



---

# **Investment Policy for Operating Funds and Endowment Funds**

Effective June 1, 2023

---

# Table of Contents

I.	PREFACE .....	3
II.	POLICY AND OBJECTIVES .....	3
	A. OPERATING FUNDS .....	3
	B. ENDOWMENT FUNDS .....	4
III.	DELEGATION OF AUTHORITY AND RESPONSIBILITY .....	5
IV.	STANDARD OF CARE .....	8
V.	INSTITUTIONAL INVESTMENT PROCEDURES.....	8
VI.	INVESTMENT STRATEGIES AND OBJECTIVES.....	9
	A. OPERATING FUNDS .....	9
	B. ENDOWMENT FUNDS.....	10
VII.	INVESTMENT GUIDELINES .....	10
VIII.	REBALANCING .....	11
IX.	SAFEKEEPING.....	11
X.	SECURITIES LENDING .....	11
XI.	FINANCIAL DEALERS AND INSTITUTIONS .....	11
XII.	INVESTMENT REPORTING AND MONITORING .....	13
XIII.	BENCHMARKS.....	14
	APPENDIX 1 .....	15
	APPENDIX 2 .....	17
	APPENDIX 3 .....	19
	EXHIBIT 1 .....	22
	EXHIBIT 2 .....	23

# **Texas State University System**

## **Investment Policy for Operating Funds and Endowment Funds**

### **I. PREFACE**

This Policy is the approved Investment Policy for Operating Funds and Endowment Funds of The Texas State University System. The Texas State University System (TSUS) is comprised of Lamar University, Sam Houston State University, Sul Ross State University, including Rio Grande College, Texas State University, Lamar Institute of Technology, Lamar State College-Orange, Lamar State College-Port Arthur, and System Administration.

Unless otherwise authorized in this policy, Operating Funds assets and Endowment Funds assets are pooled and managed by the Investment Advisory Committee. The Investment Advisory Committee (IAC) is not required to liquidate investments that were authorized investments at the time of purchase unless so directed by the TSUS Board of Regents (the Board). Funds held in banking institutions are covered by the TSUS *Depository Funds Policy*.

This Policy shall be reviewed annually and if necessary, updated and presented to the Board for adoption.

### **II. POLICY AND OBJECTIVES**

#### **A. OPERATING FUNDS**

This Investment Policy for Operating Funds and Endowment Funds (Policy) of TSUS is designed to fulfill the following objectives with respect to Operating Funds:

- Provide security of invested principal;
- Provide liquidity for operating requirements which may be reasonably anticipated;
- Manage interest-rate and market risk;
- Maximize total return within established risk constraints; and
- Provide for diversification of investment assets.

To meet these objectives, TSUS will base investment decisions on short-intermediate-term, and long-term needs dictated by cash flow analyses of present and anticipated financial sources and requirements. Operating Funds are classified as Short-Intermediate-Term Funds, Long-Term Funds, or Bond Proceeds Funds.

Short-Intermediate Term Funds are funds needed to meet operating requirements (within the budget year) as well as funds not designated as Long-Term Funds. These funds may be used within the operating year and are typically invested in investments with high quality and liquidity and short duration. These funds are not pooled and are held at the component level in investments authorized by this Policy or authorized depositories, as required for day-to-day operations.

Long-Term Funds comprise core holdings and are not intended to be spent during any budget period. These funds are typically invested in a manner similar to Endowment Funds, with similar risk and reward metrics. These funds may be invested in the unitized Long-Term pools and in the unitized Endowment pool to the extent allowed by this policy.

Bond Proceeds Funds are obtained through the issuance of debt and commercial paper. Bond proceeds are to be invested following the same guidelines as Short-Intermediate Term Funds, subject to any applicable bond covenants.

## B. ENDOWMENT FUNDS

This Policy is designed to fulfill the following objectives with respect to Endowment Funds:

- provide security of invested principal;
- provide for appreciation of principal;
- provide a continuing and dependable cash payout within market constraints;
- provide for planned liquidity for anticipated cash flow purposes;
- manage market risks;
- maximize overall total return within the established risk constraints; and
- provide for diversification of investment assets.

The long-term objective of Endowment Funds is preservation of intergenerational equity of the endowment while providing for appropriate current spending.

Endowment Funds may include, but are not limited to, gifts of cash or other financial assets to provide funding for scholarships, fellowships, professorships, academic chairs, research, or other uses specified by the donor(s). Endowment Funds differ from restricted current funds in that the donor's gift is generally held in perpetuity with the intent of growing the principal, or corpus, so that the endowment's earnings fund expenses related to its purpose.

Funds functioning as endowments (commonly referred to as quasi-endowments) are resources that the governing board, rather than the donor, has determined are to be retained and managed like an endowment. Principal and income of these funds may be utilized at the discretion of the governing board. Resources that the governing board sets aside to function as an endowment may be unrestricted or restricted by an agent outside the institution.

Funds which by their nature are long-term and have or potentially may have endowment qualities, such as charitable gift annuities, may be invested with the endowment to the extent permitted by law and the individual charitable documents.

Endowment Funds may be invested in the unitized Endowment pool as authorized by this Policy and, for short periods, may be placed in authorized non-pooled TSUS depositories for the processing of endowment related receipts and disbursements.

### III. DELEGATION OF AUTHORITY AND RESPONSIBILITY

#### Board of Regents

The Board retains ultimate responsibility for investments as fiduciaries of TSUS assets regardless of who is investing those assets. The Board is required by the General Appropriations Act (Article III, Special Provisions, Section 6.5) to:

- A. Adopt and maintain a written Investment Policy for endowment funds, short-intermediate term operating funds, and long-term operating funds.
- B. Direct that a copy of the Investment Policy be filed with the State Auditor's Office and the Legislative Budget Board no later than December 31st of each year.
- C. Direct that a report of all investment transactions for Endowment Funds, Short-Intermediate Term Operating Funds, and Long-Term Operating Funds, and all other securities transactions be prepared annually in a method prescribed by the State Auditor's Office, and that such report, or copies thereof be filed with:
  - 1. The State Auditor,
  - 2. The Comptroller of Public Accounts,
  - 3. The Legislative Budget Board, and
  - 4. The Office of Governor, and
  - 5. Shall be available for public inspection.
- D. Direct that the Vice Chancellor and Chief Financial Officer, or designee, publish and maintain at least two years of quarterly, consolidated investment reports on the System's website. Each component shall provide a link to this consolidated report on their website.

#### TSUS Investment Advisory Committee

The IAC shall be comprised of the System's Vice Chancellor and Chief Financial Officer, who shall act as or appoint a Chair, and the chief financial officer from each component institution, or their designees. The members of the IAC are designated as investment officers by the Board. Additional members of the IAC may be designated by the Vice Chancellor and Chief Financial Officer.

The IAC shall have oversight of the unitized pooled investments in the Operating Funds and Endowment Funds portfolios and is responsible for investment management decisions, activities, and transactions undertaken, including the hiring/firing of investment manager(s). The IAC shall not engage in an investment transaction except as provided under terms of this Policy. No member of the IAC or employee of TSUS may accept anything of material value from counterparties or others in connection with investment transactions.

The IAC and any designated investment officer are responsible for managing the allocations of asset classes, investment products utilized, and providing individual investment guidelines to separately managed account investment managers so that the overall policy objectives as detailed for the Operating Short-Intermediate Term Funds, the Operating Long-Term Funds, and the Endowment Funds are met at the total portfolio level for each fund.

Any member of the IAC shall attend at least four hours of continuing education per year, which may include education in investment theory and practice, investment controls, security risks, strategy risks, market risks, and compliance with certain state statutes and

this policy statement. Each investment officer must maintain the records of their training hours to show satisfaction of this requirement.

For certain operating funds not pooled, component-level investment officer(s) may be authorized in accordance with TSUS Rules and Regulations Section 6.(18)(1).

#### Investment Officer Disclosures

The following reporting requirements apply:

1. An investment officer related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to TSUS shall file a statement disclosing that relationship;
2. An investment officer having a business relationship of any nature with an individual seeking to sell an investment to TSUS shall file a statement disclosing that relationship;
3. The disclosure shall be filed with the Board and the Chancellor, through the System's Vice Chancellor and Chief Financial Officer.

#### Investment Consultant

The IAC may contract with one or more investment consultants registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) to provide for investment oversight of the Operating Funds and/or Endowment Funds. System Administration is responsible for the management of any investment consultant contract, including the solicitation and selection of the investment consultant. The initial contract may not be for a term exceeding six years and renewals or extensions of the contract must be made by order or resolution of the Board. The investment consultant(s) must acknowledge in writing that they are a fiduciary to the Fund(s).

Each investment consultant must certify to the receipt and review of this Policy, that it will act in accordance with the Policy, and that it will provide the most recent copy of its Form ADV and ADV brochure as filed with the Securities and Exchange Commission to System Administration on behalf of the IAC.

Additionally, each investment consultant will:

- Assist in the development and implementation of investment policies, objectives, and guidelines to submit to the Board for approval at least annually.
- Review investment strategies and vehicles, including search, selection, and recommendation of investments to the IAC.
- Prepare and present performance evaluation reports in accordance to established investment standards.
- Review contracts and fees for both current and proposed investment managers.
- Communicate investment policies and objectives to investment managers, monitor those strategies, and notify the IAC of any significant changes in portfolio managers, litigation, or violation of securities regulations.

#### Investment Manager(s)

Where applicable, each investment manager must certify to the receipt and review of this Policy, that it will act in accordance with the Policy, and that it will provide System Administration on behalf of the IAC a copy of its most current Form ADV and ADV brochure as filed with the Securities and Exchange Commission (see Exhibit 1).

All investment managers have a fiduciary responsibility to make a good faith determination that commissions paid to a broker are reasonable and competitive. All investment managers shall treat the accounts they manage as discretionary accounts and have authority to act on behalf of TSUS. The investment managers have the authority to make investment decisions for the purpose of placing orders to affect any purchase, sale, exchange, liquidation or other investment of the assets in the accounts, within their asset class, and according to this Policy, without obtaining prior approval.

All orders for transactions of account assets shall be placed in such markets and through such brokers as shall offer the most favorable price, execution and commission cost of each order (best execution). All such orders must also be in compliance with this investment policy.

TSUS acknowledges that investment managers may, in accordance with applicable law, pay commissions to brokers that are higher than those that might be obtainable elsewhere in order to obtain research and other services provided by such brokers in the expectation to enhance the long-term value of the account. System Administration on behalf of the IAC shall try to negotiate the contract without the use of these soft dollar arrangements. In the event that soft dollar arrangements remain as part of the contract, the investment manager(s) will report to the investment consultant and System Administration on behalf of the IAC at least annually, the investment managers' soft dollar practices and any soft dollar purchases. In addition, investment managers must demonstrate how the soft dollars were used solely for the benefit of the account which generated the soft dollars.

#### Investment Custodians

The investment custodians are responsible for the safekeeping of the investment assets of the Operating Funds and Endowment Funds. Their responsibilities are to:

- Provide timely (defined as within 6 business days of month-end) and accurate reports detailing investment holdings, including, on a Trade Date accrual basis:
  - Statement of all securities and other assets held;
  - Statement of all receipts, sales, redemptions, and principal payments;
  - Statement of all distributions, expenses paid, purchases;
  - Statement of all income; and
  - Establishing and maintaining separate accounts for each investment manager.
- Provide all normal custodian functions, including but not limited to:
  - Security safekeeping;
  - Collection of income;
  - Settlement of trades;
  - Collection of proceeds of maturing securities; and
  - Daily investment of available cash.

System Administration is responsible for the management of any investment custodian contract, including the solicitation and selection of the investment custodian(s).

#### Financial Advisors and Service Providers Disclosure

Financial Advisors and Service Providers as defined by Texas Government Code Section 2263.002 shall comply with disclosure requirements contained in Texas Government Code Section 2263.004.

#### IV. STANDARD OF CARE

Pursuant to Texas Education Code §51.0031(d), the prudent person standard shall be used in all investment functions and shall be applied in the context of individual transactions as well as management of the overall portfolio. Accordingly, all investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, emphasizing the probable safety of their capital as well as the expected income to be derived.

Furthermore, it is the policy of TSUS to invest Endowment Funds in compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Texas Property Code Chapter 163.

All investments shall be consistent with this Policy. As long as investments made were in accordance with this Policy at the time of purchase, no individual will be held personally liable.

#### V. INSTITUTIONAL INVESTMENT PROCEDURES

The IAC shall establish written procedures supporting this Policy when necessary. The procedures shall be directed towards preventing loss of funds due to fraud, employee error, misrepresentation, or imprudent actions.

The IAC shall establish and maintain (a) written administrative procedures and guidelines in support of this Policy, (b) distribution formulae(s)/procedures for the funds, and (c) internal controls in support of this Policy.

System Administration on behalf of the IAC shall ensure the following specific controls, as further defined by this Policy, are incorporated into their operating procedures or the operating procedures of the investment managers.

- All securities will be settled delivery versus payment (DVP) into the applicable depository or custodian bank,
- Excluding accounts used for gift acceptance, no securities will be safe kept with a broker/dealer,
- Operating Funds cash flow will be reviewed at least annually to determine investment strategy impact and projections,
- Every transaction will be documented for accounting information and security description,
- All transaction documentation will be completed within five business days of receipt,
- An investment ledger will be maintained for reconciliation with the general ledger, bank reports, and trade confirmations on a monthly basis, at a minimum,
- Market values for private capital strategies with drawdown structures will be recorded for performance measures using estimates and will begin with the investment managers' reported fair market value from the past quarter and make adjustments for interim cash flows (calls and distributions).
- A monthly reconciliation of transactions and income will be made,
- A review of the portfolio will be made by all investment officers at least quarterly,
- Designated levels of signatory approval will be set,
- Investment reporting will be completed quarterly, and



- Internal control, oversight and/or separation of responsibilities will be maintained over all transactions.

The IAC may pursue an active portfolio management strategy for Endowment Funds with investments diversified by asset class and style. All investment securities must be held under a custodial agreement and all investment managers must provide statements to System Administration on behalf of the IAC on a monthly basis for all investment activities during the preceding month (or quarterly basis for diversifying assets and private capital). The IAC, with the assistance of the investment consultant, will regularly monitor the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions. Quarterly reviews of performance shall be made by the IAC.

## VI. INVESTMENT STRATEGIES AND OBJECTIVES

### A. OPERATING FUNDS

Institutional Operating Funds may be commingled for investment purposes. The investment strategy for Operating Funds has as its primary objective assurance that anticipated liabilities are matched and adequate investment liquidity provided. The secondary objective is to create a portfolio structure which will experience minimal volatility while generating income and/or capital growth.

The intention is to match investments with projected cash flow and liquidity needs. The IAC may pursue an active and/or a passive portfolio management strategy. That is, securities may be sold before they mature if market conditions present an opportunity for a net positive horizon fiscal benefit from the trade, or to manage a market downturn.

The IAC and/or investment consultant will continuously monitor the contents of the unitized pools, the available markets, and the relative value of all authorized, competing instruments to adjust the portfolio in response to market conditions.

Operating Short-Intermediate Term Fund's investment strategy is to provide component with capital preservation and current income. These funds are not pooled and may be held in investments authorized by this Policy or authorized depositories, as required for day-to-day operations. These funds are invested at the component level.

Three unitized operating pools are available for investment of Operating Long-Term Funds: Operating Long-Term Global Equity Pool, Operating Long-Term Global Fixed Income Pool, and Operating Long-Term Real Asset Pool. Component institutions may also invest a limited amount of Long Term Operating Capital in the Unitized Endowment as outlined in Appendix 2.

The Operating Long-Term Global Equity Pool's investment strategy is to provide 100% global equity exposure using a diverse portfolio of active and passive managers across various geographic regions. The objective is to grow invested assets of the pool, net of inflation and expenses, over a full market cycle (generally defined as a three-year to five-year period) while accepting global equity market risk.

Operating Long-Term Global Fixed Income Pool's investment strategy is to provide component investors with global exposure to credit and duration using a diverse set of

active and passive managers across various geographic regions. The objective is to provide interest income from debt securities and to reduce the overall risk of an investment strategy heavily weighted to equity.

Operating Long-Term Real Asset Pool's investment strategy is to provide component investors with global exposure to inflation hedging assets using a diverse set of active and passive managers across various geographic regions. The objective is to provide an inflation hedge to maintain purchasing power of the invested assets.

## B. ENDOWMENT FUNDS

The unitized Endowment Pool shall be used by component institutions to invest Endowment Funds. The Endowment Funds performance objective is to grow the market value of assets net of inflation, spending, and expenses, over a full market cycle (generally defined as a three-year to five-year period) without undue exposure to risk. The Endowment Pool is particularly risk-averse to the probability of not meeting the total return goal. The total return goal can be achieved while assuming acceptable risk levels commensurate with market volatility. To achieve the total return goal, the Endowment pool will be invested to generate appreciation and/or dividend and interest income.

As endowments are generally expected to endure into perpetuity, inflation is a key component in the performance objective. The long-term risk of not investing in equity securities outweighs the short-term volatility risk. As a result, the majority of assets should be invested in equity or equity-like securities. Fixed income securities, fixed income-like securities, and diversifying strategies may act to lower the short-term volatility of the portfolio and/or provide stability, especially during periods of weak or negative equity markets. Other asset classes are included to provide diversification and incremental total return. The portfolio shall be diversified to diminish risks associated with particular securities, market sectors, or industries with an excessive impact on the funds. Liquidity must be considered and sufficient to meet the spending needs and expenses.

## VII. INVESTMENT GUIDELINES

Investment guidelines for the pools including diversification parameters, approved asset allocation ranges, and investment limitations, prohibitions and exceptions may be found in Appendix 1, Appendix 2, and Appendix 3 for the Operating Short-Intermediate-Funds, Long-Term Pools, and the Endowment Pool, respectively.

General prohibitions include:

- No direct purchases of investments are allowed, except for co-investments from private vehicles in which TSUS is an investor.
- Outside of externally managed strategies, purchases or sales of financial futures, options, interest rate swaps, forward rate agreements, or engagement in adjusted trading or short sales are not allowed.
- 144-A or other private placement securities not registered with the SEC are not allowed unless such securities have CUSIPs, are daily priced, and are publicly traded over the counter or on a US exchange.

General limitations include:

- A maximum of 40% of operating short-intermediate funds or any unitized pool may be invested in a single strategy mutual fund, ETF, or managed account.

## VIII. REBALANCING

As asset allocation is a critical component of investment portfolio returns, the appropriateness of asset allocation ranges will be reviewed no less than annually. In the event any individual asset class falls outside the allocation range specified in the applicable investment guidelines detailed in the appendices to this Policy, rebalancing should be performed in a prudent manner.

## IX. SAFEKEEPING

All securities, including collateral bought under a repurchase agreement, but excluding investment pool funds, certificates of deposit, commingled vehicles, registered ETFs, and mutual funds, shall be settled on a delivery versus payment (DVP) basis, where DVP is an available settlement option. All securities shall be held by TSUS's depository bank or an independent third-party custodian. All securities will be held in the name of TSUS. Excluding accounts used for gift acceptance, no securities will be safe kept with a broker/dealer.

The primary third-party custodian of TSUS-owned assets shall be required to issue an original safekeeping trust statement to System Administration for pooled accounts on a timely basis describing the specific instrument, coupon, maturity, par, CUSIP, and other pertinent information. The safekeeping receipt shall clearly identify ownership by TSUS.

## X. SECURITIES LENDING

Participation in any securities lending program is prohibited under this Policy.

## XI. FINANCIAL DEALERS AND INSTITUTIONS

- A. If a business organization (including investment pools and investment management firms under contract) is not utilized, then the transaction requires the use of one or more broker/dealers.
- B. If investing directly, System Administration on behalf of the IAC will maintain a list of the broker/dealers utilized and maintain on file all certifications collected under sections XI. C and XI. D below.
- C. System Administration on behalf of the IAC is responsible for confirming that all the broker/dealers utilized conform with compliance requirements and procedures established by the Investment Policy to include the following:
  - Brokers/dealers must complete a questionnaire (see Exhibit 2) supplying basic firm and broker contact and delivery information,
  - Brokers/dealers may be affiliated with a Texas bank, designated by the New York Federal Reserve Bank as "primary dealers" or qualify as regional dealers under the Securities and Exchange Commission's "Uniform Net Capital Rule",
  - Brokers/dealers must be FINRA (Financial Institutions Regulatory Authority),
  - Brokers/dealers must be registered with the Texas Securities Commission, and;
  - Brokers/dealers must provide the written certification detailed below.

- D. Certification: Upon request, System Administration, on behalf of the IAC, shall present to any firm or person seeking to engage in an investment transaction with TSUS a written copy of this Policy. Mutual funds (40-act funds), commingled vehicles, and registered ETFs are excluded.

For separate account fund holdings, System Administration, on behalf of the IAC, must collect from the qualified representative of the business organization or the broker offering to engage in an investment transaction a signed certification (see Exhibit 1) to the effect that the business organization, registered principal, or broker has:

1. Received and reviewed this Policy.
2. Acknowledged that the business organization has implemented reasonable procedures and controls to preclude investment transactions conducted between TSUS and the organization that are not authorized by this Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entire portfolio or requires an interpretation of subjective portfolio standards.
3. Agreed to provide to the IAC, and the investment consultant, if any, all monthly data and schedules necessary to accurately prepare the required reporting to the IAC within 6 business days of month end.

Investment officers may not acquire or otherwise obtain any separate account investment from a person, bank or firm that has not provided this certification.

Nothing in this section relieves the investing entity of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with this Policy.

## XII. INVESTMENT REPORTING AND MONITORING

Quarterly, System Administration on behalf of the IAC shall prepare a signed, written investment performance report detailing the investment balances and performance of the Operating Funds and Endowment Funds.

Market prices used in the report are to be obtained from an independent, published source such as the Wall Street Journal, a custodian bank, a recognized financial website (such as Bloomberg), and/or through a contractual arrangement with a pricing service. Asset prices are not to be obtained from the broker/dealer having sold TSUS the asset being priced.

The report is to be submitted to the Board in compliance with the requirements of Texas Education Code §51.0032 and the General Appropriations Act and describe in detail the investment position of TSUS, separated between operating investments and endowment investments, on the date of the report and:

- A. Be signed by the chair of the IAC or designee;
- B. Provide at the total portfolio level and the managed account level (separate account/mutual fund/ETF/commingled vehicle) using trade date accounting with interest income accruals:
  1. Beginning market value (defined as trade date with interest income accruals) for the reporting period for all assets;
  2. Ending market value (defined as trade date with interest income accruals) for the reporting period for all assets;
  3. Beginning book value for the reporting period for each separately invested (non-pooled) asset;
  4. Ending book value for the reporting period for each separately invested (non-pooled) asset;
  5. Total return calculated net of investment management fees where applicable of the reporting quarter and the fiscal year to date. Investment returns are to be calculated net of fees, using the performance reporting methodology found in the Global Investment Performance Standards Handbook published under the guidance of the CFA Institute.<sup>1</sup>
  6. Provide a rate of return comparison to the established benchmarks as established by this Policy of each asset class, and a weighted benchmark based on the asset allocation for the entire portfolio. The benchmark for the total portfolio benchmark should have a footnote detailing the weights used to calculate that benchmark.
  7. For Operating Long-Term Funds and Endowment Funds, provide a comparison of the actual component's allocation with the allocation allowances under this Policy and state the compliance of the investment portfolio of the component as it relates to the investment strategy expressed in this Policy.
  8. Be posted on the TSUS website in accordance with SAO's Annual Tracking Report for Investment Reporting by Higher Education Institutions.
  9. Provide for each investment not held in a managed account (security purchased by the investment officer or designee, or not held in a separately

---

<sup>1</sup> <http://www.cfainstitute.org/ethics/codes/gipsstandards/Pages/index.aspx>

*The Global Investment Performance Standards (GIPS Standards) is a set of standardized, industry-wide ethical principles that provides guidance on how to calculate and report investment results.*

managed account/mutual fund/ETF/commingled vehicle), all the items enumerated in Section XII A 2. a-e above, categorized by asset class, the maturity date and current credit rating (by one of the top three rating agencies), if applicable.

Credit ratings recognized under this policy are those issues by Standard and Poor's (S&P), Fitch, or Moody's. Non-rated securities will be considered as below investment grade.

Additionally, use of soft dollars must be disclosed to the State Auditor's Office as part of the annual Higher Education Institution Investment Reporting.

### XIII. BENCHMARKS

The performance of each portfolio(s) will be measured against a customized blended index, developed and reviewed at least annually by the IAC, in consultation with the investment consultant(s), if applicable. All performance returns shall be stated net of investment management fees. Other applicable indexes matching the specific allocation of the funds (for example international mutual funds or equities) shall be detailed in the IAC's procedures and included on all monthly and quarterly reporting as a benchmark for these investments.

Benchmarks for the Operating Short-Intermediate Term Funds are:

- Bank of America Merrill Lynch 6 month T-Bill rate.

Benchmarks for the unitized pools are:

- Long-Term Operating Global Equity Pool – MSCI All World Index,
- Long-Term Operating Global Fixed Income Pool – Blend of US Aggregate Index and ICE Bank of America High Yield Bond Index,
- Long-Term Operating Real Assets Pool – Blend of MSCI World Core Infrastructure NR Index, Bloomberg Barclays US TIPS Index, Alerian MLP Index, and FTSE EPRA/NAREIT Developed Index, and MSCI ACWI Commodity Producers Index
- Endowment Pool – Blend of Thomson One All Private Equity Index, Thomson One Distressed Index, S&P 500 Index, Russell 2000 Index, MSCI EAFE Index, MSCI Emerging Markets Index, Bloomberg Barclays US Aggregate Index, ICE BofA High Yield Bond Index, HFRI Equity Hedge Index, Alerian MLP Index, FTSE EPRA/NAREIT Developed Index, and HFRI FOF: Conservative Index.

## **APPENDIX 1**

### **INVESTMENT GUIDELINES FOR OPERATING SHORT-INTERMEDIATE TERM FUNDS**

#### **A. DIVERSIFICATION PARAMETERS**

Diversification of the operating short-intermediate funds will mainly be achieved by manager and security selection. See items number 4 and 5 under Limitations in Section C. for credit quality and maturity limitations.

#### **B. APPROVED ASSET ALLOCATION RANGES**

Operating short-intermediate funds should be invested in 0-100% US Global fixed income asset class only.

#### **C. LIMITATIONS, PROHIBITIONS, AND EXCEPTIONS**

##### **Limitations:**

1. A maximum of 10% of the total assets of a single mutual fund, commingled vehicle or ETF may be held by the operating short intermediate fund.
2. A maximum of 35% of the operating short intermediate fund may be invested in a single mutual fund, ETF, commingled vehicle, separately managed account, etc. except for cash management pools (TexPool or similar) and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(f) Internal Revenue Code of 1986 (25 U.S.C Section 501(f)).
3. A minimum of 5% of the Operating Short-Intermediate Term Fund's portfolio must have daily liquidity; additionally, a minimum of 20% of the Operating Short-Intermediate Term Fund's portfolio must be accessible within trade date plus 3 days.
4. The average credit quality of the entire Operating Short-Intermediate Term Funds portfolio is to be greater than or equal to A- by S&P, A- by Fitch, or A3 by Moody's. The minimum credit quality of any diversified fund vehicle must be investment grade at the time of purchase.
5. The weighted average maturity of the entire Operating Short-Intermediate Term Funds portfolio is to be less than or equal to 36 Months. There is no maximum maturity of any single security.

##### **Prohibitions:**

1. Funds may not invest in equities.
2. Funds may not purchase funds or strategies primarily dedicated to residual interests in CMOs/REMICs or mortgages servicing rights. Specific strategies that may not be purchased are:
  - Inverse CMO floaters,
  - Principal only CMOs, and
  - Interest only CMOs.
3. Funds may not invest in non-US dollar denominated securities.
4. Funds may not use margin or leverage.
5. Alternative investments, defined as investments that are not publicly traded on the open markets, are illiquid, use leverage, or invest in private placements, futures, options, or short sales are prohibited.

Exceptions:

1. Foreign securities issued and priced in US dollars are allowed.

Any change to these limitations, prohibitions, and exceptions shall require amendment of this Policy and adoption by the Board. Investments and activities that are not expressly prohibited in this appendix are considered allowable by this Policy.



## APPENDIX 2

### INVESTMENT GUIDELINES FOR OPERATING LONG-TERM POOLS

Operating Long-Term Funds are invested within one or more of the three unitized Operating Long-Term pools: Global Equity, Global Fixed Income, and Real Assets.

Operating Long-Term Funds invested in pools may not exceed a fixed amount equal to 60% of all Operating Funds, exclusive of Bond Proceeds Funds, as of the preceding fiscal year-end. Compliance with this provision will be checked quarterly in conjunction with reporting required under this Policy.

Operating Long-Term Funds may be invested in a similar manner to Endowment Funds, with additional restrictions in place. Accordingly, an amount not exceeding a fixed amount equal to 30% of all Operating Funds, exclusive of Bond Proceeds Funds, as of the preceding fiscal year-end, may be invested in the unitized Endowment Pool. This limit represents 50% of the 60% limit discussed in the preceding paragraph. Compliance with this provision will be checked quarterly in conjunction with reporting required under this Policy.

Components may elect not to invest any portion their Operating Short-Term Funds as Operating Long-Term Funds. Components may elect not to invest a portion of their Operating Long-Term Funds in the Endowment Pool.

#### A. DIVERSIFICATION PARAMATERS

Operating Long-Term Pools may be invested in one or more asset classes, subject to approved allocation ranges. Asset classes include Global Equity, Global Fixed Income and Credit, Real Assets, and Diversifying Strategies.

<b>GLOBAL EQUITY</b>	Intended to be the primary source of long-term capital appreciation for the portfolio. While having higher expected returns than fixed income, they also have higher expected volatilities. Sub-categories include both public and private equities, as well as hedged equity mandates.
<b>GLOBAL FIXED INCOME/CREDIT</b>	Intended to offset the volatility of equities, particularly during market downturns, as well as provide deflation protection. These investments are comprised primarily of fixed income (debt) securities and can be categorized as interest rate sensitive and credit sensitive. Sub-categories include both public and private debt.
<b>REAL ASSETS</b>	Intended to insulate the portfolio from inflation shocks and to provide a source of non-correlating returns with other asset categories. Includes both public and private investments in real estate, natural resources (e.g., energy, agriculture, timber, commodities), and infrastructure (e.g., power generation, mid-stream energy Master Limited Partnerships “MLPs”).
<b>DIVERSIFYING STRATEGIES</b>	Intended to provide diversification from systematic market risk, with the primary determinant of returns typically derived from manager skill (alpha) rather than the market (beta). Sub-categories include both liquid and semi-liquid non-directional strategies that seek low correlations to the public equity and fixed income markets.

## B. APPROVED ASSET ALLOCATION RANGES

POOL NAME	ASSET CLASS	RANGE
<b>OPL GLOBAL EQUITY</b>	<b>GLOBAL EQUITY</b>	
	<i>Public Equities</i>	
	U.S.	0-75%
	International Developed	0-50%
	Emerging Markets	0-20%
	<i>Hedged Equity</i>	0%
	<i>Private Equity</i>	0%
<b>OPL GLOBAL FIXED INCOME</b>	<b>GLOBAL FIXED INCOME/CREDIT</b>	
	<i>Interest Rate Sensitive</i>	0-100%
	Core (Investment Grade)	0-100%
	Inflation Protected (TIPS)	0-50%
	<i>Credit Sensitive</i>	0-100%
<b>OPL REAL ASSETS</b>	<b>REAL ASSETS</b>	
	<i>Public Real Estate</i>	0-70%
	<i>Public Natural Resources</i>	0-50%
	<i>Public Infrastructure</i>	0-50%
	<b>DIVERSIFYING STRATEGIES</b>	0%

## C. LIMITATIONS, PROHIBITIONS, AND EXCEPTIONS

### Limitations:

- No more than 20% of the Global Fixed Income and Credit pool may be rated below investment grade.
- A maximum of 20% of a pool may be held in emerging market securities (regardless of asset type).
- A maximum of 40% of an account may be invested in a single sector by an investment manager unless:
  - Waived by the IAC in writing, and
  - The investment manager is a sector specialist.
- A maximum of 40% of an account may be invested in single non-US country by an investment manager unless:
  - Waived by the IAC in writing, and
  - The investment manager is country specialist.
- A maximum of 10% ownership of shares outstanding of a single stock.

### Prohibitions:

- Alternative investments, defined as investments that are not publicly traded on the open markets, are illiquid, use leverage, or invest in private placements, futures, options, or short sales are prohibited.

### Exceptions:

- None.

Investments and activities that are not expressly prohibited in this appendix are considered allowable by this Policy.

### APPENDIX 3

#### INVESTMENT GUIDELINES FOR THE ENDOWMENT POOL

Asset allocation is the single most important decision for the Endowment Pool. A significant proportion of a portfolio investment return can be attributed to the asset classes chosen and the weighting of each asset class. The IAC strives to diversify the endowment pool by exposing the pool to asset classes which exhibit different risk and return characteristics in order to achieve appropriate risk adjusted returns.

#### A. DIVERSIFICATION PARAMETERS

This Policy recognizes four main asset classes in which the endowment pool may be invested: Global Equity, Global Fixed Income and Credit, Real Assets and Diversifying Strategies.

<b>GLOBAL EQUITY</b>	Intended to be the primary source of long-term capital appreciation for the portfolio. While having higher expected returns than fixed income, they also have higher expected volatilities. Sub-categories include both public and private equities, as well as hedged equity mandates.
<b>GLOBAL FIXED INCOME/CREDIT</b>	Intended to offset the volatility of equities, particularly during market downturns, as well as provide deflation protection. These investments are comprised primarily of fixed income (debt) securities and can be categorized as interest rate sensitive and credit sensitive. Sub-categories include both public and private debt.
<b>REAL ASSETS</b>	Intended to insulate the portfolio from inflation shocks and to provide a source of non-correlating returns with other asset categories. Includes both public and private investments in real estate, natural resources (e.g., energy, agriculture, timber, commodities), and infrastructure (e.g., power generation, mid-stream energy Master Limited Partnerships “MLPs”).
<b>DIVERSIFYING STRATEGIES</b>	Intended to provide diversification from systematic market risk, with the primary determinant of returns typically derived from manager skill (alpha) rather than the market (beta). Sub-categories include both liquid and semi-liquid non-directional strategies that seek low correlations to the public equity and fixed income markets.

Alternative investments may be utilized to enhance the pool’s overall diversification. Alternative investments are defined as investments that are not publicly traded on the open markets, are illiquid, use leverage, or invest in private placements, futures, options or short sales. If the endowment pool is a qualified investor for the investment, the investment (as structured) does not expose the endowment pool to risk of loss outside the actual invested amount, and the investment is supervised by an investment manager (no direct purchases), the investment may be allowed. Private placements investments may be used if the

endowment pool meets regulatory qualifications. Alternative investment managers must be vetted by the IAC retained investment consultant. Where possible, pooled vehicles are utilized as they can provide for more diversification and additional layers of oversight.

## B. APPROVED ASSET ALLOCATION RANGES

ASSET CLASS	RANGE
<b>GLOBAL EQUITY</b>	<b>40-75%</b>
<i>Public Equities</i>	<b>35-75%</b>
U.S.	10-50%
International Developed	10-50%
Emerging Markets	0-15%
<i>Hedged Equity</i>	<b>0-10%</b>
<i>Private Equity</i>	<b>0-15%</b>
<b>GLOBAL FIXED INCOME/CREDIT</b>	<b>10-40%</b>
<i>Interest Rate Sensitive</i>	<b>5-40%</b>
Core (Investment Grade)	5-40%
Inflation Protected (TIPS)	0-20%
<i>Credit Sensitive</i>	<b>0-20%</b>
Liquid	0-20%
Private Debt	0-10%
<b>REAL ASSETS</b>	<b>5-30%</b>
<i>Real Estate</i>	<b>0-15%</b>
REITs	0-10%
Private Real Estate	0-5%
<i>Natural Resources</i>	<b>0-10%</b>
Commodities	0-10%
Private Energy	0-5%
<i>Infrastructure</i>	<b>0-10%</b>
MLPs	0-10%
Private Infrastructure	0-5%
<b>DIVERSIFYING STRATEGIES</b>	<b>0-20%</b>

## C. LIMITATIONS, PROHIBITIONS, AND EXCEPTIONS

Limitations:

### 1. Total Pool level

- A maximum of 40% of the Global Fixed Income and Credit asset class may be invested below investment grade. For definition purposes, non-rated securities will be considered as below investment grade.
- A maximum of 35% of the pool may be invested in alternative investments.
- A maximum of 20% of the pool may be held in emerging market securities (regardless of asset type).
- A maximum of 10% of the pool may be invested with and a single private placement sponsor.

- A maximum of 5% of the pool may be invested in a single private placement investment.
- 2. Investment Manager or account level
  - A maximum of 40% of an account may be invested in a single sector by an investment manager unless:
    - a. Waived by the IAC in writing, and
    - b. The investment manager is a sector specialist.
  - A maximum of 40% of an account may be invested in single non-US country by an investment manager unless:
    - a. Waived by the IAC in writing, and
    - b. The investment manager is country specialist.
  - A maximum of 10% ownership of shares outstanding of a single stock.

Prohibitions:

1. None

Exceptions:

1. None

Investments and activities that are not expressly prohibited in this appendix are considered allowable by this Policy.

EXHIBIT 1

The Texas State University System  
Investment Manager and Broker/Dealer Certification

This certification is executed on behalf of \_\_\_\_\_ (the Investor) and \_\_\_\_\_ (the Investment Manager or Broker/Dealer) as required by The Texas State University System Investment Policy for Operating Funds and Endowment Funds (Investment Policy) in connection with investment transactions conducted between the Investor and the Investment Manager or Broker/Dealer.

The undersigned Qualified Representative of the Investment Manager or Broker/Dealer hereby certifies that:

1. The Investment Manager or Broker/Dealer Qualified Representative is duly authorized to execute this Certification on behalf of the Investment Manager or Broker/Dealer, and
2. The Investment Manager or Broker/Dealer Qualified Representative has received and reviewed the Investment Policy furnished by the Investor, and
3. The Investment Manager or Broker/Dealer will act in accordance with the Investment Policy, and has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Investment Manager or Broker/Dealer and the Investor that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.
4. For Investment Managers only—a copy of the most recent ADV and ADV brochure has been provided to the Investor.

Investment Manager or Broker/Dealer Qualified Representative

Signature \_\_\_\_\_

Name (Printed) \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

## EXHIBIT 2

### Texas State University System Broker/Dealer Questionnaire

Name of Texas State University System Component

Firm:	
Date Established:	
Main Office:	
Representative:	
Primary Dealer:	
Qualified Historically Underutilized Business?	
Seat on the NYSE?	
Publicly Traded? Which Exchange?	
Member NASD?	
SIPC Insured?	
Equity Position:	
Annual Revenues:	
Agency Selling Group Memberships:	
Pertinent Rankings:	
Representative Public Sector Clients:	
Date of Investment Policy:	
Date Certification Received by Component:	