Texas State University System
Endowment Funds Investment Policy

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

Endowment funds represent private funds including, but not limited to, gifts of property, stock, and real assets, donated to TSUS to provide funding for scholarships, fellowships, professorships, academic chairs, and other uses as specified by the donors. 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.

This Endowment Funds Investment Policy (“Policy”) applies to endowment funds, including funds functioning as endowments held by TSUS and its components. Funds functioning as endowments (sometimes referred to as quasi-endowments) are used to report 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.

The endowment funds may be invested as authorized by this Policy and, for short periods, be placed in authorized TSUS depositories for the processing of receivables and disbursements.

This Policy is designed to fulfill the following objectives:
· 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 the endowment is to preserve the intergenerational equity of the endowment while providing an appropriate current spending policy. All endowment funds will be managed by the ‘prudent person standard.

Endowment funds should be invested to provide funding for scholarships, fellowships, professorships, academic chairs, and other uses as specified by donors. Investment of University funds for endowments shall be accomplished in accordance with the following principles:
· There are two primary investment objectives. One is to provide a continual and dependable cash payout, stable and preferably growing in real terms, after giving effect to inflation. The second is to cause the total value of the funds to appreciate, over time, exclusive of growth derived from donations.
· The cash payout requirement for endowment funds shall be consistent and continuous. Income must be sufficient to provide an adequate cash stream to support the programs for which the endowments were created. In addition, the corpus of the endowment accounts should appreciate to insure preservation of purchasing power, and also to satisfy the need for future growth in payouts.

· Endowment funds will be invested to meet these objectives by maximizing total return consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally, the investments shall be diversified to provide reasonable assurance that investment in a single security, a class of securities, or market sector will not have an excessive impact on the funds.

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 shall:

· designate Investment Officers by resolution,
· 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,
· and at least quarterly, receive and review investment reports prepared in accordance with this Policy.

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 the President of the component.

Investment Officers are responsible for investment management decisions and activities and all transactions undertaken.

Each Investment Officer must attend five 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.

Every Investment Officer shall disclose any personal or business relationship with any business organization engaging in an investment transaction with TSUS. An Investment Officer who is 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. For components, the disclosure shall be filed with the component President and the Board. For System Administration, the disclosure shall be filed with the Chancellor and the Board. No Investment Officer of TSUS may accept anything of value in connection with investment transactions.

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.

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.

**Investment Consultant**

System Administration and the components may contract with an Investment Consultant ("Consultant") registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) to provide for management of the endowment funds.

The Consultant must certify to the receipt and review of this Policy; it will act in accordance with this Policy; and it will provide a copy of its most current ADV and ADV brochure to the CFO for System Administration and 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 Consultant will:

- Assist in the development and implementation of investment policies, objectives, and guidelines to submit to the Board for approval each year,
- Prepare an asset allocation analysis and recommend an asset allocation strategy with respect to the Endowment’s objectives,
- Review Investment Managers, including search, selection, and recommendation to the Investment Officer,
- Prepare and present performance evaluation reports in accordance to established investment standards,
- Make recommendations as to mutual funds,
- Review contracts and fees for both current and proposed Investment Managers, and;
- Communicate investment policies and objectives to managers, monitoring those strategies, and notifying the Investment Officer 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). For the purpose of this Policy, mutual funds are not considered Investment Managers.

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 the most current ADV and ADV brochure to the Investment Officer 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 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).

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 soft dollar purchases shall be aggregated and a report provided to the Investment Officers on an annual basis.

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 Endowment 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,
  - statement of all income, and;
  - establish and maintain separate accounts for each Investment Manager of the Endowment, and;
- 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. Investment Officers 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 President and 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. If an institution does not have endowment funds, the requirements for written procedures do not apply.

System Administration and each component shall pursue an active portfolio management strategy for endowment funds. The Investment Officer and/or 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 Investment Officers.

All components shall incorporate the following specific controls for non-investment manager traded assets, as further defined by this Policy, into their operating procedures:

- all securities will be settled delivery versus payment (DVP) into the component’s designated depository or custodian bank,
- all transactions will be made on a competitive basis,
- no securities will be custodied or held for safekeeping with a broker/dealer,
- every transaction will be documented for accounting information, and security description,
- trade confirmations will be maintained as part of the audit trail,
- all transaction documentation will be completed within five business days of month end,
- an investment ledger will be maintained for reconciliation with the general ledger,
- 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 by the component, and
- all transactions will have dual control and/or oversight and separation of responsibilities.

All components shall incorporate the following specific controls for investment manager traded assets into their operating procedures:

- All securities must be maintained under a custodial agreement and
- All managers must create monthly statements.

VI. INVESTMENT STRATEGIES AND OBJECTIVES

The Endowment 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 to five year period) without undue exposure to risk. The Endowment is particularly risk-adverse to the probability of not meeting the total return goal. Liquidity must be considered and sufficient to meet the spending needs and expenses.

The total return goal can be achieved while assuming acceptable risk levels commensurate with “market volatility.” To achieve the total return goal, the endowment’s assets will be invested to generate appreciation and/or dividend and interest income.

The Portfolio is expected to endure into perpetuity. Inflation is a key component in the performance objective. The long-term risk of not investing in growth 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 lower the short-term volatility of the portfolio and provide income stability, especially during periods of weak or negative equity markets. Cash is not a strategic asset of the portfolio, but it is a residual to the investment process and used to meet short-term liquidity needs. Other asset classes are included to provide diversification and incremental total return.

The cash payout requirement for endowment funds is significant and continuous. The portfolio shall be diversified to diminish risks associated with particular securities, market sectors, or industries with an excessive impact on the funds.

VII. AUTHORIZED INVESTMENTS

NOTE: Components that retain an Investment Consultant to advise regarding the Component’s Endowments have additional investment options for Fixed Income and Equity and Other investments as articulated in paragraphs S and T.

Investments made by TSUS are restricted to the following list for endowment 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 Endowment whenever a security held in the portfolio drops outside the authorized investment parameters.

The target asset allocation of the Endowment 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:

NOTE: Components that retain an Investment Consultant to advise regarding the Component’s Endowments have additional investment options for Fixed Income investments as articulated in paragraph S.

A. Obligations of the US Government, 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.

B. Federally insured or collateralized certificates of deposit with banks doing business in Texas, under the terms of an executed collateral agreement, in accordance with FIRREA, collateralized in compliance with this Policy.

C. The CDARS program through a Texas bank, not to exceed twenty-four (24) months to stated maturity.

D. 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.
agencies or an S&L in two highest rating categories by a recognized rating agency with a maximum maturity of twenty-four (24) months.

E. Commercial paper rated A1/P1 or equivalent by two nationally recognized rating agencies and with a stated final maturity not to exceed 270 days.

F. Taxable or non-taxable governmental and municipal (state and local) securities rated not less than BBB (see Appendix B for comparative ratings for the other rating agencies) or equivalent by two nationally recognized rating organizations. Split rated securities will be governed by the lower rating.

G. With the exception of Global Fixed Income Managers, 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.

H. 1. Domestic Fixed Income Core Managers, defined as managers benchmarked against the Barclay’s Aggregate Index: Domestic Investment Grade Corporate Bonds, shall maintain a minimum quality of all fixed income securities in one of the four highest classifications of a major rating service (AAA, AA, A, BBB). 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.

2. 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 a minimum quality of all fixed income securities in one of the four highest classifications of a major rating service (AAA, AA, A, BBB). 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 corporate bond allocation shall be well diversified with no more than 25% of the corporate sector invested in any one economic sector.

3. 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 quality of all fixed income securities in one of the four highest classifications of a major rating service (AAA, AA, A, BBB). 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 Endowment portfolio.
I. 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)).

J. 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.

K. No-load, SEC registered, ultra-short, short and intermediate, fixed income mutual funds rated as three stars or better by Morningstar and invested exclusively in obligations approved by this Policy. For mutual funds with multiple classes, the highest rating share class for any of the classes will apply.

L. 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.

M. REITs that have fixed income-like characteristics.

N. 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.

Cash:

O. Cash management and ultra-short fixed income funds sponsored by organizations exempt from federal income taxation under the Internal Revenue Code of 1986 as amended (26 U.S.C., Section 501(f)) basically defined as the Commonfund.

P. Interest bearing accounts in banks doing business in Texas held for investment purposes and not exceeding the federal insurance of FDIC or its successor.

Equity:

NOTE: Components that retain an Investment Consultant to advise regarding the Component’s Endowments have additional investment options for and Equity and Other investments as articulated in paragraphs S and T.

Q. 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 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 ADRS),
i. Maintain appropriate diversification with respect to currency and country exposure for international equities, and;
j. No-load, SEC registered, equity mutual funds rated as three stars or better by Morningstar.
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)).

Other:

R. Hybrid Securities, such as but not limited to Convertible Securities and Real Estate Investment Trusts (REITS), 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. Hybrids class allocation will be determined based on the characterization by the investment committee and/or the consultant.

Components advised by an Independent Investment Consultant for Endowment Funds:

For Components that retain the services of an independent Investment Consultant with oversight responsibilities for Endowment funds investments, the following provisions will apply:

S. Fixed Income: Independent Investment Managers with oversight responsibilities of Fixed Income investments may invest no more than 20% of the Fixed Income portfolio in below Investment Grade securities. Non-rated paper will be considered to carry the rating of similar bond issues by the same issuer, if other issues have ratings. Use of derivatives is allowed as long as the investment (as structured) does not expose the Endowment to risk of loss outside the actual invested amount. Private Placements are allowed as long as the Endowment meets regulator qualifications and no single issuer can represent more than 10% of the portfolio, with no single issue representing more than 5% of the portfolio.

T. Equity and Other: Independent Investment Managers with oversight responsibilities over Equity and 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 Endowment is a qualified investor for the product, the investment (as structured) does not expose the Endowment 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, 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 Endowment. Private Placements are allowed as long as the Endowment 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. PROHIBITED INVESTMENTS AND ACTIVITIES

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

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

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

C. TSUS may not directly purchase any adjustable rate securities if tied to non-US interest rates or spread product.

D. TSUS may not purchase residual interests in CMOs/REMICs, mortgages service rights, commercial mortgage backed securities, or small business related securities (excluding Small Business Administration debentures).

E. MBS securities may not be purchased if they are structured as inverse MBS floaters, principal only MBS, or interest only MBS.

F. TSUS may not purchase 144A or other private placement securities not registered with the SEC except in cases where the component has procured the services of an independent Investment Consultant.

IX. DIVERSIFICATION AND ASSET ALLOCATION

Policy asset allocation is the most single important decision. A significant proportion of a portfolio investment behavior can be attributed to the asset classes/styles and the weighting of each asset class/style.

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. Investment Officer(s) shall diversify the portfolio(s) by market sector and maturity to minimize market risks.

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

Below is the asset class allocation range.

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>TARGET</th>
<th>ACCEPTABLE RANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equity and Equity Like</td>
<td>50%</td>
<td>20% – 65%</td>
</tr>
<tr>
<td>International Equity</td>
<td>10%</td>
<td>0% - 20%</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td><strong>60%</strong></td>
<td><strong>20% - 85%</strong></td>
</tr>
<tr>
<td>Domestic Fixed Income &amp; Fixed Income Like</td>
<td>35%</td>
<td>20% - 50%</td>
</tr>
<tr>
<td>Cash</td>
<td>5%</td>
<td>0%-20%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>
X. REBALANCING

Since asset allocation is the most critical component of the Endowment’s returns, it is desirable to review the Endowment’s holdings at least annually, more frequently if necessary to determine if rebalancing is necessary. Rebalancing should be done in the event any individual asset class falls outside the asset allocation range specified in this Policy. The appropriateness of this allocation will be reviewed annually.

XI. SAFEKEEPING

All securities, including collateral bought under a repurchase agreement, but excluding 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 banks, 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 receipt to System Administration or the component, as applicable, describing the specific instrument, coupon, maturity, par, CUSIP, and other pertinent information. The safekeeping receipt shall clearly identify ownership by TSUS.

All funds in time and demand deposits shall be restricted to Texas approved financial institutions and will be limited such that it will not exceed the insurance of the FDIC or its successors. The TSUS Depository Funds Policy applies to these time and demand deposits excluding reference in that policy to collateralization.

Authorized Collateral for Repurchase Agreements
The following securities are the only authorized collateral for repurchase agreements:

A. 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.

XII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

TSUS shall pursue an active portfolio management strategy for endowment funds. The Investment Officers and/or 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 Investment Officers. 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.

A. If a business organization (including investment pools and investment management firms under contract with an entity to invest or manage the entity’s investment portfolio) is not utilized, the transaction requires competitive bidding by at least three Board-authorized broker/dealers who have fulfilled all compliance requirements of this Policy.

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 comply with the following requirements and procedures established by the CFO for System Administration:

- broker/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 NetCapital Rule,"
- broker/dealers must be registered with FINRA (Financial Institutions Regulatory Authority),
- broker/dealers must be registered with the Texas Securities Commission, and
- broker/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 Endowment Investment transaction with TSUS. This includes 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 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 who has not delivered to 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 endowment funds 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.

This report will be consolidated into a system-wide summary report to be submitted to the Board through the Finance and Audit Committee in the format prescribed by CFO for System Administration.

The reports must:

1. be signed by the Investment Officer,
2. state the compliance of the portfolio to the investment strategy expressed in this Policy,
3. ending market values of the portfolio, including, at a minimum, ending market value of each asset class all on a trade date full accrual accounting basis,

4. actual net total portfolio return of the reporting quarter and the fiscal year to date which includes actual net market return for each asset class 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.

5. state a rate of return comparison to the established benchmarks of each asset class (indicate each benchmark that is used), and a weighted benchmark based on the asset allocation for the entire portfolio. The total portfolio benchmark should include the weights used to reflect that benchmark.

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 any MBS being priced.

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. The index will be developed by a committee of the CFOs on an annual basis for approval by the CFO for System Administration. 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. DEPOSITORY

Funds not invested in securities may be maintained in a separate account in the banking services depository of the component to accommodate collections and disbursements. Funds maintained in the depository may not exceed the insurance coverage of the FDIC, or its successor because endowment funds are not public funds and are not eligible for collateral coverage.

XVI. INVESTMENT POLICY ADOPTION AND CERTIFICATION

This Policy shall be reviewed and adopted annually by the Board.