

The Centralization of Invested Operating Funds

Frequently Asked Questions

Q: What is Centralization?

A: Centralization refers to the pooled investment management of U T. System operating funds that became effective on February 1, 2006. Prior to centralization, each chief business officer was responsible for investing institutional operating funds among the options provided by UTIMCO. After centralization, all institutional operating assets were pooled and invested in two funds, the Short Term Fund (STF) and the Intermediate Term Fund (ITF), under the direction of the Executive Vice Chancellor for Business Affairs of System Administration. The centralized funds represent approximately \$4 billion of invested operating funds.

Q: What is the Short Term Fund (STF)?

A: The STF is the aggregate of investment balances held by U. T. System institutions and U. T. System Administration in the Dreyfus Institutional Preferred Money Market Fund, an externally managed institutional money market fund.

The Fund's strategy is to invest in short-term money market obligations, including securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities, certificates of deposit, time deposits, bankers' acceptances and other short-term obligations issued by domestic banks, or London branches of domestic banks, repurchase agreements, and high grade commercial paper and other short-term corporate obligations.

The Fund is appropriate for accounts where the investment horizon for the funds is under 1 year. The Fund is rated AAA by Standard and Poor's Corporation. This is the highest rating that a money market fund may receive.

Q: What is the Intermediate Term Fund (ITF)?

A: The ITF consists of intermediate and long-term funds held by the U. T. System Board of Regents, as a fiduciary, for the benefit of U. T. System institutions, U. T. System Administration and other affiliated funds. ITF assets are pooled for efficient investment purposes and managed by UTIMCO pursuant to an investment management agreement with the Board of Regents. UTIMCO employs investment managers and administrative staff to manage the ITF's investments.

The primary investment objective of the ITF is to preserve the purchasing power of ITF assets by earning a compound annualized return over rolling three-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3%. The secondary ITF objective is to generate a return, net of all direct and allocated expenses, in excess of the approved Policy Portfolio benchmark over rolling three-year periods. The Policy Portfolio benchmark is comprised of a blend of asset class indices and weighted to reflect the ITF's approved asset allocation policy targets.

The Fund is appropriate for Non-Endowment funds where the investment horizon for the funds is intermediate to long-term and not needed for short-term liquidity purposes. The ITF has an approved annual distribution rate of 3.0% that is distributed on a monthly basis.

Q: How will operating assets be allocated among the STF and the ITF?

A4: Each institution's operating assets were allocated on February 1, 2006 with a target asset allocation of 15% in the STF and 85% in the ITF. The Policy range for operating assets is for institutions to maintain 10%-20% of assets in the STF and a minimum STF balance of \$5 million at the end of each month. Rebalancing transactions if necessary will occur monthly and can be initiated by each institution's chief business officer.

Q: How do I communicate transactions I wish to initiate related to the STF and ITF? How can I monitor balances, daily activity and generate reports?

A: Institutions will use the Client Participation System (CPS) to transfer cash to and from the STF and to purchase or sell units of the ITF. Transactions include inbound wire transfers to the STF, outbound wire transfers from the STF, transfers between institutions as well as monthly rebalancing transactions between the STF and ITF.

The CPS website will not be accessible from the UTIMCO website to minimize any casual traffic. UTIMCO will provide a link and a login ID to authorized users. CPS is intended for transaction processing only. Institutions can use CPS to schedule STF transactions for any business day, even weeks in advance. ITF transactions (purchases and redemptions) are permitted on the first business day of each month.

Institutions will use Component Reports to monitor balances and daily transaction activity. Components Reports can also be used to generate reports to review transactions, historical account balances, ITF prices and STF yields. The Component Reports application is accessible from the UTIMCO website.

For more information about centralization, please contact the U.T. System Office of Finance.