

Regulations of the University of North Texas System	Chapter 08 Fiscal Management
08.2000 Investment of System Funds	

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 University of North Texas Health Science Center at Fort Worth, Texas College of Osteopathic Medicine Foundation, Inc. ("UNTHSC Foundation"), the University of North Texas at Dallas Foundation ("UNT at Dallas Foundation"), 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.**

1. Investment Strategy. The cash management objective for the System is to retain appropriate liquidity to meet daily operating demands and Commercial Paper self-liquidity coverage requirements while seeking higher yield on cash reserves through an appropriately diversified investment portfolio. All Funds Subject to Board of Regents Control shall be invested pursuant to a Prudent Person Standard. All System endowment funds shall be invested pursuant to a Prudent Person Standard. All UNTHSC medical professional liability self-insurance plan funds shall be invested pursuant to a Prudent Person Standard. All other System Funds shall be deposited in an approved depository bank, invested pursuant to the Public Funds Investment Act, or deposited in the State Treasury as prescribed by Texas Education Code § 51.008.

2. Short Term Pool (STP). Short term working capital funds are needed for daily liquidity requirements and thus shall generally be held in accounts or investments providing daily liquidity. No investments held in the STP will have a maturity date greater than thirty (30) days from the settlement date and the pool shall have a maximum weighted average maturity of seven days. System-wide, the combined balances that comprise the STP should be no less than 10% and no more than 20% of the sum total of all three investment pools. Consideration will be given to credit and liquidity risks when determining the diversification of accounts and investments.
 - a. Authorized Investments.
 - i. fully collateralized repurchase agreements or demand accounts deposited with an approved depository institution;
 - ii. money market mutual fund;
 - iii. approved Local Government Investment Pools;
 - iv. certificates of deposit guaranteed by the FDIC or properly collateralized;
 - v. commercial paper that is rated not less than A-1 or P-1 by a nationally recognized investment rating firm (no issuer in this category may constitute more than ten percent of the Short Term Pool balance).

 - b. Self-Liquidity. In accordance with System self-liquidity coverage, UNT Institutions shall maintain a combined balance in the Short Term Pool (net

of bond proceeds) and the Intermediate Investment Pool, of at least 1.2x the amount of outstanding debt issued through the System commercial paper program.

c. Investment Objectives.

- i. Safety of Principal
- ii. Liquidity
- iii. Current Income
- iv. Appreciation
- v. Diversification

3. Intermediate Investment Pool. Excess cash that may on occasion be needed for liquidity purposes shall be invested in the Intermediate Investment Pool ("IIP"). The objective of this pool is to put dormant cash to work in higher yielding investments than the STP while still prioritizing safety of principal and liquidity. Investments in this pool shall not have a maturity date that exceeds five (5) years and the maximum duration of the pool shall not exceed two and one-half (2 ½) years. The balance in this pool should generally be at least 30% but not more than 65% of the sum total of all three investment pools. It is understood that fluctuations in market value and the timing of cash flows can cause temporary swings in these percentages that might exceed the established boundaries.

a. Authorized Investments. Investments in the IIP may be invested in any authorized vehicle available to the Short-Term Pool plus the following:

- i. Bond mutual fund;
- ii. Certificates of deposit guaranteed by the FDIC or properly collateralized;
- iii. Obligations of the United States, its agencies, states, counties, cities, and any other subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than AA or its equivalent

b. Portfolio Asset Allocation. The IIP shall allocate its investments in such a way that liquidity may be accessed within three days, if needed. In addition, no individual issuer other than the United States government shall represent more than 10% of the IIP balance.

c. Portfolio Asset Selection. Selection of the underlying assets within each portfolio shall remain the discretion of the Managing Entity, within the guidelines established in the portfolio asset allocation set forth above and the investment management contract.

d. Investment Objectives.

- i. Safety of principal

- ii. Liquidity
- iii. Current Income
- iv. Appreciation
- v. Diversification

4. Long Term Investment Pool. Long term cash reserves shall generally constitute at least 25% but not more than 50% of the sum total of all three investment pools. It is understood that fluctuations in market value and the timing of cash flows can cause temporary swings in these percentages that might exceed the established boundaries.

- a. Authorized Investments. The investment vehicle for Long Term Pool cash reserves shall be the UNT System Long Term Pool (“UNTS-LTP”). The UNTS-LTP shall be held and invested pursuant to a Prudent Person Standard.
- b. Portfolio Asset Allocation. The UNTS-LTP portfolio asset allocation shall be monitored on an ongoing basis, maintained within the tactical range shown below, and reviewed no less than quarterly in connection with the required quarterly report to the Board of Regents.

	Strategic Target Policy Allocation	Tactical Range
Growth Assets	60%	50 – 70%
Risk Reduction Assets	30%	20 – 40%
Inflation Protection Assets	10%	5 – 15%

The Managing Entity, by and through its investment manager, will be responsible for monitoring the UNTS-LTP’s strategic target policy allocation and tactical range. The Managing Entity and its investment manager may make allocation changes within the tactical ranges shown above as warranted under a Prudent Person Standard. Any allocation changes that would exceed the tactical ranges must be pre-approved by the System Investment Advisory Committee.

- c. Portfolio Asset Selection. Selection of the underlying assets within each portfolio shall remain the discretion of the Managing Entity, within the guidelines established in the portfolio asset allocation set forth above and the investment management contract.
- d. 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 IIP, and maintain an active role in advising Managing Entities. The Vice Chancellor for Finance shall represent the System Investment Advisory Committee for all approvals that may be necessary or advisable in connection with the UNTS-LTP to provide to a Managing Entity.

- e. Investment Objectives.
 - i. Appreciation
 - ii. Current Income
 - iii. Diversification
 - iv. Liquidity
 - v. Safety of Principal
5. Bond Proceeds. Bond proceeds and reserves may be invested in a manner consistent with the requirements and restrictions stated in the applicable Bond Covenants.
- a. Investment Objectives.
 - i. Safety of Principal
 - ii. Liquidity
 - iii. Current Income
 - iv. Appreciation
6. Endowed Funds. The endowment corpus shall be invested in a diversified portfolio using reasonable care to ensure earnings are sufficient to provide on-going payout while mitigating the impact of inflation.
- a. Authorized Investments. The System has identified four options for investing endowed funds:
 - i. The UNTS-LTP
 - ii. The UNT Foundation Endowment
 - iii. The UNTHSC Foundation Endowment
 - iv. The UNT at Dallas Foundation Endowment
 - b. 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.
 - c. 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.

- d. Investment Objectives.
 - i. Appreciation
 - ii. Current Income
 - iii. Safety of Principal
 - iv. Diversification
 - v. Liquidity
7. 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 shall be invested in any combination of the UNT System Long Term Pool 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 section V – Endowed Funds. A separate accounting of the fund balance and transactions must be maintained and provided to the UNT System Board of Regents at least annually.
- a. Investment Objectives.
 - i. Preservation of Capital
 - ii. Appreciation
 - iii. Liquidity
8. Investment Management.
- a. Managing Entity. All System investments shall be held, invested, and managed by a Managing Entity pursuant to a Prudent Person Standard. Only those entities named or otherwise approved as a Managing Entity under this Regulation may provide investment management services for and on behalf of the System.
 - b. Investment Management Agreement. 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 designee; (iii) on behalf of a UNT Institution, to the UNT Institution's President or his/her designee.

c. Investment Liaison. Each Investment Management Agreement shall designate an Investment Liaison to serve as the liaison between the Managing Entity and the Board of Regents, and may also designate the Investment Liaison to serve as either a voting or ex-officio member of the Managing Entity's board of directors.

9. Insurance or Collateral. 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.
10. Safekeeping and Custody. Assets shall be settled on a delivery versus payment basis when appropriate, and secured through independent third-party custody and safekeeping procedures. Safekeeping procedures shall be reviewed annually by the Internal Auditor. Periodic surprise audits of safekeeping and custodial systems shall be conducted annually by the Internal Auditor.
11. Authorized Broker/Dealers. The Board of Regents must annually review and adopt a list of financial institutions and broker/dealers qualified and authorized to engage in investment transactions with and for the System. All Authorized Broker/Dealers 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.
12. Investment Responsibilities. The System Investment Advisory Committee shall be responsible for investing System funds and must comply with the following:

- a. Prudent Person Standard. The Investment Officers shall exercise a Prudent Person Standard at all times with regard to all funds.
- b. Personal Business Relationship. 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.
- c. Training. 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.

13. Reporting.

- a. Audit. The System’s Internal Audit department shall perform an annual compliance audit of management controls and adherence to this policy. The results will be reported to the Board of Regents and the State Auditor’s Office.
- b. Quarterly Reports. The Vice Chancellor for Finance shall prepare a quarterly investment report which includes endowments and submit it to the Board of Regents through the Chancellor. The report will be prepared in compliance with generally accepted accounting principles and will detail, by asset and fund type, changes in book and market values, dates of maturity, and accrued interest. The quarterly reports are to be formally reviewed at least annually by the System’s Internal Audit department in conjunction with the annual compliance audit, and the result of the review shall be reported to the Board of Regents.
- c. Annual Report. At the end of each fiscal year, the System will prepare a report of investment performance for the year and submit it to the Board

of Regents at its first regularly scheduled board meeting following the end of the fiscal year.

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)

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