

**Texas Tech University System**

**INVESTMENT POLICY STATEMENT**

**Short/Intermediate Term Investment Fund**

**Section 1 Introduction.**

This policy statement shall guide the investment of the subset of institutional funds known as the Short/Intermediate Term Investment Fund (“SITIF”) of the Texas Tech University System (“TTU system”). The SITIF is the principal cash fund of the TTU system. Balances in individual accounting funds are to be maintained as cash available for withdrawal without prior notice. All institutional funds not invested in the Long Term Investment Fund (“LTIF”) will be invested in accordance with this policy statement.

**Section 2 Investment Objectives.**

The investment of funds for the SITIF shall provide incremental return to assist in meeting the operating needs of the TTU system. The SITIF shall employ a total return philosophy. Under such a concept, realized gains and losses will be recorded.

2.1 Investment objectives of the SITIF.

- a. The investment of funds shall consider asset diversification, total return, suitability, and the experience, quality and capability of investment personnel. It will be governed by the following investment objectives, in the following order of priority:
  - (1) preservation and safety of principal;
  - (2) liquidity; and
  - (3) yield.
- b. In determining whether the objectives in Section 2.1.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; and
  - (2) Whether the investment decision was consistent with this written policy.

## 2.2 Asset allocation.

### a. Asset allocation ranges, limitations and benchmarks:

<b>Investment Type</b>	<b>Target Range</b>	<b>Min</b>	<b>Max</b>	<b>Benchmark</b>
Cash Instruments	15% - 20%	15%	None	90-day U.S. T-Bill
U.S. Government Agency Securities	15% - 40%	15%	85%	Barclays 1-5 Year Government Index
Fixed Income Securities	25% - 35%	0%	35%	Barclays Intermediate Credit Index
Fixed Income Mutual Funds	25% - 35%	0%	35%	Barclays Aggregate Bond Index

- b. Asset allocation is the primary determinant of investment performance and, subject to the ranges specified herein, is the responsibility of the Chief Investment Officer of the TTU system (“CIO”). Changes to the asset allocation ranges and limitations are the responsibility of the Board of Regents of the TTU system (“Board”) and may be changed from time to time based on the economic and investment outlook.

## 2.3 Maturity limitations. Overall, the maximum weighted average maturity of the SITIF should be five years or less.

## 2.4 Rebalancing.

- a. It is the intent of the Board that the asset allocation for the SITIF remain within the target ranges and that the portfolio shall be rebalanced when the allocation deviates significantly from these ranges. Contributions to the SITIF should be applied to, and payments by the SITIF withdrawn from, asset classes in such a way so as to bring the asset allocation back toward its target ranges.
- b. The minimum and maximum allocations should not be exceeded, except in unusual circumstances. Rebalancing may occur before these limits.

## Section 3 Performance Objectives.

The SITIF will be comprised primarily of U.S. Treasury securities, collateralized bank accounts, money market mutual funds, U.S. Government Agency obligations, eligible fixed income securities, and fixed income mutual funds. Annual performance will be compared to the indices of comparable securities and duration.

### 3.1 Return objectives.

- a. The total return goal for each category of investments is expected to match or exceed the performance of the appropriate benchmark index. In addition, the performance of each investment manager will be evaluated against a

comparable peer group and should rank above the median of that peer group over a rolling three-year period.

- b. Total return is defined as the sum of earned interest and dividends, realized and unrealized gains or losses, less all investment management costs.
- c. Investment managers will be reviewed on an on-going basis and evaluated based upon the following criteria:
  - (1) Adherence to the philosophy and style that was articulated at, or subsequent to, the time the investment manager was retained; and
  - (2) Continuity of personnel and practices at the firm.

#### **Section 4 Authorized Investments.**

The following categories of investments shall be authorized as indicated:

##### 4.1 Cash instruments.

- a. U.S. Treasury bills: no limitation on amount invested.
- b. Money-market mutual funds:
  - (1) A no-load money market mutual fund is an authorized investment if it:
    - (a) is regulated by the Securities and Exchange Commission (SEC);
    - (b) provides daily liquidity;
    - (c) includes in its investment objective the maintenance of a stable net asset value of \$1 for each share; and
    - (d) marks its portfolio to market daily and, to the extent reasonably possible, stabilizes at a \$1 net asset value.
  - (2) If the ratio of the market value of the no-load money market fund's portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold by the pool as necessary to maintain the ratio between 0.995 and 1.005. Further, the investment pool must be continuously rated no lower than AAA or equivalent by at least one nationally recognized rating service.

c. Collateralized bank deposits.

- (1) Deposits with a state or national bank domiciled in the State of Texas, provided:
  - (a) Such deposits are fully collateralized as required in the *Texas Education Code* and in accordance with the Public Funds Investment Act, as amended, 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. In no event will the custodian be affiliated with the depository bank.
  - (b) Deposits must be guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or be secured by eligible obligations, including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the deposits and/or certificates.
- (2) On any given day, no depository bank shall have SITIF 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.
- (3) The limitations in Section 4.1.c of this policy statement shall not be construed to establish a commitment and/or guarantee on the part of the TTU system to deposit any particular amount in any one bank. The TTU system may develop additional institutional guidelines that may employ other criteria to establish limits on the total amount of deposits in any bank. Such guidelines, however, shall not allow the total deposits in any bank to exceed the limits otherwise established under this policy.

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. 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.

#### 4.2 U.S. government obligations and agency securities.

- a. Obligations of the United States or its agencies and instrumentalities:
  - (1) maximum term: 7 years, at the time of purchase;
  - (2) maximum single purchase: no limit; and
  - (3) maximum aggregate position: no limit.
- b. Collateralized Mortgage Obligations (“CMOs”) directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States:
  - (1) maximum term: 7 years weighted average life, at time of purchase;
  - (2) maximum single purchase: 3% of portfolio;
  - (3) maximum aggregate position: not to exceed 20% of portfolio; and
  - (4) the purchase of any security in the CMO category is to be considered on an individual basis with emphasis on credit quality, marketability, liquidity, and legality.
- c. Mortgage-backed securities, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas, the United States, or their respective agencies and instrumentalities:
  - (1) maximum weighted average life: 7 years, at time of purchase;
  - (2) maximum single purchase: 3% of portfolio; and

- (3) maximum aggregate position: 20% of portfolio.

#### 4.3 Fixed income securities.

- a. Certificates of deposit if issued by a state or national bank or a savings and loan association domiciled in the State of Texas shall have the following limitations:
  - (1) maximum term: 7 years;
  - (2) maximum single purchase: 3% of portfolio;
  - (3) maximum aggregate position: same as bank deposits; and
  - (4) certificates of deposit must be collateralized in the same manner as bank deposits (as per Section 4.1.c).
- b. Corporate bonds and medium term notes:
  - (1) rated investment grade by Standard & Poor's (BBB+ and above) or Moody's (Baa1 and above);
  - (2) maximum term: 5 years;
  - (3) maximum single purchase: 3% of portfolio; and
  - (4) maximum aggregate position: 15% of portfolio.
- c. Other Fixed Income Securities: Between meetings of the Board, if deemed advisable, investments in other fixed income securities not specifically authorized by this policy may be made if approved by the Chair of the Board, the Chair of the Board's Finance and Administration Committee, and the Chair of the Investment Advisory Committee (IAC).

#### 4.4 Fixed income mutual funds. Fixed income mutual funds are domestic or global funds invested in a portfolio of high quality debt securities. Eligible investment pools are authorized investments under the following terms and conditions:

- a. To be considered an eligible investment pool, the investment pool must furnish an offering memorandum or other similar disclosure instrument that contains, at a minimum, the following information:
  - (1) the types of investments in which money is allowed to be invested, including the amount and type of investments in foreign securities;
  - (2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;

- (3) the maximum stated maturity date of any investment security within the portfolio;
- (4) the objectives of the pool;
- (5) the size of the pool;
- (6) the custodian bank that will safe-keep the pool's assets;
- (7) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
- (8) the name and address of the independent auditor of the pool;
- (9) the requirements to be satisfied for the TTU system to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the TTU system to invest funds in and withdraw funds from the pool; and
- (10) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

b. To maintain eligibility, the investment pool must furnish the following:

- (1) confirmations on contributions and withdrawals; and
- (2) a quarterly report that contains, at a minimum, the following:
  - (a) the types and percentage breakdown of securities in which the pool is invested;
  - (b) the current average dollar-weighted maturity of the pool, based on the stated maturity date;
  - (c) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
  - (d) the book value versus the market value of the pool's portfolio, using amortized cost valuation;
  - (e) the size of the pool;
  - (f) summary of client type;

- (g) the custodian bank that is safekeeping the assets of the pool;
- (h) a listing of daily transaction activity of the TTU system;
- (i) the yield and expense ratio of the pool;
- (j) the portfolio managers of the pool; and
- (k) any changes or addenda to the offering memorandum.

### **Section 5 Securities Lending.**

The SITIF may not participate in securities lending unless approved by the board. Commingled funds are exempt from this restriction.

### **Section 6 Amendment of Investment Policy Statement.**

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

### **Section 7 Effective Date.**

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