

Texas Tech University System
INVESTMENT POLICY STATEMENT
Short Term Investment Fund

Date adopted: 12-13-2019

Section 1 Introduction.

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

Balances in excess of current operating needs will be placed into the Intermediate Term Investment Fund (ITIF). Refer to the ITIF policy statement for specifics.

Section 2 Roles and Responsibilities.

- 2.1 **Board of Regents (the “Board”).** The Board will establish the investment policy, return objectives, risk tolerance, pool allocation ranges (as defined in Section 4) and monitor performance. In addition, the Board will hire consultants, as necessary, to advise on the management of these funds. The Board grants the authority to manage the STIF 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 STIF in accordance with this policy under the oversight of the Finance and Administration Committee of the Board. The CFO is responsible for all cash management activities and is authorized to set pool allocation targets within pre-approved ranges. The CFO may delegate investment and transaction responsibilities to the Treasurer.
- 2.3 **Operating Funds Investment Committee (“OFIC”).** The CFO will establish an Operating Funds Investment Committee, comprised of chief financial officers from various system components. The OFIC may meet periodically to provide guidance and oversight regarding STIF 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 STIF (defined in Section 4) in line 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 shall be responsible for:
- a. Monitoring and reporting on the performance of investments in the STIF.
 - b. Recommending new investment vehicles to the CFO and OFIC.
 - 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 STIF assets.
- 2.5 **Investment Consultant/Advisor.** The investment consultant's/s' primary responsibility is to provide independent information and advice to the Board, CFO, OFIC, Treasurer and staff. Within its broad scope of services, the consultant/s will 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.

Section 3 Investment Objectives.

The investment of funds for the STIF shall provide incremental return to assist in meeting the operating needs of the TTU system.

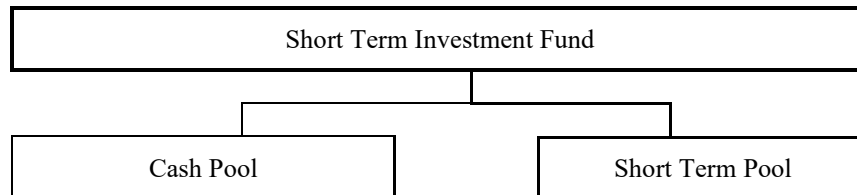
3.1 Investment objectives of the STIF.

- 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.

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



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

- 4.1 **Cash Pool (Tier 1).** The Cash Pool is designed to meet the current operating needs of the TTU system. This tier is expected to offer the highest level of liquidity and protect the nominal value of principal. These funds will be invested primarily in high quality money market funds or other instruments widely considered as cash equivalents, such as collateralized depository demand accounts, local government investment pools, and fully collateralized repurchase agreements.
- 4.2 **Short Term Pool (Tier 2).** The Short Term Pool is a designed to provide a margin of safety in the unlikely event that the Cash Pool is insufficient to meet any current or unplanned expenditures. A secondary objective is to provide enhanced financial flexibility during any unexpected market disruptions, when commingled funds can be susceptible to redemption risk. This tier will seek preservation of capital and incremental investment income 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 three years are eligible.

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, as approved by the OFIC. Changes to the asset class target ranges and limitations are the responsibility of the Board and may be changed from time to time based on the economic and investment outlook.

- 5.1 **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 pool.
- 5.3 **Benchmarks.** A customized total portfolio benchmark will be designed to measure the overall performance of the STIF. This benchmark will blend the returns of the two 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 Ranges
Cash Pool	Barclays Capital 1-3 Month U.S. Treasury Bill Index	30%	15% — 40%
Short Term Pool	ICE BofA Merrill Lynch 0-3 Year US Treasury & Agency Index	70%	60% — 80%

- 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, as defined by the CFO in consultation with the Investment Consultant. Investment vehicles should rank above the median over a rolling five-year period.

Section 6 Guidelines for Investments.

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

- 6.1 **Cash Pool.** The Cash Pool 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 shall have STIF 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.

6.2 Short Term Pool. The Short Term Pool will be invested in the following types of securities with maturities of 36 months or less.

- a. Obligations issued or guaranteed by the United States Federal Government, United States Federal Agencies, or United States government-sponsored corporations and agencies.
- b. Obligations of states, agencies, counties, cities and other political subdivisions of any state and rated A or better.
- c. “Prime quality” commercial paper with a maturity of one year or less, issued by domestic corporations (corporations organized and operating under the laws of the United States or any state thereof) provided that the issuing corporation, or its guarantor, has a short-term debt rating of no less than “A-1” (or its equivalent) by at least two of the national rating services.
- d. The weighted average duration of the Short Term Pool should be 24 months or less.
- e. Bond mutual funds invested in securities defined in 6.2a-c are permitted.

Section 8 Reporting.

The Treasurer will prepare quarterly investment reports on the STIF, which will be submitted to the CFO, presented to OFIC, and published on the Office of System CFO’s website. The reports will summarize asset allocation, liquidity, and performance.

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

9.1 The centralized Cash Pool 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' Rule 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 CFOs. The Treasurer is authorized to select secondary depository accounts and invest in bank funds with approval from member institution CFO as requested with an explicit business need.
- 9.4 The Cash Pool 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 Short Term Pool Broker/Dealers.

The Treasurer and staff shall engage with vetted Broker/Dealers for the Short Term Pool investments. The selection shall be recommended by the Treasurer and approved by the CFO.

Section 11 Spending Policy.

- 11.1 The Board recognizes the need for distributions to institutional funds comprising the STIF. Distributions are to be made on a monthly basis.
- 11.2 For the STIF, funds to be distributed will be current income earned on an accrual basis.

Section 12 Management Fee.

- 12.1 The STIF will be assessed an investment management fee for expenses associated with the management of the pool.
- 12.2 The fee will be assessed on a quarterly basis, and average market value will be based on a 12-quarter rolling average of the total net asset value of the STIF.
- 12.3 The management fee rate shall be reviewed annually in conjunction with the preparation of annual operating budgets. Any recommendation will be communicated during the annual budget process as outlined in Section 07.04, *Regents' Rules*.

Section 13 Securities Lending.

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