

Texas Tech University System
INVESTMENT POLICY STATEMENT
Long Term Investment Fund

Section 1 Introduction.

This policy statement shall guide the investment of endowment and long-term institutional funds of the Texas Tech University System (“TTU system” or “TTUS”). This policy statement is issued for the guidance of the Investment Advisory Committee (“IAC”), investment staff, and investment managers. This policy statement is intended to set forth an appropriate set of goals and objectives for the Long Term Investment Fund (“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 earnings. 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 of Regents of the TTU system (“Board”) to function like an endowment fund, but 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 Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), as 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 Texas Tech Foundation, Inc. (“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 Short/Intermediate Term Investment Fund (“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 Net Asset Value (“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 Securities and Exchange Commission (“SEC”).

Section 7 Long-term Institutional Funds Authorized Withdrawal.

Upon the approval of the Chief Financial Officer 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 Chief Financial Officer. 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:
- 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 fund's portfolio of investments as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the fund and to the TTU system.

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 Statement of Goals and Objectives.

The multiple investment goals and objectives are outlined as follows:

- 10.1 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. Performance of the LTIF against this objective is to be measured over rolling three-year periods.
- 10.2 The total return goal for the LTIF is to exceed the Consumer Price Index plus 5% and exceed the total return of a passive benchmark portfolio, which reflects the strategic target asset allocation of the LTIF. These objectives shall be measured over rolling three-year periods.
- 10.3 The total return goal for each investment manager is to exceed the total return of its respective benchmark, as defined by the Chief Investment Officer of the TTU system (“CIO”) and the IAC.
- 10.4 Each investment manager will be evaluated versus a peer group/manager universe, as defined by the CIO and the IAC, and should rank above the median, on a risk-

adjusted basis, over a moving three-year period of investment managers with a similar investment style.

Section 11 Asset Allocation.

11.1 Determination and implementation of asset allocation.

- a. Asset allocation is the primary driver of the volatility of 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, by economic sector, industry, global region, and market capitalization (size) 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. Based on recommendations from the IAC, the CIO is responsible for implementing the asset allocation and is authorized to set actual target weights for each asset class, subject to the approved ranges. Prior to any change to the target weights, the CIO shall provide notice of the proposed changes to the Chair of the Board, the Chair of the Board's Finance and Administration Committee, and the Chair of the IAC. Furthermore, any changes to the target weights shall be reported as an Information Agenda item at the next Board meeting.

11.2 Monitoring and rebalancing of asset allocation.

- a. The asset allocation shall be monitored on an ongoing basis and rebalanced as needed. The lower and upper bounds on the ranges should not be exceeded, except in unusual circumstances. However, rebalancing may occur before reaching those limits.
- b. The CIO, with the concurrence of the IAC, may occasionally allow over- or under-weighting of certain asset classes due to market conditions that result in such variances or which might be due to the "denominator effect" that causes the policy ranges to be violated. This especially could be the case with certain illiquid asset classes, such as alternative investments, that could have portfolio weights outside the policy range for an indefinite period of time..
- c. Any variance from the asset allocation ranges (whether by tactical decision or as a result of market conditions or for other reasons) shall be promptly reported to the Chair of the Board, the Chair of the Board's Finance and Administration Committee, and the Chair of the IAC.

- d. The CIO has the authority to rebalance between existing investment accounts and/or commingled funds in amounts less than or equal to 5% of the account balance. Any rebalancing activity in amounts greater than this threshold shall be implemented based on recommendations from the IAC. The CIO will consider transaction costs and the illiquidity of some asset classes when making the rebalance decision. Given the volatility of the capital markets, constant minor adjustments will be avoided to reduce excessive turnover and transaction costs.

Section 12 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:

- 12.1 Specific guidelines may be established with each individual outside investment manager.
- 12.2 Each investment manager must agree to the performance objectives and asset allocation guidelines.
- 12.3 Each investment manager shall have the full investment discretion with regard to security selection, consistent with this policy.
- 12.4 Each investment manager 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.
- 12.5 All purchases and sales transactions shall be conducted to obtain the best net execution.
- 12.6 At the time of purchase, no more than 10% of each long-only investment manager's portfolio at market value may be invested in any one security, with the exception of securities issued by the United States government or its agencies.

Section 13 Investment Manager Selection and Termination.

- 13.1 The LTIF will be managed primarily by external investment management organizations. Each manager will be provided with a copy of this policy statement. Investment managers will be delegated with the discretion to manage the assigned assets to best achieve the goal and objectives of the LTIF. In addition, the manager will be informed of the expected spending pay-outs necessary for distribution to

endowment recipients and the comparative benchmarks that will be used to evaluate performance.

- 13.2 The CIO, based on recommendations from the IAC, 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 as an Information Agenda item at the next Board meeting.
- 13.3 Investment manager termination. In most cases any action to terminate an investment manager should be taken by the CIO upon the recommendation of the IAC. If the CIO determines that immediate or emergency action is necessary to protect the assets of the LTIF, the CIO, with concurrence from the Chair of the IAC, may terminate the agreement with the investment manager. If the Chair of the IAC is unavailable, the CIO may terminate the agreement with the investment manager. The CIO shall promptly report such termination to the Chair of the Board, the Chair of the Board's Finance and Administration Committee, and the Chair of the IAC, along with an explanation of the circumstances that resulted in such action. Such termination also will be reported as an Information Agenda item at the next Board meeting.

Section 14 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:

- 14.1 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.

14.2 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.

14.3 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.

14.4 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 15 Conflicts of Interest on Investments and Restrictions on Investments for Board Members, IAC Members, and Employees of the TTUS Office of Investments.

15.1 Introduction.

- a. It is the policy of TTU system that members of the Board, members of the IAC, and employees of the TTUS Office of Investments with authority over the selection of investments or investment managers (currently to include the CIO and the Investments Manager, hereinafter "TTUS OI employees") 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.

15.2 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.

15.3 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 share holder, share holder 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, of which the Board member does not control investment decisions.

15.4 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 Chief Financial Officer shall make the determination of whether there is an actual conflict of interest and shall advise all involved parties of the determination.

15.5 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 Chief Financial Officer 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.

15.6 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.

15.7 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 Chief Financial Officer.

Section 16 Communications and Reporting.

- 16.1 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.
- 16.2 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.

16.3 Any breach of guidelines will be promptly reported to the CIO.

Section 17 Management Reports.

17.1 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.

17.2 The report required by Section 17.1 shall:

- a. provide an inventory of the investments of the LTIF; and
- b. contain a summary of:
 - (1) asset balances, at book value, by asset class;
 - (2) asset balances, at market value, by asset class;
 - (3) performance measures and attribution analysis;
 - (4) benchmarks; and
 - (5) beginning and ending market values for the quarter, with additions and changes.

Section 18 Policy for Reporting Fair Market Value and Performance Measurement for Alternative Assets.

18.1 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).

- 18.2 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.
- 18.3 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 19 Management Fee.

- 19.1 The TTU system will assess and retain an investment management fee at the annual rate of up to 0.5% of the average market value of each endowment for those entities utilizing the services of the TTUS Office of Institutional Advancement or the Angelo State University Development Office. For all other entities, the annual rate will be up to 0.20% of the average market value of each endowment unless otherwise approved by the Board. The fee shall be calculated in the same manner as funds eligible for distribution and will be recorded quarterly.
- 19.2 The fee shall be used to offset the costs of managing long-term investments and 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.
- 19.3 The management fee rate shall be reviewed annually, with any recommended changes submitted to the Board for approval. The Board will approve the allocation of the fee to the TTUS Office of Investments and Office of Institutional Advancement, as set forth in the Section 07.04, *Regents' Rules*, regarding budget rules and procedures.

Section 20 Securities Lending.

- 20.1 For funds managed in a separate account format, the LTIF may not participate in securities lending unless approved by the CIO based on recommendations from 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.
- 20.2 Commingled funds are exempt from this restriction. However, to the extent practical, comingled funds that participate in securities lending should be avoided.

Section 21 Placement Agents and Other Third-Party Marketers.

- 21.1 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.
- 21.2 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 22 Amendment of Investment Policy Statement.

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

Section 23 Effective Date.

This investment policy was approved by the Board on February 26, 2010, and by the Texas Tech Foundation, Inc. on March 1, 2010.

Schedule A

1. ASSET ALLOCATION

| Asset Class | Constrained | | Non-Constrained | | Private | | Total | |
|--------------------|-------------|------------|-----------------|------------|------------|------------|------------|------------|
| | Min. | Max. | Min. | Max. | Min. | Max. | Min. | Max. |
| Equity | 20% | 40% | 10% | 20% | 5% | 15% | 35% | 75% |
| Domestic | 10% | 20% | 5% | 10% | 5% | 10% | 20% | 40% |
| International | 10% | 20% | 5% | 10% | 0% | 5% | 15% | 35% |
| Credit | 5% | 15% | 0% | 15% | 0% | 10% | 5% | 40% |
| Real Assets | 0% | 10% | 5% | 15% | 5% | 10% | 10% | 35% |
| Total | 25% | 65% | 15% | 50% | 10% | 35% | | |

2. ASSET CLASS DESCRIPTIONS AND INVESTMENT STRATEGIES

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, and Hedge Funds.

b. Credit:

- (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, Hedge Funds, and Distressed Debt.

- c. Real Assets:
 - (1) Real assets are investments in tangible/physical assets such as commodities, real estate and other investments that generally display a positive correlation to the rate of inflation, including gold and inflation-linked bonds.
 - (2) Investment strategies: Commodities, Commodities-related, Private Real Estate, Real Estate Investment Trusts, Infrastructure, Inflation-linked bonds, Gold, Hedge Funds, and Agriculture.

3. INVESTMENT TYPES

- a. Constrained. The long-only purchase of a commingled fund or security (such as a stock, bond, commodity or currency) with the expectation that the asset will rise in value over the holding period. Investments of this type would generally display higher levels of market risk (beta), utilize less leverage and offer more near-term liquidity.
- b. Non-Constrained. Non-constrained investment strategies are generally implemented through a hedge fund structure, which allows managers to not only buy securities long, but to also borrow securities and sell them short if the managers believe that the securities are over-valued. In addition, non-constrained investment managers can utilize derivative securities to protect against or profit from market declines and volatility. Non-constrained investment managers may also use tactical strategies, such as allocating capital between traditional asset classes (stocks/bonds/ cash) or allocating capital between regions/countries/industries for profit. Other non-constrained investment strategies will invest in interest rates, currencies, commodities and various market indices to profit from relative value opportunities. Investments of this type would generally display lower levels of market risk (beta), utilize leverage to varying degrees, be less correlated to traditional asset classes, and require investors to lock-up capital for periods ranging from monthly to several years.
- c. Private. Private investments represent a broad spectrum of investment activity, with investments in non-public securities, lack of liquidity, unpredictable cash flows, longer investment horizons and wide dispersion of returns being the most common characteristics. Typically, lock-ups can be 5 to 10 years in duration.

Schedule B

GLOSSARY OF INVESTMENT STRATEGY DESCRIPTIONS

1. “Agency Debt” means debt issued by government-related agencies; level of government backing/sponsorship varies; primarily mortgages; domestic only; denominated in U.S. dollars.
2. “Below Investment Grade Debt” means 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.
3. “Cash Equivalents” means: 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.
4. “Commodities” means 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).
5. “CTAs/Managed Futures” means: this strategy 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.
6. “Developed Market International Equity” means 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.
7. “Distressed Debt” means 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.

8. “Event Driven” means: 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.
9. “Emerging Markets Equity” means equity securities of companies located in less-developed regions of the world such as Asia, Latin America, Africa, Eastern Europe, and the Middle East.
10. “Government Debt” means debt issued by sovereign governments; domestic or international, developed or emerging; may or may not be denominated in U.S. dollars.
11. “Global Macro” means: 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.
12. “Hedge Funds” means: 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” means: this directional strategy 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” means: by definition, multi-strategy funds 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.
13. “Infrastructure” means 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.
14. “Inflation-linked Bonds” means 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.

15. “Investment Grade Debt” means 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.
16. “Private Placement Debt” means debt issued by private companies and sold directly to an institutional investor; these securities are not required to be registered with the SEC.
17. “Private Real Estate” means land or buildings held in private partnerships.
18. “Real Estate Investment Trusts” means 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.
19. “U.S. Equity” means 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. For simplicity, alternative investments are segmented into two broad categories: private equity funds; and hedge funds.

1. PRIVATE EQUITY FUND MANAGER SELECTION

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

- a. History.
 - (1) Funds being offered by firms with proven and verifiable successful investment histories will be given preference. TTUS will only consider investment firms with at least a five-year track record.
 - (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 5.0% 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.
 - (4) Fees generated by the fund (deal fees) should flow through to the limited partners – a minimum of 50% is expected.

- 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 will only consider funds with at least a three-year track record, but a five-year history is preferred.
- (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. Abnormally high or smooth return streams for a given strategy may eliminate a manager from consideration.
- (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 in 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 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 5.0% of the hedge 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 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.

Index of amendments to the LTIF Investment Policy Statement adopted since February 26, 2010 (in chronological order):

| <u>Section</u> | <u>Date</u> | <u>Description of Amendment</u> |
|----------------------------------|-------------|---|
| 13.2.a | 02-25-2011 | A new sentence was added to this subdivision, as follows: “Certain review considerations in hiring Hedge Funds and Private Equity managers are listed in Schedule C.” |
| Schedule C | 02-25-2011 | A new Schedule C was added to the LTIF Investment Policy Statement regarding guidelines for alternative investments. |
| 15.1.c, 15.3.a-b, & 15.5.a | 12-16-2011 | Revisions were made to conform the policy on conflicts of interest in investments with changes in Sec. 03.03 and 03.04, <i>Regents’ Rules</i> , regarding conflicts of interest for Board members and executive administration (respectively) that were necessitated by changes in state law. |