilities and renewable energy.
17. “Inflation-linked Bonds” are bonds whose principal and/or coupon payments are adjusted with the general level of prices as measured by a commonly accepted price index; inflation-linked bonds, commonly referred to as TIPS, are designed to be a hedge against inflation.
18. “Investment Grade Debt” are high quality notes or bonds that are the least likely to default; under the current credit rating system, bonds with ratings above BBB (S&P), Baaa3 (Moody’s), or B (Fitch) are considered investment grade.
19. “Policy Index” is an index that is constructed to measure policy allocation decisions on a monthly basis. The equation for constructing the index is as follows:  $\text{Policy Index} = (\text{Target Asset Class Weights}) * (\text{Index Returns})$ .
20. “Private Debt” is debt issued by private companies and sold directly to an institutional investor; these securities are not required to be registered with the SEC. This broad category can include private placements, direct loans to companies, distressed debt, non-performing loans, and other non-traded or illiquid debt securities.
21. “Private Real Estate” is land or buildings held in private partnerships.
22. “Real Estate Investment Trusts” are a corporation or trust that uses pooled capital from many investors to purchase and manage income property (equity REIT) and/or mortgage debt (mortgage REIT); REITs are traded on exchanges just like common stocks.
23. “U.S. Equity” is ownership of publicly-traded shares of companies listed on U.S. exchanges; this category may include various styles, market capitalization ranges, and active management versus index funds.

## **Schedule C**

### **ALTERNATIVE INVESTMENTS POLICY**

Alternative investments provide added diversification and thereby reduce the risk of the portfolio, without sacrificing expected returns. To mitigate risks unique to alternative investments, the principles contained in this document reflect suggested best practices and are intended to serve as the basis for the due diligence process. Alternative investments are segmented into two broad categories: private markets; and hedge funds. Within the private markets category is encompassed private equity, private debt, private real estate, and illiquid real assets.

#### **1. PRIVATE EQUITY FUND MANAGER SELECTION**

The following guidelines will serve as a basis for due diligence and the selection of private market funds:

- a. History.
  - (1) Funds being offered by firms with proven and verifiable successful investment histories will be given preference. TTUS typically will only consider investment firms with at least a three- to five-year track record or a track record that is reasonably verifiable from another firm.
  - (2) Performance of past mature funds must be consistently above the median and preferably in the top quartile of similar managers from the same peer group.
  - (3) Firms must have a clearly described risk management program with an organizational structure and procedures that demonstrate successful implementation.
  - (4) Generally, first time funds will not be given serious consideration. Exceptions may be taken under consideration, if the following criteria are met:
    - A. Key Principals can provide a complete, successful and verifiable investment history attributable to themselves.
    - B. The fund's strategy is one which is a high priority for TTUS.
    - C. At that point in time, there is an absence of desirable proven managers raising a fund in a similar strategy.
- b. Investment Size. At the time of origination, the amount committed to individual private equity funds must be equal to at least 2.0% of the total market value of the LTIF, and the TTUS ownership position must not be greater than 10% of the private equity fund's

aggregate capital. In unique circumstances, staff may consider exceptions to these size parameters with prior approval of the IAC.

c. Strategy.

- (1) The strategy must target an inefficient space where returns are expected to be above public market opportunities in order to compensate for the illiquid nature of these investments.
- (2) The strategy must fit within current portfolio needs in terms of diversification and expected returns.

d. Personnel.

- (1) A stable team who has worked together where their interests are aligned for continued success is a must.
- (2) Personnel will be evaluated on integrity, and a “key man/person(s)” clause will be essential.

e. Terms.

- (1) Management fees should be adequate given the fund size and strategy to fund day to day operations.
- (2) Carried Interest should be within industry norms for the strategy.
- (3) Certain strategies, normally those with lower expected returns, will require a preferred return provision.

f. Transparency.

- (1) The firm will have a valuation policy that follows both industry best practices and FASB policy for valuing investments.
- (2) Complete portfolio reports will be made available quarterly along with annual audited financial statements prepared by a reputable accounting firm.
- (3) Capital Calls and Distributions will clearly delineate the following: investment capital, fees, recalled capital, return of capital, gains/(losses), and carried interest.

g. Other factors determined by the IAC.

## 2. HEDGE FUND MANAGER SELECTION

Hedge funds refer to a broad group of investment strategies, which can be utilized as a potent diversification tool to lower portfolio volatility and mitigate the severity of draw-downs. Over the long-term, we expect that our hedge funds will continue to produce attractive returns with lower volatility than long-only equity investments. To minimize strategy risk, the hedge fund allocation will be diversified among several strategies. The following guidelines will serve as a basis for due diligence and the selection of hedge funds:

- a. History.
  - (1) Funds being offered by firms with proven and verifiable successful investment histories will be given preference. TTUS typically will only consider funds with at least a three- to five-year track record or a track record that is reasonably verifiable from another firm.
  - (2) Annual performance must be consistently above the median and preferably top quartile results over a three-to-five year period compared to similar managers from the same peer group.
  - (3) Firms must have a clearly described risk management program with an organizational structure and procedures that demonstrate successful implementation.
  - (4) Generally, first time funds will not be given serious consideration. Exceptions may be taken under consideration, if the following criteria are met:
    - A. Key Principals can provide a complete, successful and verifiable investment history attributable to themselves.
    - B. The fund's strategy is one which is a high priority for TTUS.
    - C. At that point in time, there is an absence of proven managers in a particular strategy.
- b. Investment Size. At the time of origination, the amount invested in an individual hedge fund strategy must be equal to at least 2.0% of the total market value of the LTIF, and the TTUS ownership position must not be greater than 10.0% of the hedge fund strategy's aggregate capital. In unique circumstances, staff may consider exceptions to these size parameters with prior approval of the IAC.
- c. Strategy
  - (1) The strategy must fit within current portfolio needs in terms of diversification and expected returns.

- (2) As leverage is inherent in many of these strategies, leverage will be used in a manner prudent for the given strategy. As a general rule, TTUS will favor managers and strategies which use low levels of leverage.
- d. Personnel.
  - (1) A stable team who has worked together where their interests are aligned for continued success is a must.
  - (2) Personnel will be evaluated on integrity, and a “key man/person(s)” clause will be essential.
- e. Terms.
  - (1) Management fees should be adequate given the fund size and strategy to fund day to day operations.
  - (2) Carried Interest should be within industry norms for the strategy.
  - (3) Redemption terms should be appropriately matched with the investment strategy and the liquidity of the underlying securities.
- f. Transparency.
  - (1) The firm will have comprehensive, written valuation policies and procedures, consistent with best industry practice.
  - (2) Firms must utilize third-party fund administrators.
  - (3) Quarterly (or preferably Monthly) reports will be made available that disclose aggregate risk exposures, leverage measures and return attribution for the portfolio.
  - (4) Annual audits, prepared by a reputable accounting firm, are required and should include independent valuations for the portfolio.
- g. Other factors determined by the IAC.

## **Schedule D**

### **DERIVATIVES POLICY**

A derivative is a security or contractual agreement which derives its value from some underlying security, commodity, currency, or index.

1. Types of and Amount of Derivative Contracts:
  - a. The CIO is limited to directing derivatives exposure, over-the-counter (OTC) and exchange traded, to a maximum amount of 40% of the portfolio.
  - b. Forward-based derivatives, including forward contracts, futures contracts, swaps, and similar instruments.
  - c. Option-based derivatives, including put options, call options, interest rate caps and floors, and similar instruments.
2. Types of Derivative Securities:
  - a. Collateralized Mortgage Obligations (CMOs).
  - b. Structured Notes.
3. Derivatives may be used as efficient substitutes for traditional securities, to reduce portfolio risks created by other securities, or in fully hedged positions to take advantage of market anomalies; the risks of derivatives, like more traditional securities, should be evaluated in the context of the total portfolio.
4. Where appropriate, the CIO, in conjunction with the Derivatives Overlay Manager and/or Investment Managers may use derivative contracts for the following reasons:
  - a. Hedging: To the extent that the portfolio is exposed to clearly defined risks and there are derivative contracts that can be used to reduce those risks, the Investment Managers, where allowed per the policy, are permitted to use such derivatives for hedging purposes, including cross-hedging of currency exposures.
  - b. Creation of Market Exposures is permitted through the use of derivatives to replicate the risk/return profile of an asset or asset class.
  - c. Foreign Currency Hedging: The CIO, in conjunction with the Derivatives Overlay Manager and/or Investment Managers may leave foreign currency investments unhedged or hedged backed into U.S. dollars. Hedging activity cannot create additional exposure to a currency greater than the underlying value of the

investments in that specific currency. The net exposure to any currency cannot be negative. Proxy hedging is not allowed.

- d. The CIO, in conjunction with the Derivatives Overlay Manager and/or Investment Managers, may sell (be short) interest rate futures or other derivatives as part of the overall process to manage portfolio risks.
  - e. The CIO, in conjunction with the Derivatives Overlay Manager and/or Active equity Investment Managers, may purchase options, or may sell options on securities that are held in their account.
  - f. The CIO, in conjunction with the Derivatives Overlay Manager and/or Active international equity Investment Managers, can short a country stock index to adjust their exposure to a particular country.
5. The CIO, in conjunction with the Derivatives Overlay Manager and/or Investment Managers, may use derivative contracts or securities for the following purposes:
- a. **Leverage:** This is a means of enhancing value and risk without increasing investment through borrowing. Derivatives shall not be used to magnify overall portfolio exposure to an asset, asset class, interest rate, or any other financial variable beyond that which would be allowed by a portfolio's investment guidelines if derivatives were not used, unless specifically approved by the IAC.
  - b. **Unrelated Speculation:** Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial variable unless such exposures would be allowed by a portfolio's investment guidelines if created with non-derivative securities. Leverage is permitted by hedge funds and risk parity managers, but must be consistent with the targets and limits as outlined by the managers' investment process and/or product that were approved by the IAC. The hedge fund and risk parity managers will notify staff and the Investment Consultant, of any leverage level above the targets and limits as previously outlined.
6. **Counterparty Risk:** External investment managers are required to measure and monitor exposure to counterparty credit risk. When over-the-counter derivative instruments are used, the investment manager is responsible for making an independent analysis of the counterparty credit risk and the appropriateness relative to the overall guidelines of the portfolio. Managers must have a Credit Support Annex (CSA) to their ISDA agreements with each counterparty. Based on their analysis of the counterparty's credit risk, managers are responsible for determining adequate collateral thresholds, minimum transfer amounts and contract valuation frequency to ensure adequate collateralization for all over-the-counter derivatives.
- a. All counterparties shall have a long-term credit rating of at least BBB/Baa2 or equivalent by at least one nationally recognized rating agency at the time the related derivative is executed. If the term of the derivative contract is less than one year, a

counterparty shall have a short-term credit rating of at least A1/P1 or equivalent by at least one nationally recognized rating agency at the time the related derivative is executed. If a counterparty is downgraded below the required levels, the manager must notify the CIO within one week to discuss options regarding termination of the contract.

- b. The maximum notional value of over-the-counter (OTC) derivative contracts entered into with any one counterparty shall be limited to 5% of total portfolio value, unless the notional exposure is collateralized and marked to market daily. The combination of the alpha pool and cash collateral is considered collateralized. In the case of OTC derivatives contracts with collateral movement based on a CSA, consolidation of counterparties is allowed to benefit from netting (rather than diversification across multiple counterparties), and the 5% maximum notional limit per counterparty would not apply in that case. Exception to this rule may apply to the Derivatives Overlay Manager with prior approval of the CIO.
- c. Investment Managers are responsible for adhering to approved counterparty credit guidelines. Any deviation from these guidelines requires the written approval from the CIO prior to executing any transactions.
- d. The preference is for exchange traded derivatives over OTC instruments due to counterparty risk and lack of transparency. While OTC instruments are permitted, the CIO will limit exposure to no more than 20% of assets. Higher OTC exposure is permitted, but only with IAC approval.



## **Schedule E**

### **CONSULTANT RESPONSIBILITIES**

The IAC may retain the services of a consultant in developing and modifying policy objectives and guidelines, including the development of asset allocation strategies and recommendations on the appropriate mix of Investment Manager styles and strategies. The consultant shall also provide assistance in manager searches and selection, and in investment performance calculation, evaluation and analysis. The consultant shall provide timely information on capital markets, investment strategies, managers, instruments and other related issues, as needed by the TTUS OI and the IAC.