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| Regulations of the University of North Texas System | Chapter 08<br>Fiscal Management |
| <b>08.2000 Investment of System Funds</b>           |                                 |

**08.2001**     **Regulation Statement.** This Regulation sets forth the rules for the investment of all System funds and funds held by the System in trust for others. All investments by the System will be made in accordance with Rule 10.100 of the Rules of the Board of Regents of the University of North Texas System and this System Regulation.

**08.2002**     **Application of Regulation.** This Regulation applies to the UNT System Administration and to all UNT Institutions.

**08.2003**     **Definitions.**

1. Authorized Broker/Dealers. “Authorized Broker/Dealers” means those entities that have been approved as provided herein.
2. Funds. “Funds” is defined by Government Code § 2256.002 and means public funds in the custody of a state agency or local government that:
  - a. are not required by law to be deposited in the state treasury; and
  - b. the investing entity has authority to invest.
3. Funds Subject to Board of Regents Control. “Funds Subject to Board of Regents Control” is defined by Texas Education Code § 51.002 and means:
  - a. student fees of all kinds;
  - b. charges for use of rooms and dormitories;
  - c. receipts from meals, cafes, and cafeterias;
  - d. fees on deposit refundable to students under certain conditions;
  - e. receipts from school athletic activities;
  - f. income from student publications and other student activities;
  - g. receipts from the sale of publication products and miscellaneous supplies and equipment;

- h. students' voluntary deposits of money for safekeeping;
  - i. all other fees and local or institutional funds arising out of and by virtue of the educational activities, research, or demonstrations carried on by the institution; and
  - j. donations and gifts to the institution.
4. Investment Officer. "Investment Officer" means the person(s) appointed by the Board pursuant to the Regents Rules, and any authorized designee.
  5. Managing Entity. "Managing Entity" means the entity holding and managing the investment of funds, and may include UNT System Administration, a UNT Institution, the University of North Texas Foundation, Inc. ("UNT Foundation"), the UNTHSC Foundation ("UNTHSC Foundation"), the University of North Texas at Dallas Foundation ("UNT at Dallas Foundation"), an external asset management firm, or Authorized Broker/Dealers.
  6. Prudent Person Standard. "Prudent Person Standard" is defined by Texas Education Code § 51.0031(d) and described in Article VII, Section 11b of the Texas Constitution, and means that standard of judgment and care that prudent investors, exercising reasonable care, skill, and caution, would acquire or retain in light of the purposes, terms, distribution requirements, and other circumstances of the fund then prevailing, taking into consideration the investment of all the assets of the fund rather than a single investment.
  7. System. "System" means, collectively, the University of North Texas System, University of North Texas System Administration, and UNT Institutions.
  8. UNT Institutions. "UNT Institutions" means University of North Texas, University of North Texas Health Science Center at Fort Worth, and University of North Texas at Dallas.

**08.2004 Authority and Governing Statutes.**

The System's authority to invest funds is established in the Public Funds Investment Act (Texas Government Code, Chapter 2256), Section 51.0031 of the Texas Education Code, and Rule 10.100 of the Rules of the Board of Regents of the University of North Texas System. This Regulation is promulgated in accordance with the Public Funds Investment Act, Section 51.0032 of the Texas Education Code, the Uniform Prudent Investor Act (Texas Property Code, Chapter 117), the Uniform Prudent Management of Institutional Funds Act (Texas Property Code, Chapter 163), and the Public Funds Collateral Act (Texas Government Code, Chapter 2257). Texas Education Code, Section 51.0032 requires a governing board to adopt a written investment policy, and the Public Funds Investment Act

requires a governing board to adopt a written investment policy and strategy, review the policy and strategy not less than annually, appoint an Investment Officer, and adopt internal controls to safeguard the System's funds. The Public Funds Collateral Act sets the standards for collateralization of public funds in Texas.

**08.2005 Investment of System Funds.**

System funds shall be invested according to the attached Exhibit A, the Investment Policy Statement.

**08.2006 UNT System Investment Advisory Committee.**

Members of the UNT System Investment Advisory Committee shall be the Vice Chancellor for Finance, the Associate Vice Chancellor for Treasury, and the chief financial officers from each UNT Institution. The UNT System Investment Advisory Committee shall have oversight of investments in the UNTS LTP and STP, and maintain an active role in advising Managing Entities. The Vice Chancellor for Finance or the Associate Vice Chancellor for Treasury shall represent the System Investment Advisory Committee for all approvals needed by a Managing Entity regarding the LTP.

**References and Cross-references:**

Public Funds Investment Act (Texas Government Code, Chapter 2256)

Texas Education Code, Chapter 51, Subchapter A (Section 51.001, et. seq.)

University of North Texas System Board of Regents Rule 10.100

Uniform Prudent Investor Act (Texas Property Code, Chapter 117)

Uniform Prudent Management of Institutional Funds Act (Texas Property Code, Chapter 163)

Public Funds Collateral Act (Texas Government Code, Chapter 2257)

Approved: August 16, 2012

Effective: August 16, 2012

Revised: May 16, 2013, August 15, 2013, December 5, 2013, August 21, 2014, October 16, 2014, November 20, 2015, November 18, 2016, May 19, 2017, \*Reapproved with no change August 10, 2018, February 15, 2019, August 14, 2020

Exhibit A

# The University of North Texas System **Investment Policy Statement**

## Adoption

This Investment Policy Statement (“IPS”) governs the investment and oversight of the Short-Term Pool (“STP”), as well as the legacy Intermediate Investment Pool (“IIP”) and Long-Term Pool (“LTP”). The IIP and LTP shall be combined and referred to hereafter as the Long-Term Pool (“LTP”) of the University of North Texas System (“Institution”).

This IPS governing the STP and LTP (or “Pools”) was revised and adopted by the Board of Regents (“Regents”) on February 15, 2019.

## Purpose of IPS

The purpose of the IPS is to outline the following general provisions affecting the Pools by:

- Assisting the Investment Advisory Committee (“Committee”) and Regents to fulfill their fiduciary responsibilities;
- Conveying the Pools’ purpose, investment objective, investment strategy and constraints;
- Establishing a decision-making framework to promote the effectiveness of Pools;
- Setting forth the role and responsibilities of the Committee, Regents, Discretionary Investment Advisor (“Advisor”) and other relevant parties.
- Intending for the Pools to be maintained in compliance with applicable regulations and laws as well as Rule 10.100 of the Rules of the Board of Regents of the Institution, and managed in accordance with the “Prudent Person Standard” as defined by Texas Education Code § 51.0031(d) and described in Article VII, Section 11b of the Texas Constitution.

## Statement of Purpose/Objectives

Short-Term Pool<sup>1</sup> (“STP”): Short-term working capital funds needed for daily liquidity requirements shall be held in the STP. The purpose and objective of the STP is to provide daily liquidity while meeting or exceeding the results of the Bloomberg Barclays US 1-3 Month T-bill index. Emphasis should be placed on safety of principal and liquidity.

Long-Term Pool (LTP): The LTP’s objective is to preserve the long-term purchasing power of assets when accounting for inflation and spending. The LTP’s purpose is to benefit the Institution’s long-term mission while prudently diversifying its assets.

Debt Proceeds: As funds borrowed for the purpose of covering anticipated capital spending needs, these funds should be available for daily liquidity and invested in a manner consistent with the applicable Bond Covenants. Emphasis should be placed on safety of principal and liquidity.

## Spending Policy

For the LTP, the Regents have established an annual spending policy equal to 2.5% of the LTP's rolling twenty quarter asset balance. Prior to twenty quarters of balances, the policy shall be equal to 3.75% of legacy LTP assets. Management reserves the right to request additional extraordinary distributions from the LTP if doing so is in the best long-term interests of the Institution.

## Investment Constraints

There are no explicit prohibitions against investing a portion of the Pools' assets in any asset class, investment strategy or investment manager structures, so long as the investment is;

- For the sole purpose of advancing the objective of the Pools;
- Appropriate given the Pools' investment strategy;
- Not in violation any of the Pools' liquidity constraints; and
- Intended to improve the Pools' aggregate investment strategy's expected risk-adjusted performance.

The Advisor intends to consider the explicit and implicit costs that may be incurred as a result of adding a new asset class, investment strategy, or investment manager structure and determine whether the merit of the investment justifies any applicable additional costs. Explicit costs include, but are not limited to, investment management fees, custody costs and additional audit expenses. Implicit costs include, but are not limited to, the cost of time and administrative resources that could be allocated elsewhere to improve the effectiveness of the Pools.

### Long-Term Pool (LTP) Constraints:

| <b>LTP Parameters:</b>                | <b>Lower Limit</b> | <b>Upper Limit</b> |
|---------------------------------------|--------------------|--------------------|
| Cash or Cash Equivalents              | 0%                 | 10%                |
| Global Public Fixed Income Securities | 10%                | 50%                |
| Global Public Equity Securities       | 20%                | 65%                |
| Real Assets <sup>1</sup>              | 5%                 | 15%                |
| Alternative Investments <sup>2</sup>  | 15%                | 35%                |

<sup>1</sup> *Real Assets* include real estate, commodity strategies, infrastructure assets and other intrinsically valuable assets.

<sup>2</sup> *Alternative Investments* include hedge funds, private markets asset classes and other investments that do not fall inside traditional or real asset categories.

#### Short-Term Pool (STP) Constraints<sup>i</sup>:

- All investments or investment vehicles must either provide daily liquidity, offer diversification, or reduce interest rate risk. All positions or vehicles must have maturities of one (1) year or less at the time of investment.
- No individual security may have a credit quality of less than A- or A-1 at the time of investment unless it is insured by the FDIC or otherwise guaranteed by the US Government or an agency or instrumentality of the US Government.
- No investment vehicle may have an average credit quality of less than AAA at the time of investment unless it is insured by the FDIC or otherwise guaranteed by the US Government or an agency or instrumentality of the US Government.
- The STP must maintain a weighted-average maturity of less than 180 days.
- All bank deposits of System funds shall be secured by pledged collateral with a market value equal to no less than 102% of the deposits plus accrued interest less an amount insured by the FDIC. Evidence of the pledged collateral shall be maintained by the Vice Chancellor for Finance. Eligible collateral must meet the requirements of the Public Funds Collateral Act or securities authorized by the Public Funds Investment Act. Repurchase agreements shall be documented by the Master Repurchase Agreement approved by The Bond Market (TBMA), or any other entity approved by the Finance Committee of the Board of Regents, noting the collateral pledged in each agreement. The use of a letter of credit issued to the System by the Federal Home Loan Bank may be considered by the System to meet the required bank depository collateral requirements. Collateral shall be reviewed monthly to assure the market value of the securities pledged equals or exceeds the related bank balances.
- The Board of Regents must annually review and adopt a list of broker/dealers qualified and authorized to engage in investment transactions with and for the System. All Authorized Broker/Dealers and investment management firms must supply a certification of having read and understood the investment rules, regulations, and policies applicable to the System and acknowledge that the business has implemented reasonable procedures and controls in an effort to comply.
- Where applicable, transactions should settle as Delivery Versus Payment (DVP)

#### **Investment Strategy**

The Committee acknowledges that the Pools' asset allocation strategies are likely to be the primary determinant of performance. The Pools' investment strategies involve diversifying among various asset

classes, investment strategies, and investment managers in order to pursue the Pools' investment objective(s) while complying with applicable constraints.

While reserving the right to take timely advantage of long-term investment opportunities as they present themselves, the Advisor will refrain from making dramatic shifts to the Pools' investment strategy based on short-term capital market expectations.

The Advisor intends to review and revise the target allocation of asset classes periodically to ensure the investment strategies remain consistent with the Pools' investment objectives. However, any change to the investment strategies shall remain consistent with the constraints of this IPS.

The Pools' allocations will be monitored on a periodic basis to determine whether rebalancing back to its target allocation is warranted. This rebalancing process is often to result in withdrawing from investments that have recently outperformed and/or adding to investments that have recently underperformed. Concerning periodic withdrawals (or contributions) that may be made to (or from) the Pools, partial rebalancing will generally have the objective of bringing the Pools closer to their target asset allocations.

The investment strategies will be illustrated by the Pools' target allocations, and will be detailed in a section of the Pools' periodic performance report. The target asset allocations illustrated in the most recent quarterly performance report will function as an appendix to this IPS.

In addition to achieving the investment objectives previously outlined in this IPS, the goal of the overall investment strategies is to meet or exceed (a risk-appropriate) benchmark over full market cycles. The benchmarks will constitute underlying market indices appropriate for each strategy, and its components will be illustrated in the periodic performance report provided by the Advisor. The Advisor may also use additional performance benchmarks including, but not limited to, broader and/or more specific benchmarks made up of multiple underlying indices, peer group comparisons to similar funds, inflation-adjusted absolute return benchmarks, or any other benchmark the Advisor, Committee or Regents believe will further the evaluation of the Pools' effectiveness.

### **Investment Manager Selection**

The Pools may allocate to investment managers through a variety of investment vehicles including, but not limited to separate accounts, mutual funds, commingled funds, or private partnerships.

The underlying investment managers selected for the Pools are intended to be selected with the care, skill and diligence that would be applied by a prudent person acting in a like capacity and knowledgeable about investing.

The Advisor will examine investment managers' investment objectives and processes; historical adherence to stated objectives and processes; depth of resources; quality of personnel; historical performance (including risk) versus various appropriate benchmarks; appropriateness of diversification; reasonableness of fees; and any other metric that may be material when evaluating investment managers' capabilities. The Advisor will use all available information and its best judgment when seeking to hire skillful investment managers. The Advisor may also select low cost, passively managed investment products where appropriate.

### **Investment Manager Evaluation and Oversight**

The Advisor will periodically review the performance of underlying investment managers. Investment manager performance will be evaluated against proper indices, peer group comparisons, and risk-adjusted performance metrics. Managers will also be evaluated against other metrics that may include but are not limited to expenses, consistency of strategy or style, or other qualitative factors.

Investment managers may be considered for possible termination if they fail to meet performance or other guidelines enumerated in the periodic performance report. The performance summary section of the most recent performance report, including managers and their various benchmarks, will serve as an appendix to this IPS. Since several studies have demonstrated that the vast majority of strong long-term performing investment managers suffer multi-year periods of underperformance, failure to meet performance or other qualitative guidelines will not automatically trigger a manager termination. The Advisor intends to use all known information and its best judgment to determine if and when terminating a manager is warranted. Events that may trigger a termination include but are not limited to illegal or unethical behavior on the part of the manager; failure to follow investment guidelines; turnover among key personnel; a change in investment style or strategy; insufficient infrastructure to keep pace with asset growth; significant increase in expenses or fees; higher conviction with a competing manager; and any other observation the Advisor deems may prevent the manager from carrying out its duties effectively. In addition, managers may be terminated at any time for any reason at the discretion of the Advisor.

### **Roles and Responsibilities**

The following is a summary of roles and responsibilities of various parties involved in overseeing or safeguarding the Pools' assets:

#### **Board of Regents**

- Provide guidance to Committee on the Pools' objectives.
- Empower the Vice Chancellor for Finance to select members to serve on the Committee.
- Review Committee's proposed changes to the IPS.

- Ratify Committee’s proposed changes to the IPS.
- Periodically request status reports from the Committee.
- Seek to avoid conflicts of interest.

#### Committee<sup>i</sup>

- Oversee the management of assets including the distribution of funds and the movement of funds between Pools.
- Act solely in the best interest of the Pools and its objectives.
- Determine investment objectives and constraints. Immediately communicate any revision in objectives or constraints to the Advisor.
- Set and revise the investment policy and receive approval from Regents.
- Select Advisor, custodians, and any other vendors required to administer the Pools.
- Review and evaluate investment results with the assistance of the Advisor.
- Should any Investment Officer have a personal business relationship with a business organization offering to engage in an investment transaction with the System, a statement shall be filed disclosing that personal business interest. This statement must be filed with the Texas Ethics Commission and the Board of Regents. A “personal business relationship” is defined in Chapter 2256.005(i) of the Public Funds Investment Act. In addition, annually each Investment Officer must confirm that no improper personal business relationships, as defined above, exist. The Vice Chancellor for Finance is responsible for collecting these confirmations and providing them to the Office of General Counsel for reporting to the Board.
- Each member of the Board of Regents and the System Investment Advisory Committee shall attend at least one training session within six months after taking office or assuming duties. The Texas Higher Education Coordinating Board will provide training for the Regents. All Investment Officers and members of the System Investment Advisory Committee must attend training not less than once in each fiscal biennium, and may receive training from any independent source approved by the Board of Regents. The Texas Higher Education Coordinating Board is an approved source for training. The Investment Officers must report the status of their training to the Board of Regents no later than the 180th day after the last day of each regular session of the legislature.

#### Advisor<sup>i</sup>

- Assist Committee in the development and periodic review of the investment policy.
- Manage the Pools’ strategy and assets within IPS constraints and periodically revise the investment strategy in order to seek to maximize the Pools’ long-term effectiveness.
- Select and terminate underlying investment managers.

- Periodically review Pools-related investment expenses to ensure they are competitive and appropriate. Take corrective action if they are not.
- Monitor aggregate and manager-level performance to ensure compliance with objectives.
- Provide the Committee with performance reporting and attribution updates.
- On a timely basis, notify the Committee if there are material developments with the investment strategy or any of the Pools' underlying investment managers.
- Produce performance reports at least quarterly for Committee review.
- Produce an annual performance report for the Board.

#### Investment Managers

- Manage assets in accordance with the guidelines and objectives outlined in prospectuses (mutual funds), investment agreements (commingled funds, private partnerships, etc.), or manager-specific investment guidelines (separate accounts).
- Exercise investment discretion to buy, manage, and sell assets held in the portfolios.
- Promptly vote proxies and related actions in a manner consistent with the long-term interest of the Pools.
- Communicate all organizational changes in a timely manner, including but not limited to ownership, organizational structure, financial condition, and professional staff.
- Seek "best price and execution" for transactions. Both explicit and implicit transactions costs should be considered.
- Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like portfolios with like aims in accordance and compliance with all applicable laws, rules, and regulations.

#### Custodian(s)

- Safeguard portfolio assets.
- Accurately value portfolio holdings.
- Execute buy/sell orders and cash transfers in a timely manner as directed by the Advisor.
- Collect all income and dividends owed to the Pools.
- Settle all transactions (buy-sell orders) initiated by separate account investment managers.

- Provide monthly reports that detail transactions, cash flows, securities values, and changes in the value of each security and the overall portfolio since the previous report.
- Provide all requested portfolio information to the Advisor, Committee or Regents in a timely manner.

### Evaluating and Selecting Service Providers

In carrying out the policies of this IPS, the Committee may rely on various service providers including, but not limited to, the Advisor, custodian, administrative services provider(s), and investment managers. Such service providers generally shall be evaluated and selected based on the following:

- Furthering the Purpose of the Pools in Cost-Effective Manner. Each service provider is intended to advance the purpose of the Pools, which is to meet the objectives previously stated in this IPS. The service providers shall be expected to deliver administratively efficient services and charge fees that are reasonable given the service(s) provided.
- Core Business Commitment and Expertise. Each service provider is intended to have a history of providing services to other similar portfolios and demonstrate an ongoing commitment to such business. Its employees should have a reputation among its clients for the quality of its services. The firm should show an appropriate knowledge of other applicable statutes and regulation.
- Fiduciary Status and Conflicts of Interest. To the extent required based on the services being provided to the Pools, the service provider shall acknowledge its role as a fiduciary to the Pools. Service providers are expected to disclose any potential conflicts of interest to the Advisor and Committee.

Investment management services provided by a Managing Entity (other than UNT System Administration or a UNT Institution) shall be administered only through a contractual agreement (“Investment Management Agreement”) with the System or an Institution. Authority to approve and sign Investment Management Agreements is delegated as follows: (i) on behalf of the Board, to the Chancellor; (ii) on behalf of the System, to the Chancellor or his/her designee; (iii) on behalf of a UNT Institution, to the Institution’s President or his/her designee.

### Other Funds

**Endowed Funds:** The objective of endowment investment is to meet the donor intent having a long-term horizon, unless otherwise specified. The long-term objective is to achieve a total annual return which covers the spend rate plus inflation, administrative costs, and investment management fees. The endowment corpus shall be invested in a diversified portfolio using reasonable care to provide on-going and dependable cash payout, while mitigating the impact of inflation.

- Authorized Investments. The System has identified four options for investing endowed funds:
  - The UNTS-LTP

- The UNT Foundation Endowment
- The UNTHSC Foundation Endowment
- The UNT at Dallas Foundation Endowment
- Endowment Policies. Each UNT Institution and the UNT System Administration shall adopt an Endowment Policy consistent with this Regulation and subject to Board approval that governs the type of endowments, acceptance of gifts, purpose and use of endowments, and distribution requirements of endowed funds.
- Asset Allocation. Each UNT Institution and the UNT System Administration shall select the investment portfolio option. The asset allocation and selection of the underlying assets within each portfolio shall be at the discretion of the Managing Entity; provided, however, that investment of any endowment funds must be pursuant to the Prudent Person Standard and within the guidelines established in this Regulation, the applicable UNT Institution Endowment Policy, and the Investment Management Agreement.
- Investment Objectives.
  - Appreciation
  - Current Income
  - Safety of Principal
  - Diversification
  - Liquidity

**Medical Professional Liability Self-Insurance Funds:** The total amount of reserve funds required for medical professional liability self-insurance shall be actuarially determined annually. These funds may be invested in any combination of the UNT System LTP, the UNT Health Science Center Foundation, or the UNT System Short Term Pool at the discretion of the UNT Health Science Center. In the event all or a portion of the self-insurance fund is converted to a quasi-endowment – subject to liquidation resulting from claims – the quasi-endowment may be invested in accordance with Endowed Funds (above). A separate accounting of the fund balance and transactions must be maintained and provided to the UNT System Board of Regents at least annually.

Investment Objectives.

- Preservation of Capital
- Appreciation
- Liquidity

**Voting of Proxies**

For separately managed accounts, if applicable, investment managers will be expected to vote proxies in the best interest of the Pools. When applicable, mutual fund proxies are intended to be voted in the best interest of the Pools.

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<sup>1</sup> Unlike the LTP, the STP's management, rebalancing and full oversight will remain the sole responsibility of the Investment Committee and/or Regents. However, the Advisor will provide performance reports for all Pools.