

The University of North Texas at Dallas Policy Manual	Chapter 10.000
10.007 Investment	Fiscal Management

Policy Statement. This policy establishes rules for the investment of all University of North Texas at Dallas (“UNT Dallas”) funds and funds held by UNT Dallas in trust for others.

Application of Policy. This policy applies to the total university.

Procedures and Responsibilities.

Ensure University-wide compliance with UNT Dallas authority to invest funds.

Responsible Party: CFO/Vice President for Finance and Administration

Authority and Governing Statutes.

UNT Dallas’ authority to investment funds is established in the Public Funds Investment Act (Texas Government Code, Chapter 2256) and Rule 10.100 of the Rules of the Board of Regents of the University of North Texas System. This policy is promulgated in accordance with the Public Funds Investment Act, Section 51.0032 of the Texas Education Code, the Uniform Prudent Management of Institutional Funds Act (Texas Property Code, Chapter 163), and the Public Funds Collateral Act (Texas Government Code, Chapter 2257). The Public Funds Investment Act requires the governing body of UNT Dallas 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 UNT Dallas’ funds. The Public Funds Collateral Act sets the standards for collateralization of public funds in Texas.

Objectives.

1. Safety of principal is the foremost objective followed by liquidity and yield. Each investment transaction shall seek to first ensure that capital losses are avoided, whether these losses be from securities defaults or erosion of market value.
2. Investment decisions should not incur unreasonable risks in order to obtain current investment income.
3. The investment portfolio shall remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated.
4. Investments will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

5. Management of the investment portfolio will specifically avoid any purchase of investments, or any investment practices or procedures, not specifically authorized under the terms of this policy.
6. Maintain a yield equal to or greater than the yield on a Treasury Note that has a maturity approximately equal to the average maturity of UNT Dallas' investments. This policy recognizes that such a yield may not always be met particularly during periods of rapidly rising interest rates.
7. Provide liquidity for UNT System's commercial paper program as authorized by the Board and outlined in UNT System's Failed Remarketing Plan.

Investment Strategy.

All investments by UNT Dallas will be made in accordance with Rule 10.100 of the Rules of the Board of Regents of the University of North Texas System, the University of North Texas System's Investment Policy, and this policy. Investments will be diversified among a variety of investment vehicles. Protection of the portfolio's principal is of primary concern; however, it is recognized that in a rising interest rate environment unrealized losses will occur, just as unrealized gains will occur during a period of falling interest rates. Regardless, the investment portfolio should always be structured in a manner to insure that potential unrealized losses are not material relative to the interest rate environment at any time.

Market prices of securities held by UNT Dallas will be obtained from an objective and verifiable source, such as Bloomberg, L.P.

Settlement of all transactions will take place on a delivery versus payment basis only unless a cash delivery (same day delivery) must be used to facilitate self-liquidity for payment of principal and interest under the commercial paper program in conjunction with UNT System's Failed Remarketing Plan.

The investment strategy for each group of funds that are invested under this policy is to group these funds into a pooled fund group. The maximum weighted average maturity of the overall portfolio may not exceed three years. UNT Dallas assumes for reporting purposes that the callable investments, if any, will not be called.

Funds are normally invested as follows and are considered suitable to the financial requirements of UNT Dallas:

Short term: Investments of less than 60 days. Funds needed to meet daily or short term operating requirements will usually be held in an approved local government investment pool. Commercial paper and agency discount notes may be used when there is an earnings advantage. UNT Dallas also may use a repurchase agreement with its depository bank for investment of its overnight funds.

The balance required to be maintained in the local government investment pool (net of bond proceeds held in the account), combined with those held by UNT System, UNT, and UNT-HSC will always be maintained at a minimum level of the lesser of 1.2x the amount of outstanding debt or \$120mm, (equals 1.2x the \$100mm self-liquidity coverage).

Intermediate term: Investments between 60 days and one year. Treasuries, Agencies, Agency Discount Notes, Commercial Paper, and approved local government investment pools are the primary investment vehicles.

Long term: Investments between one and five years or longer. Treasuries and Agencies are the primary investment vehicles. Corporate and Municipal Bonds (including “Yankee” Corporate Bonds) may be purchased to the extent that separately the bonds do not constitute more than 15 percent of the book value of the portfolio. Additionally, investments in individual corporate and municipal bonds may not exceed \$3 million in par value and must be distributed broadly amongst issuers of bonds.

Investments are laddered so that most principal is returned over a five year period in increments sufficient to meet anticipated operating and capital needs.

Bond Funds. Bond proceeds and reserves may be invested in a manner consistent with the requirements and restrictions stated in the applicable Bond Covenants.

Endowment Funds. The majority of endowment funds shall be invested in the Common Fund which is a nonprofit organization established for the purpose of providing investment opportunities for public and private educational institutions. The Common Fund manages several mutual funds from which UNT Dallas may select two for investments in equities and bonds. A portion of endowment funds may be invested in UNT Dallas’ Investment Pool as described above.

Other Investment Vehicles. Certificates of deposit with a CD rating of at least one (1) or the equivalent by a nationally recognized credit rating agency. Repurchase Agreements may also be used in any of the terms stated above if such instruments provide an earnings advantage. Any Reverse Repurchase Agreement may not exceed 90 days after the date the Reverse Repurchase Agreement is delivered.

Investment Diversification. Investments in Derivatives are restricted to no more than 10 percent of the total Investment Portfolio. Federal Agencies, Agency Discount Notes, Treasuries, Corporates, Municipals, approved investment pools, and the Common Fund (endowments only), comprise the remainder of the portfolio consistent with the strategy outlined above.

Selling Investments. UNT Dallas may not sell an individual investment if the sale would result in capital losses greater than 10 percent of its book value (except in the case of liquidating funds required to pay the principal and interest due on UNT System's un-remarketed commercial paper, in conjunction with UNT System's Failed Remarketing Plan. The sale of any individual

investment that would result in a capital loss greater than 10 percent of book value must be approved by the Finance Committee of the Board of Regents.

Finance Committee Approval. Deviations in the investment strategy described above require approval of the Finance Committee of the Board of Regents.

Authorized Investments.

The following instruments are allowed by law; however, the use of any of these instruments must be consistent with the Investment Strategy described above.

UNT Dallas may invest in the following:

- (1) Obligations, including letters of credit, of the United States or its agencies and instrumentalities.
- (2) Direct obligations of the State of Texas or its agencies and instrumentalities.
- (3) Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; interest only (IO's), principal only (PO's), and inverse floaters (IF's) are specifically excluded.
- (4) Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
- (5) Certificates of deposit issued by a depository institution that has its main office or a branch office in Texas that is:
 - (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor;
 - (b) secured by obligations that are described in Section (1) through (4) of the Authorized Investments Section of this policy, including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgaged backed securities of the following nature:
 - (i) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgaged-backed security collateral and pays not principal;
 - (ii) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

- (iii) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
 - (iv) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.
- (6) In addition to the authority to invest funds in certificates of deposit under Section (5) above, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment:
 - (a) The funds are invested by an investing entity through a depository institution that has its main office or a branch office in this state and that is selected by the investing entity;
 - (b) The depository institution selected by the investing entity under Section (6) (a) above arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever location, for the account of the investing entity;
 - (c) The full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;
 - (d) The depository institution selected by the investing entity under Section (6) (a) above acts as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity; and
 - (e) At the same time that the funds are deposited and certificates of deposit are issued for the account of the investing entity, the depository institution selected by the investing entity under Section (6) (a) receives an amount of deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the amount of the funds invested by the investing entity through the depository institution selected under Section (6) (a).
- (7) Prime domestic bankers' acceptances that have a stated maturity of 270 days or less from the date of its issuance, that will be, in accordance with its terms, liquidated in full at maturity; that is eligible for collateral for borrowing from a Federal Reserve Bank; and that is accepted by a bank organized and existing under the laws of the United States or any state, the short-term obligations of which (or of a bank holding company of which the bank is the largest subsidiary) are rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency.
- (8) Commercial paper with a stated maturity of 270 days or less from the date of its issuance that either:
 - (a) is rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies; or

(b) is rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof.

- (9) Fully collateralized repurchase agreements having a defined termination date, secured by obligations described in Section (1) of the Authorized Investments Section of this policy, pledged to UNT Dallas, held in UNT Dallas' name and deposited with a third party selected and approved by UNT Dallas, and placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas.

"Repurchase agreement," further defined, means a simultaneous agreement to buy, hold for a specified time, and then sell back at a future date, obligations described in Section (1) of the Authorized Investments Section of this policy, the principal and interest of which are guaranteed by the United States or any of its agencies, in market value of not less than the principal amount of the funds disbursed. The term includes direct security repurchase agreements and reverse security repurchase agreements.

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

- (10) Cash management and fixed income funds (Common Fund) sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f), and its subsequent amendments;
- (11) Negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least one (1) or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency;
- (12) Corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories;
- (13) Investment pools conforming to Section 2256.016 of the Texas Government Code.
- (14) No-load money market mutual fund that is regulated by the federal Securities and Exchange Commission with a dollar-weighted average stated maturity of 90 days or less and whose investment objectives include seeking to maintain a stable net asset value of \$1 per share; and no-load mutual funds that conform to Section 2256.014 of the Texas Government Code. UNT Dallas is not authorized to invest in the aggregate more than 15

percent of its monthly average fund balance, excluding bond proceeds and reserves, in money market mutual funds described in this section or to invest its funds or funds under its control, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds, described in Subsection (b) of Section 2256.014 of the Texas Government Code. Finally, UNT System is not authorized to invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one money market mutual fund in an amount that exceeds 10 percent of the total assets of the money market mutual fund.

Insurance or Collateral.

All bank deposits of UNT Dallas funds shall be secured by pledged collateral with a market value equal to no less than 100 percent of the deposits plus accrued interest less an amount insured by the FDIC. Evidence of the pledged collateral shall be maintained by the CFO/Vice President for Finance and Administration. 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 UNT Dallas by the Federal Home Loan may be considered by UNT Dallas 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.

Safekeeping and Custody.

Assets shall be secured through independent third-party custody and safekeeping procedures. Safekeeping procedures shall be reviewed annually by the UNT System Internal Auditor. Periodic surprise audits of safekeeping and custodial systems shall be conducted annually by the UNT System Internal Auditor.

Authorized Broker/Dealers.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply a certification of having read and understood UNT Dallas' investment policy and agreeing to comply with the policy.

The Board of Regents must adopt and annually review a list of qualified broker/dealers authorized to engage in investment transactions with UNT Dallas.

Investment Responsibilities.

The CFO/Vice President for Finance and Administration and his/her designees (Investment Officers) will be responsible for investing the funds described above and must comply with the following:

- (1) The Investment Officers shall exercise the judgment and care that a prudent person would exercise in the management of their own personal affairs. With regard to donations, gifts, and trusts, UNT Dallas may establish endowment funds that operate as trusts and are managed under prudent person standards.
- (2) Should any of the Investment Officers have a personal business relationship with a business organization offering to engage in an investment transaction with UNT Dallas, a statement will 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 2256.007(i) of the Public Funds Investment Act.

- (3) Each Investment Officer shall attend at least one training session within six months after taking office or assuming duties.

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.

Reporting.

- (1) The UNT System 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.
- (2) The CFO/Vice President for Finance and Administration shall prepare and submit to the Board of Regents a quarterly investments report which includes endowments. 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 UNT System Internal Audit department in conjunction with the annual compliance audit, and the result of the review shall be reported to the Board of Regents.

- (3) At the end of each fiscal year, UNT Dallas will prepare a report of investment transactions and balances for the year.

References and Cross-references.

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

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

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

Regents Rule 10.100 Investments

Approved: 8/19/2010

Effective: 8/19/2010

Revised: