I. DEFINITIONS

Texas State University System (“TSUS”) refers to System Administration, Lamar University, Sam Houston State University, Sul Ross State University, Texas State University, Lamar Institute of Technology, Lamar State College-Orange, Lamar State College- Port Arthur, and Sul Ross State University Rio Grande College.

II. POLICY AND OBJECTIVES

It is the policy of TSUS to invest operating funds in applicable compliance with the Public Funds Investment Act (Texas Government Code Chapter 2256, the “Act”), and the “Prudent Person Standard” as defined by Texas Education Code §51.003(d) and described in Article VII, Section 11b of the Texas Constitution. Applicable sections of the Act are referenced in brackets throughout this Policy. The Operating Funds Investment Policy (“Policy”) of TSUS is designed to fulfill the following objectives:

- 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 long-term, intermediate-term, and short-term needs dictated by cash flow analyses of present and anticipated future financial requirements.

This Policy applies to the following operating funds held by TSUS:

- Current Funds (Unrestricted and Restricted);
- Loan Funds;
- Bond Funds;
- Plant Funds;
- Board-Designated Reserves held as Quasi-Endowment Funds (the principal of which may be utilized at the discretion of the Board of Regents); and
- Agency Funds applicable to the ongoing operations of TSUS.

These funds may be held in investments authorized by this Policy (based on liquidity needs or bond covenants) or in authorized depositories as required for day-to-day operations within any fund group. Funds held in banking institutions are also covered by the TSUS Depository Funds Policy. The Operating Funds Investment Policy is not applicable to private funds, including but not limited to Endowment Funds or Foundation Funds.

This Policy does not apply to investments donated to TSUS for a particular purpose or donated according to terms specified by a donor if those donated investments are outside the authorized within the Policy.

This Policy shall be reviewed and updated annually and presented to the Board for adoption by resolution [Government Code 2256.005]. Copies of the Policy will be forwarded on an annual
basis by each component investment officer to any entity (except TexPool) with which the component conducts investment transactions. Such entities will be required to acknowledge in writing receipt of the Policy and to attest that they have implemented reasonable procedures and internal controls to comply with provisions contained within the Policy. The Vice Chancellor for Finance will distribute the Policy to and obtain the acknowledgement from TexPool on behalf of the Texas State University System and its components and will do likewise for any entity, including investment advisors, conducting investment transactions on behalf of the System Office.

Funds covered under this Policy are classified as:

**Short Term Funds:** Funds needed to meet daily or short term operating requirements, usually held in an approved local government investment pool. These are funds meant to be used within the year and are typically invested in investments with maturities not to exceed twelve (12) months.

**Long Term Funds:** Operating funds that have not been needed in the past, and are not anticipated to be needed for a minimum of 12 months or more. They are typically invested in investments with maturities of more than twelve (12) months and less than seven (7) years.

**Bond Proceed Funds:** Bond proceeds and reserves may be invested in a manner consistent with the requirements and restrictions stated in the applicable Bond Covenants, but typically not longer than three years.

### III. DELEGATION OF AUTHORITY AND RESPONSIBILITY

#### Board of Regents

The TSUS 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 statutorily required to:

- designate Investment Officers, at least annually, review and adopt this Policy, at least annually, review and adopt a list of qualified broker/dealers authorized to engage in investment transactions with TSUS,
- at least quarterly, receive and review investment reports prepared in accordance with this Policy, and
- attend at least one training session as regards to Board responsibilities under the Act within six (6) months of assuming office as provided by the Higher Education Coordinating Board.

#### Investment Officers

The Chief Financial Officer (CFO) for System Administration and the CFO for each component are designated as Investment Officers for their respective entities by the Board. Additional Investment Officers may be designated by the Chancellor or President of the component.

Investment Officers are responsible for investment management decisions and activities and all transactions undertaken, including the hiring/firing of Investment Manager(s) recommended by the Investment Consultants, and Banking Relationships. No officer or designee may engage in an investment transaction except as provided under terms of this Policy. No Investment Officer or
employee of TSUS may accept anything of value from counter-parties or others in connection with investment transactions.

Each Investment Officer must attend five or more hours of investment training within six months of assuming the position and not less than once each state fiscal biennium. The Board acknowledges investment act training alternatives as designated by the Texas Higher Education Coordinating Board or the Texas Society of Certified Public Accountants (Texas CPA investment training continuing education units) as acceptable sources of complying with Section 2256.007(d) of the Public Funds Investment Act.

The Investment Officer of each component shall prepare a report on compliance with the training requirements and deliver the report to the Vice Chancellor for Finance by January 5th of every-numbered year. The Vice Chancellor for Finance will provide to the Board a summary report on compliance with the training requirements not later than the 180th day after the last day of each regular session of the legislature.

**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 component President or with the Chancellor if the applicable Investment Officer is the CFO for System Administration.

**Investment Consultant**

System Administration may contract with an Investment Consultant 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. 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 must acknowledge in writing that they are a fiduciary to the fund(s).

The Investment Consultant must certify to the receipt and review of this Policy and that it will act in accordance with the Policy; and it will provide the most recent copy of its Form ADV and ADV brochure as filed with the Securities and Exchange Commission to the CFO(s) for the component(s) that it advises.

The Investment Consultant’s responsibilities are to the System Administration and the components it advises. Additionally, the Investment Consultant will:

- Assist in the development and implementation of investment policies, objectives, and guidelines to submit to the Board for approval each November.
- Review Investment Managers, including search, selection, and recommendation to the Investment Officer.
- 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 managers, monitor those strategies,
and notify the Investment Officers of any significant changes in portfolio managers, litigation, or violation of securities regulations.

**Investment Manager(s)**

System Administration and the components may contract with an Investment Manager(s) registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq. A contract made under authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the governing body of the investing entity by order or resolution.

The Investment Manager(s) must certify to the receipt and review of this Policy; it will act in accordance with the Policy; and it will provide a copy of its most current Form ADV and ADV brochure as filed with the Securities and Exchange Commission to the CFO(s) for the component(s) that it advises.

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 for Investment Officers. The Investment Managers have the authority to make investment decisions for the purpose of placing orders to effect 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.

TSUS requests that all orders for transactions of account assets 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 from time to time and 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. The Investment Officers shall try to negotiate the contract without the use of these soft dollar arrangements. In the event that the soft dollar arrangements remain as part of the contract, the Investment Manager(s) will report to the Investment Consultant and the Investment Officers 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.

The use of soft dollars by an Investment Manager in the portfolio must be disclosed under the investment disclosure requirements section on the component’s webpage.

**Investment Custodians**

The Investment Custodians are responsible for the safekeeping of the Operating Fund’s assets. Their responsibilities are to:

- Provide timely and accurate reports detailing investment holdings, including:
  - statement of all securities and other assets held,
  - statement of all receipts, sales, redemptions, and principal payments,
  - statement of all distributions, expenses paid, purchases, and
  - 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.

IV. STANDARD OF CARE

The “Prudent Person standard” shall be the standard 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.

All investments shall be consistent with this Policy. The Investment Officer shall not be held personally liable for a specific security's credit risk or market value change as long as actions were in accordance with this Policy, unexpected deviations were reported to the component President and the CFO for System Administration in a timely manner, and all appropriate actions were taken to control adverse developments.

V. INSTITUTIONAL INVESTMENT PROCEDURES

The Investment Officer(s) of each component shall establish written procedures supporting this Policy and promoting internal control. The procedures shall be directed towards preventing loss of funds due to fraud, employee error, misrepresentation, or imprudent actions.

The Investment Officers of the components shall establish and maintain (a) written administrative procedures and guidelines in support of this Policy for their respective component, (b) distribution formulae/procedures for the funds, and (c) internal controls in support of this Policy.

All components shall incorporate the following specific controls, as further defined by this Policy, into their operating procedures.

- all securities will be settled delivery versus payment (DVP) into the component’s depository or custodian bank,
- no securities will be safe-kept with a broker/dealer,
- operating funds cash flow will be reviewed at a high level 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,
- 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 monthly, and
· all transactions will have dual control and/or oversight and separation of responsibilities.

VI. INVESTMENT STRATEGIES AND OBJECTIVES

Operating funds may be commingled at each component for investment purposes but will address the unique characteristics and needs of each fund group and classification of funds represented in the portfolio. Operating funds are constricted by expenditure plans and can serve a fiscal year or multiple year purposes.

The investment strategy for current operating, loan, plant, quasi-endowment, and agency 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.

Funds are normally invested as follows:

**Operating Funds.**
These are funds needed to meet daily or short term operating requirements. These funds are meant to be used within the year and are typically invested in investments with maturities of less than twelve (12) months.

**Non-Operating Funds.**
Funds that are not anticipated to be needed for a minimum of 12 months or more. They are typically invested in investments with maturities of more than twelve (12) months and less than seven (7) years.

A. The investment strategy for debt service funds shall have as its primary objective the assurance of available funds adequate to fund the debt service obligations on a timely basis. Two consecutive principal and interest payments must be held liquid at all times. The investment strategy for reserve funds shall have as its primary objective the ability to generate a revenue stream from high quality securities with a low degree of volatility. The potential for loss shall be further controlled through the purchase of securities within the specified maturity range dependent on use. Bond proceeds and reserves may be invested in a manner consistent with the requirements and restrictions stated in the applicable Bond Covenants.

B. The investment strategy for capital projects or capital project funds will have as its primary objective assurance that anticipated cash flows are matched and provide adequate investment liquidity. At least 10% total liquidity is planned to provide flexibility and for unanticipated project outlays. The stated final maturity dates of securities held shall be based on the project completion date, but typically may not exceed three years.

The intention is to match investments with projected cash flow and liquidity needs. TSUS may pursue an active versus 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 Investment Officer and/or Investment Consultant will continuously monitor the contents of the portfolio, the available markets, and the relative value of all authorized, competing instruments to adjust the portfolio in response to market conditions.
VII. AUTHORIZED INVESTMENTS

A. OPERATING CASH FUNDS (Short Term Investments):

1. Obligations of the US Government, or its agencies and instrumentalities, direct obligations of this state or its agencies and instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or an instrumentality of the United States, other obligations the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality or nationally recognized investment rating firm not less than Investment Grade A- or its equivalent, and bonds issued, assumed, or guaranteed by the State of Israel. This includes collateralized mortgage obligations and excludes letters of credit with a maximum stated final maturity of five (5) years. Collateralized mortgage obligations may have a stated final maturity of ten years but an expected life of no more than five (5) years. The aggregate investment in all types of mortgage-backed securities shall not exceed 25% of the total portfolio.

2. Certificates of deposit issued by a state or national bank, a savings bank, or a state or federal credit union domiciled in this state, and guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor. The Certificate of Deposit must be secured by obligations that are consistent with section VII.A.1, including mortgage backed securities directly issued by a federal agency or instruments that have a market value of not less than the principal amount of the certificates, but excluding the mortgage backed securities listed in section IX.E, or secured in any other manner and amount provided by law for deposits of the investing entity. Maximum allowable stated maturity for certificates of deposit is 12 months Investments in Federally insured or collateralized certificates of deposit through Texas banks or through Texas broker-dealers shown in Section XII.B of this Policy, provided that they are acquired, under the terms of an executed collateral agreement in accordance with FIRREA, collateralized in compliance with this Policy, to include the CDARS program, and not to exceed 12 months to stated maturity.

3. Commercial paper with a stated final maturity not to exceed 270 days from the date of issuance rated A-1 or P-1 or equivalent by at least two nationally recognized rating agencies, or; Rated not less than A-1 or P-1 or an equivalent by one nationally recognized rating agency plus fully secured by an irrevocable letter of credit issued by a domestic bank.

4. Prime bankers acceptances must have a stated maturity of 270 days or fewer from the date of issuance, will be liquidated in full at maturity, and is eligible as collateral from a Federal Reserve Bank. Bank or bank holding company short-term obligations must be rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

5. Taxable or non-taxable governmental and municipal securities rated not less than Investment Grade A- or equivalent by at least one nationally recognized rating organization with a stated final maturity not to exceed three (3) years.

6. Corporate bonds, debentures, or similar debt obligations rated not less than Investment
Grade A- or equivalent by at least one nationally recognized investment rating organization, with a maximum stated final maturity of three (3) years.

7. SEC-registered, money market mutual funds which have as an investment objective the maintenance of a stable net asset value (NAV) of $1 for each share, and have a dollar-weighted average stated maturity of 90 days or fewer. The investing entity must be provided a prospectus and other documentation as required by the SEC. In the event of SEC rules changes impacting the NAV of $1 the NAV of $1 requirement for money market mutual funds is waived.

8. Constant dollar, Texas local government investment pools continuously rated AAA by at least one nationally recognized rating service and approved by resolution of the Board.

9. No load money market mutual funds which are registered with and regulated by the SEC, and have a dollar-weighted average stated maturity of less than three years, and must conform to the requirements of this Policy. Maximum aggregate position size of these mutual funds is 100% of the Average Monthly Fund Balance excluding the dollar amounts of funds held for bond proceeds, reserves, and debt service. Investment in the fund can not constitute 10% or more of the fund's total assets under management, and no fund can represent more than 40% of the Operating (Short Term) Fund portfolio.

10. Fully collateralized repurchase agreements with a defined termination date, secured by a combination of cash and obligations of the United States or its agencies and instrumentalities in accordance with this Policy, with securities purchased by or cash held by System Administration or the component, as applicable, to be pledged to System Administration or the component, as applicable, held in the name of System Administration or the component, as applicable, and deposited at the time the investment is made with System Administration or the component, as applicable, or with a third party selected and approved by the CFO for System Administration under the terms of a SIFMA Bond Market Master Repurchase Agreement, and placed through a primary government securities dealer, or a financial institution doing business in the state.

   The term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received through a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

   A flex repurchase agreement may be used for bond funds with a stated maturity not to exceed the anticipated expenditure plan of the funds.

11. Interest bearing accounts in banks doing business in Texas held for investment purposes only.

12. Cash management and fixed income funds sponsored by organizations exempt from federal income taxation under section 501(f), Internal Revenue Code of 1986 (26 U.S. C. Section 501(f)).

13. Eligible investment pools. Must be continuously rated not less than A or A- - or equivalent by at least one nationally recognized rating organization. An investment pool authorized by the Board must invest the funds it receives from TSUS as permitted by this Policy. An
investment pool may invest its funds in money market mutual funds to the extent permitted by this Policy. The weighted average maturity of the portfolio is limited to 60 days calculated using the reset date for variable rate notes ("VRNs") and 90 days or fewer using the final maturity date for VRNs with the maximum maturity for any individual security in the portfolio not exceeding 397 days for fixed rate securities and 24 months for VRNs.

14. A professionally managed portfolio of Bank Loans, Collateralized Loan Obligations (CLO’s) and/or other floating rate securities with a Fixed Spread to a benchmark rate (such as LIBOR) and rate resets periods of no more than 90 days. These securities must be rated no lower than A- or equivalent by at least one nationally recognized rating service and have a weighted average life of three (3) years or less. Asset-backed Securities other than CLO’s and Bank Loans must be backed by the full faith and credit of the US Government.

15. An entity is not required to liquidate investments that were authorized investments at time of purchase but have subsequently had a reduction of rating below the minimum. In cases where liquidation is desired, the CFO (or designee) for System Administration will monitor rating changes in investments acquired with public funds and will work with component CFOs (or designee) to develop prudent measures consistent with this Policy to liquidate an investment that does not meet the minimum rating requirements.

B. NON-OPERATING FUNDS (Long Term):

This section applies to Components with total Operating Funds (Short Term and Long Term) greater than $75 million. Components that do not meet this requirement are advised to invest their Non-Operating Funds according to the authorized investments listed in VII (A).

Investments made by TSUS components are restricted to the following list for non-operating funds. No change to the authorized list can be made until this Policy is reviewed, amended, and adopted by the Board.

Policy ratings and diversification requirements must be met at time of purchase. Changes in portfolio size or cash flow may alter these percentages during the life of the investment. If authorizations change on investments held or investments lose their minimum rating requirements, they are not required to be immediately liquidated. However, prudent measures including a review will be taken, consistent with the Investment Policy, to manage these investments and decide on final disposition. Managers are required to contact the Investment Officer and/or Investment Consultant whenever a security held in the portfolio drops outside the authorized investment parameters.

The target asset allocation of the operating fund is expected to be diversified by asset class and style. The following list of authorized investments shall be used as part of the overall asset allocation. The fixed income portfolio is expected to have duration of +/- 25% of the effective duration of the benchmark index.

Fixed Income:

1. Obligations of the US Government or its agencies and instrumentalities, including mortgage backed securities and excluding letters of credit. Only collateralized mortgage obligations (CMOs) backed by pools of mortgages guaranteed by the full faith and credit of the U.S. Government or an agency thereof will be used.
2. Federally insured or collateralized certificates with banks doing business in Texas, under the terms of an executed collateral agreement, in accordance with FIRREA, collateralized in accordance with this Policy.

3. The CDARS program through a Texas bank, not to exceed thirty-six (36) months to stated maturity.

4. Negotiable certificates of deposit issued by a bank within a holding company with a commercial paper rating of A1/P1 or equivalent by two nationally recognized credit rating agencies or an S&L in two highest rating categories by a recognized rating agency with a maximum maturity of twenty-four (24) months.

5. Commercial Paper rated A1/P1 or equivalent by two nationally recognized rating agencies and a stated final maturity no longer than 270 days.

6. Taxable or non-taxable governmental and municipal (state and local) securities rated not less than A- or equivalent by two nationally recognized rating organizations. Split rated securities will be governed by the lower rating. No more than 20% of the portfolio may be invested in SEC Registered, US Dollar denominated, and US Government backed securities issued by foreign governments (Brady Bonds). No investments are allowed in foreign currency denominated government bonds, any type of foreign corporate bonds (including both US Dollar denominated securities, referred to as Yankee Bonds, and foreign ordinary bonds) or any other foreign securities are not expressly allowed.

7. a) Domestic Fixed Income Core Managers, defined as managers benchmarked against the Barclay’s Aggregate Index: Domestic Investment Grade Corporate Bonds, shall maintain an Investment Grade average A- with no more than 20% of the portfolio invested below investment grade. Non-rated paper will be considered to carry the rating of similar bond issues by the same issuer, if other issues have ratings. The fixed income portfolio may not have more than 40% in corporate bonds with no more than 10% of the corporate bond portfolio invested in a single issuer, and with not more than 5% invested in a single issue. The corporate bond allocation shall be well diversified with no more than 25% of this corporate sector invested in any one economic sector.

b) Domestic Fixed Income Managers, defined as Corporate Only bond portfolios, or Government and Corporate portfolios NOT benchmarked against the Barclay’s Aggregate Index: Domestic Investment Grade Corporate Bonds, shall maintain an Investment Grade average A- with no more than 20% of the Non-Operating (Longer Term) portfolio invested below investment grade. Non-rated paper will be considered to carry the rating of similar bond issues by the same issuer, if other issues have ratings. The Non-Operating (Longer Term) fixed income portfolio may not have more than 10% invested in a single non-government or government backed agency issuer, and with not more than 5% invested in a single issue. The corporate bond allocation shall be well-diversified with no more than 25% of the corporate sector invested in any one economic sector.

c) Global Fixed Income Core Managers, defined as managers investing in U.S. and non-U.S. bonds benchmarked against the Barclay’s Global Aggregate Index or other equivalent diversified Global Bond Index: Domestic Investment Grade Corporate Bonds, shall maintain a minimum credit quality of Investment Grade A-. The fixed income portfolio may not have more than 10% invested in a single non-government or government backed agency issuer, and with not more than 5% invested in a single issue. The portfolio may be invested in SEC.
Registered, US Dollar denominated, and US Government backed securities issued by foreign governments (Brady Bonds). Investments in foreign currency denominated government and corporate bonds are allowed for Developed Country Bonds only (defined as EAFE Countries only). Foreign corporate bonds from non-EAFE countries are permissible so long as they are US Dollar denominated securities, referred to as Yankee Bonds. The corporate bond allocation shall be well diversified by Country and economic sector, with no more than 40% in a non-US country, and no more than 25% of the corporate sector invested in any one economic sector. The Global Bond allocation may not exceed 20% of the total Non-Operating (Long Term) portfolio.

8. Fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f)).

9. SEC-registered money market mutual funds which have as an investment objective the maintenance of a stable net asset value (NAV) of $1 for each share. In the event of SEC rule changes impacting the NAV of $1, the NAV $1 requirement for money market mutual funds is waived.

10. No-load, SEC registered, ultra-short, short and intermediate, fixed income mutual funds invested in obligations approved by this Policy. No Mutual Fund will comprise more than 40% of the Fixed Income portion of the portfolio.

11. Fully collateralized repurchase agreements with a defined termination date, secured by obligations of the United States or its agencies and instrumentalities, under the terms of a SIFMA Bond Market Master Repurchase Agreement, and placed through a primary government securities dealer.

12. REITS that have fixed income-like characteristics.

13. Commercial Backed securities and Asset Backed securities are allowable investments as long as they meet the quality requirements of this section, and cannot exceed 20% of the fixed income portfolio.

14. Bank Loans, Collateralized Loan Obligations (CLO’s) and other floating rate securities with a Fixed Spread to a benchmark rate (such as LIBOR) and rate resets periods of no more than 90 days. A portfolio of these securities must maintain an Investment Grade A- average.

15. MLPs that have fixed income-like characteristics.

16. Use of derivatives is allowed as long as the investment (as structured) does not expose the operating fund to risk of loss outside the actual invested amount.

**Equity:**

NOTE: Components must retain an Investment Consultant to invest in Equity and Equity Like investments as described below. Agency Funds and Bond Funds may not be invested in Equity and Equity Like investments.

17. Equity Securities: Permissible investments in equity securities are as follows:

   a. Common and Preferred Stock of domestic corporations with a market capitalization of at least $250 million at time of purchase,
b. REITS that have equity-like characteristics,
c. Invest in only marketable securities,
d. No position in any one company to exceed 10% of the equity portfolio as measured at market values,
e. Include at a minimum 20 names per portfolio to provide adequate diversification,
f. No purchase shall cause a position in the portfolio to exceed 10% of the outstanding voting shares of the company or invest with the intent of controlling management,
g. Invest no more than 40% of the Equity portfolio in any one economic sector, or 2.5x the relevant benchmark sector weight, whichever is less,
h. International equities shall be limited to no more than 25% of the portfolio (excluding American Depository Receipts),
i. Maintain appropriate diversification with respect to currency and country exposure for international equities, and;
j. No-load, SEC registered, equity mutual funds invested in securities approved by this Policy. No Mutual Fund can comprise more than 40% of the Equity portion of the portfolio.
k. Equity funds sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f)).
l. Investment Managers may invest with managers who utilize derivatives, short sales, futures, options, private placements, limited partnerships, and otherwise prohibited investments and instruments as long as the investment (as structured) does not expose the Component to risk of loss outside the actual invested amount, and the investments are supervised by an investment manager (no direct purchases). Where possible, fund of funds (i.e., funds that invest in other funds), and pools are vehicles of choice for alternative investments as they can provide for more diversification and additional layers of oversight. These investments, in total cannot comprise more than 20% of the Component’s portfolio. Private Placements are allowed as long as the Component meets regulatory qualifications and no single issuer can represent more than 10% of the portfolio, with no single issue representing more than 5% of the portfolio.

Other:

18. Hybrid Securities, such as but not limited to Convertible Securities, REITs, and MLPs which can exhibit equity or fixed income characteristics (or both) will be characterized as Equity (or Equity Like) or Fixed Income (or Fixed Income Like) based on the characteristics of the portfolio, including standard deviation (for risk) and expected return.

19. Investment Managers with oversight responsibilities over Other Investments may invest with managers who utilize derivatives, short sales, futures, options, private placements, limited partnerships, and otherwise prohibited investments and instruments as long as the investment (as structured) does not expose the Component to risk of loss outside the actual invested amount, and the investments are supervised by an investment manager (no direct purchases). Where possible, fund of funds (i.e., funds that invest in other funds), and pools are vehicles of choice for alternative investments as they can provide for more diversification and additional layers of oversight. These investments, in total cannot comprise more than 20% of the Component’s portfolio. Private Placements are allowed as long as the Component meets regulatory qualifications and no single issuer can represent more than 10% of the portfolio, with no single issue representing more than 5% of the portfolio.

VIII. DIVERSIFICATION

Investment Officers shall diversify the portfolio(s) by asset classes, maturity, and market sector to minimize market risks and align with the liquidity needs of their institution. Liquidity should be
assessed on an ongoing basis to address the diversification needs of the Component.

TSUS recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. This risk is controlled through portfolio diversification.

Diversification shall be considered within major market sectors so that various industries, maturities, markets, domestic and international factors are considered within the portfolio.

A. OPERATING FUNDS

The allocation ranges for the Operating Funds Portfolio are as follows:

<table>
<thead>
<tr>
<th>Allocation Range</th>
<th>0-100%</th>
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<tbody>
<tr>
<td>US Treasuries</td>
<td></td>
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<tr>
<td>US Agencies and Instrumentalities</td>
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<tr>
<td>Mortgage backed securities</td>
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<tr>
<td>Certificates of Deposit</td>
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<tr>
<td>Repurchase Agreements</td>
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<td>Flex per bond issue</td>
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<td>Local Government Investment Pools</td>
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<tr>
<td>Money Market Funds</td>
<td>0-100%</td>
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<tr>
<td>Ownership in the fund</td>
<td>maximum 10%</td>
</tr>
<tr>
<td>Ownership in one fund in portfolio</td>
<td>maximum 40%</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>0-100%</td>
</tr>
<tr>
<td>Bankers acceptances</td>
<td>0-100%</td>
</tr>
<tr>
<td>Municipal debt</td>
<td>0-100%</td>
</tr>
<tr>
<td>Corporate debt</td>
<td>0-100%</td>
</tr>
<tr>
<td>Collateralized Loan Obligations</td>
<td>0-40%</td>
</tr>
<tr>
<td>No Load Bond mutual funds</td>
<td>0-60%</td>
</tr>
<tr>
<td>Ownership in fund</td>
<td>maximum 10%</td>
</tr>
<tr>
<td>Ownership in one fund in portfolio</td>
<td>maximum 40%</td>
</tr>
</tbody>
</table>

Operating Funds Liquidity Construction
A minimum of 25% of the Operating Funds should be invested in securities that are available on a daily liquidity basis to meet short term needs.

B. NON-OPERATING FUNDS

The allocation ranges for the Non-Operating Funds Portfolio are as follows:

<table>
<thead>
<tr>
<th>Allocation Range</th>
<th>0-50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity &amp; Equity-Like</td>
<td></td>
</tr>
<tr>
<td>Fixed Income and Fixed Income-Like</td>
<td>50-100%</td>
</tr>
</tbody>
</table>

Non-Operating Funds Liquidity Construction
A maximum of 50% of the total Operating Funds (Short Term and Long Term) should be invested in Non-Operating Fund investments.
IX. PROHIBITED INVESTMENTS AND ACTIVITIES

The following are unauthorized transactions and securities for TSUS. Any change in this list shall require amendment of this Policy and adoption by the Board.

A. TSUS may not purchase or sell financial futures, options, interest rate swaps, or forward rate agreements.

B. TSUS may not engage in adjusted trading or short sales.

C. TSUS may not purchase residual interests in CMOs/REMICs, mortgages serving rights, commercial mortgage backed securities, or small business related securities (excluding Small Business Administration debentures). Specific securities that may not be purchased are:
   1. inverse CMO floaters
   2. principal only CMOs
   3. interest only CMOs

D. TSUS may not purchase 144-A or other private placement securities not registered with the SEC.

E. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bear no interest; collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

X. SAFEKEEPING

All securities, including collateral bought under a repurchase agreement, but excluding investment pool funds, certificates of deposit, and mutual funds, shall be settled on a delivery versus payment (DVP) basis. All securities shall be held by System Administration’s or the component’s depository bank, as applicable, or an independent third party custodian approved by the State of Texas. All securities will be held in the name of System Administration or the component, as applicable. No broker/dealer shall be used for safekeeping purposes.

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

XI. COLLATERALIZATION

All time and demand deposits in financial institutions shall be fully collateralized on balances in excess of federal insurance in accordance with the TSUS Depository Funds Policy. Depository agreements shall be executed in accordance with the Financial Institutions Resource, Recovery and Enforcement Act (FIRREA) which requires a written agreement and a resolution from the Bank Board or Bank Loan Committee.
In order to anticipate market price changes and provide additional security for all funds, the collateralization level will be maintained and monitored, at a minimum, at 102% of the value of principal and accrued interest. The pledging institution shall be contractually liable for monitoring and maintaining this margin daily.

Collateral pledged to secure deposits shall be held in the name of System Administration or the component, as applicable, by an independent financial institution outside the holding company of the depository in accordance with a safekeeping agreement signed by authorized representatives of System Administration or the component, as applicable, the depository, and the custodian. A collateral safekeeping trust statement must be issued to the component no less than monthly. All collateral shall be subject to inspection and audit by TSUS or its independent auditors.

**Authorized Collateral**
The following securities are the only authorized collateral for time and demand deposits:

A. FDIC insurance coverage.

B. Obligations of the United States, its agencies or instrumentalities, or other evidence of indebtedness of the United States guaranteed as to principal and interest, including MBS which pass the bank (volatility) test and are eligible as collateral with the Federal Reserve.

C. Obligations, the principal and interest on which, are guaranteed or insured by the State of Texas or Texas political subdivisions having been rated no less than “A” or its equivalent) by two nationally recognized rating agencies.

D. Obligations of any state or of a county, city or other political subdivision of a state having been rated no less than “A” (or its equivalent) by at least one nationally recognized rating agency.

In accordance with the Depository Funds Policy, if a depository offers 'pooled collateral' as a collateral alternative, the Investment Officer shall evaluate the risk and cost of the program and provide that information to the CFO for System Administration for possible approval by the Board.

**XII. AUTHORIZED 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 competitive bidding by at least three broker/dealers.

B. An "Authorized Broker/Dealer List" of financial institutions and broker/dealers authorized to do business with TSUS shall be compiled and maintained by the CFO for System Administration. All Investment Officers who invest directly will utilize the authorized list. The CFO for System Administration will provide an official list to component Investment Officers.

C. Authorized broker/dealers will be required to conform with compliance requirements and procedures established by the CFO for System Administration to include the following:
- brokers/dealers must complete a questionnaire 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: A written copy of this Policy shall be presented to any firm or person seeking to engage in an Operating investment transaction with TSUS. This includes business organizations, brokers/dealers, and banks.

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.

E. The Qualified Representative of the business organization or the broker offering to engage in an investment transaction shall certify in writing substantially to the effect that the registered principal or broker has:

1. received and reviewed this Policy and
2. acknowledged that the business organization has implemented reasonable procedures and controls in an effort 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.

Investment Officers may not acquire or otherwise obtain any investment from a person, bank or firm that has not delivered to the CFO for System Administration this certification as confirmed by the CFO for System Administration.

XIII. INVESTMENT REPORTING AND MONITORING

A. Investment Officers shall cause to be prepared and review a written report of investment transactions for all investments not less than quarterly. The report is to be submitted to the CFO for System Administration or designee and any respective component President by the end of the next month following the end of each quarter.

Component investment reports and a consolidated report (compiled by the CFO for System Administration or designee) shall be submitted to the Board through the Finance and Audit Committee in the format prescribed by Sec. 2256.023 of the Public Funds Investment Act, the General Appropriations Act, and requirements promulgated by other oversight agencies.

The reports must:

1. describe in detail the investment position of the component on the date of the report;
2. be prepared jointly by all investment officer(s) of the component;
3. be signed by each investment officer(s) of the component;
4. contain a summary statement of each pooled fund group that states the:
   (a) beginning market value (defined as trade date with accruals) for the
(b) ending market value (defined as trade date with accruals) for the period; and
(c) fully accrued interest for the reporting period;
5. state the book value and market value of each separately invested asset at the end of the reporting period categorized by the type of asset and fund type invested;
6. state the maturity date of each separately invested asset that has a maturity date (liquid positions will carry next day end dates);
7. state the account, fund or portfolio for which the investment was acquired; and
8. state the compliance of the investment portfolio of the component as it relates to:
   (a) the investment strategy expressed in this Policy; and
   (b) relevant provisions of the Act.
9. state the performance investment return in comparison to the established benchmarks as established by this Policy. 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.
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.

Market prices are to be obtained from an independent, published source such as the Wall Street Journal, a custodian bank, and/or through a contractual arrangement with a pricing service. MBS prices are not to be obtained from broker/dealers having sold TSUS the MBS.

XIV. BENCHMARKS

The performance of each TSUS component will be measured against a customized blended index. The index will be developed and reviewed each November by a committee of three TSUS Investment Officers or their appointed representatives in consultation with the Investment Consultant. 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 component’s procedures and included on all monthly and quarterly reporting as a benchmark for these investments.

XV. AUDITS

A. TSUS shall have a compliance audit of management controls on investments and adherence to the Public Funds Investment Act and this Policy at least once every two years. The audit shall be performed by the Office of Audits & Analysis or by a private auditor and the results of the audit shall be reported to the Board and the State Auditor not later than January 1 of each even-numbered year.

B. If a component invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit or money market accounts, the reports prepared by the investment(s) officers shall be reviewed at least annually by an independent auditor, and the results reported to the Board.
XVI. INVESTMENT POLICY ADOPTION AND CERTIFICATION

This Policy shall be reviewed and adopted annually by the Board. The Policy adopted by the Board shall record any changes made to either the investment policy or investment strategies.