

|                                                            |                          |
|------------------------------------------------------------|--------------------------|
| <b>Regulations of the University of North Texas System</b> | <b>CHAPTER 08</b>        |
| <b>08.2000 INVESTMENT OF SYSTEM FUNDS</b>                  | <b>Fiscal Management</b> |

### REGULATION STATEMENT

This Regulation sets for 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.

### APPLICATION OF REGULATION

This Regulation applies to the UNT System Administration and to all UNT Institutions.

### DEFINITIONS

“Authorized Broker/Dealers” means those entities that have been approved as provided herein.

“Funds Subject to Board of Regents Control” is defined by Texas Education Code § 51.002 and means: (1) student fees of all kinds; (2) charges for use of rooms and dormitories; (3) receipts from meals, cafes, and cafeterias; (4) fees on deposit refundable to students under certain conditions; (5) receipts from school athletic activities; (6) income from student publications and other student activities; (7) receipts from the sale of publication products and miscellaneous supplies and equipment; (8) students’ voluntary deposits of money for safekeeping; (9) 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 (10) donations and gifts to the institution.

“Managing Entity” means the entity holding and managing the investment of funds, and may include UNT System Administration, a UNT Institution, University of North Texas Foundation, University of North Texas Health Science Center Foundation, or Authorized Broker/Dealers.

“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.

“System” means, collectively, the University of North Texas System, University of North Texas System Administration, and 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.

### 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.

## **INVESTMENT OF SYSTEM FUNDS**

### **I. INVESTMENT STRATEGY**

The cash management objective for the System is to retain appropriate liquidity to meet daily operating demands while seeking higher yield on cash reserves through an appropriately diversified long term investment portfolio.

All System 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 in Short Term Pool Authorized Investments (as defined below), or deposited in the State Treasury as prescribed by Texas Education Code § 51.008.

### **II. SHORT TERM WORKING CAPITAL FUNDS**

Short term working capital funds ("Short Term Pool") shall be at least 55% but not more than 75% of available cash on hand and shall be adjusted monthly as necessary to remain within this range.<sup>1</sup>

#### **A. Authorized Investments**

Funds needed to meet daily or short term operating requirements will be held in the following authorized investments:

1. FDIC insured money market fund
2. approved Local Government Investment Pool

#### **B. Self-Liquidity**

In accordance with System self-liquidity coverage, UNT Institutions shall maintain a balance in the local government investment pool (net of bond proceeds held in the account), of at least 1.2x the amount of outstanding debt issued through the System commercial paper program.

#### **C. Investment Objectives**

1. Liquidity
2. Current Income
3. Appreciation

---

<sup>1</sup> System Institutions with less than \$10M cash on hand may retain 100% of cash balances in its Short Term Pool.

### III. LONG TERM CASH RESERVES

Long term cash reserves (“Long Term Pool”) shall constitute at least 25% but not more than 45% of current cash balances and shall be adjusted monthly as necessary to remain within this range.<sup>2</sup>

#### 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

Asset Allocation in the UNTS-LTP shall be maintained within the following parameters +/- 2%:

|                           |                                         |
|---------------------------|-----------------------------------------|
| <b>Equities (52%)</b>     | 18% US All-Cap Stocks (GA)              |
|                           | 10% US Large-Cap Quality Stocks (GA)    |
|                           | 19% International Large-Cap Stocks (GA) |
|                           | 5% Emerging Market Stocks (GA)          |
|                           |                                         |
| <b>Bonds (26%)</b>        | 23% US / Global Fixed Income (RRA)      |
|                           | 3% US Inflation Protected Bonds (IPA)   |
|                           |                                         |
| <b>Alternatives (22%)</b> | 12% Hedge Funds (RRA)                   |
|                           | 10% Real Assets (IPA)                   |

GA – Growth Assets, RRA – Risk Reduction Assets, IPA - Inflation Protection Assets

#### 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 investment management contract.

#### D. Investment Objectives

1. Current Income
2. Appreciation
3. Liquidity

### IV. 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

1. Liquidity
2. Current Income
3. Appreciation

---

<sup>2</sup> System Institutions with less than \$10M cash on hand may retain 100% of cash balances in its Short Term Pool.

## **V. 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 three options for investing endowed funds

1. The UNTS-LTP
2. The UNT Foundation Endowment
3. The UNT Health Science Center Foundation Endowment

### **B. Endowment Policies**

Each UNT Institution 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 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**

1. Appreciation
2. Current Income
3. Preservation of Capital
4. Liquidity

## **VI. 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**

1. Preservation of Capital
2. Appreciation
3. Liquidity

## **VII. 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.

### **C. UNT System Investment Advisory Committee**

Members of the UNT System Investment Advisory Committee shall be the Vice Chancellor for Finance and the chief financial officers from each UNT Institution. The UNT System Investment Advisory Committee shall have oversight of all investments and maintain an active role in advising Managing Entities.

### **D. 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.

## **VIII. INSURANCE OR COLLATERAL**

All bank deposits of System funds shall be secured by pledged collateral with a market value equal to no less than 100% 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. 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.

## **IX. SAFEKEEPING AND CUSTODY**

Assets shall be 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.

## **X. 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 agree to comply with those rules, regulations, and policies.

## **XI. INVESTMENT RESPONSIBILITIES**

The Vice Chancellor for Finance in consultation with the Chief Financial Officers of the UNT Institutions (collectively, “Investment Officers”) 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 Investment Officers 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.

The Investment Officers must attend training not less than once in a two-year period, 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.

## **XII. 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.

### **XIII. REFERENCES AND CROSS-REFERENCES**

1. Public Funds Investment Act (Texas Government Code, Chapter 2256)
2. Texas Education Code, Chapter 51, Subchapter A (Section 51.001, *et. seq.*)
3. Rule 10.100 of the Rules of the Board of Regents of the University of North Texas System
4. Uniform Prudent Investor Act (Texas Property Code, Chapter 117)
5. Uniform Prudent Management of Institutional Funds Act (Texas Property Code, Chapter 163)
6. Public Funds Collateral Act (Texas Government Code, Chapter 2257)

### **XIV. FORMS AND TOOLS**

Approved: August 16, 2012

Effective: August 16, 2012

Revised: