

# UT System Operating Funds

## Cash Managers' User Manual

UT Arlington

UT Austin

UT Dallas

UT El Paso

UT Permian Basin

UT Rio Grande Valley

UT San Antonio

UT Tyler

UT Southwestern Medical Center

UT Medical Branch at Galveston

UT Health Science Center at Houston

UT Health Science Center at San Antonio

UT M.D. Anderson Cancer Center

UT Health Science Center at Tyler

UT System Administration

September 2016

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## Introduction

Operating funds are:

- 1) reserves maintained to meet short-term operating needs;
- 2) capital project reserves;
- 3) reserves maintained to meet long-term financial needs; or
- 4) endowment fund distributions held temporarily prior to expenditure.

In order to improve the efficiency of operating funds management and to improve returns on operating funds, the Board of Regents of The University of Texas (Board of Regents) authorized the centralization of the management of U.T. System operating reserves. The U.T. System Office of Finance and The University of Texas Investment Management Company (UTIMCO) developed the centralization concept as well as policies, procedures, and online systems to support the centralization of the operating reserves.

### Purpose/Concept

With the centralization of the operating reserve funds effective February 1, 2006, the UT System Institutions have two alternatives for operating reserves, the Short Term Fund (STF) and a newly created fund, the Intermediate Term Fund (ITF). Eligible Institutions with at least \$5 million of Non-Endowment Funds on the last day of a calendar month and a current financial condition rating from the System Administration Office of the Controller of "Watch" or better will invest in the ITF pursuant to the U.T. System Allocation Policy for Non-Endowment Funds ("Allocation Policy"). The target allocation of each eligible Institution's allocation for the operating reserves is 10% in the STF and 90% in the ITF. The Allocation Policy sets forth the asset allocation guidelines for operating reserves and is intended to ensure that sufficient liquidity is available at all times to meet the needs of the Institutions and System Administration, while ensuring that all funds not needed for short-term liquidity purposes are invested with an appropriate time horizon to enhance the total return of the operating funds (see Appendix C for more information).

### How centralization works

Prior to February 1, 2006, each Institution had a separate account at Dreyfus. The separate Dreyfus accounts were consolidated into one Dreyfus account on February 1, 2006. Target allocations for operating reserves are determined by the allocation policy. In order to maintain this allocation (10% STF and 90% ITF), the Institutions may need to rebalance each month. During the month, it is expected that at times Institutions may spend more than what they currently have in the STF. Institutions will only be allowed to overdraw their STF account to an amount equal to the Institution's ITF balance. Each Institution's STF and ITF balances are maintained on the CPS (Client Participant System). Institutions utilize CPS to transfer funds to and from the STF. Institutions also use CPS to purchase and redeem ITF units and transfer funds from one Institution to another.

### Contacts

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# Chapter 1: Daily Centralization

## Overview

Since February 1, 2006, two funds are available in which to invest operating funds, the STF and ITF.

All UT System Institutions' STF investments are commingled providing a large pool of liquidity. CPS provides the operating and accounting activity for the Institutions. For example, to view their STF and ITF investment balances, Institutions will need to access CPS (see Chapter 2).

## Short Term Fund (STF)

### *Establishing Repetitive Wiring Instructions*

Institutions are able to create new wiring instructions in CPS. These instructions must have two authorized approvals before being activated by UTIMCO and may take up to two days to set up. Once approvals have been obtained, please either email the approved wire instructions to [helpdeskITF@utimco.org](mailto:helpdeskITF@utimco.org), or fax them to Attn: ITF Helpdesk Fax # 512-225-1662

### *Outgoing wires*

When an Institution wants to initiate a wire, they need to logon to CPS and enter a "Sell STF" transaction. All authorized CPS users at an Institution may initiate wires for that Institution (a second authorization is not required). If the wiring instructions are already in CPS, the Institution initiates the wire in CPS by entering the amount, date, and destination (all wiring instructions related to each Institution will appear in a drop down box). The Institution may enter the wire in advance of the date the wire is to be sent. Once the wire has been processed by the Institution in CPS, an automatic batch process will forward the wire request onto Dreyfus. This batch process will occur automatically four times a day (7:30am, 10:30am, 1:30pm, 3:30pm central time).

If wiring instructions have not been set up in CPS, a new wire instruction request will need to be sent to UTIMCO with two authorized signatures. It can take up to two days to get new wire instructions set up on CPS so new wiring instruction requests should be sent to UTIMCO well in advance of the first wire. **(Approved wire instruction requests should be emailed to [helpdeskITF@utimco.org](mailto:helpdeskITF@utimco.org) or faxed to ITF Helpdesk at 512-225-1662.)**

### *Wire cut-off times*

Institutions must place transactions by **3:30 p.m. central time** (prior to the last automatic feed) in order for the outgoing wire to be transacted on the same date. If transacted after 3:30 p.m. central time, the wire will be sent the next business day. If Dreyfus has an early cutoff, CPS cutoff will be earlier as well. Institutions will be notified of early cutoff times in advance, and early cutoff times will also be shown on CPS.

### *Incoming wires*

Incoming wires into an Institutions' STF account DO NOT require any wire information. Institutions need only to enter a "Buy STF" transaction into CPS for the amount of the incoming wire in order to inform Dreyfus of the incoming funds. The buy transaction should be entered as soon as possible, but no later than 3:30 p.m. central

time. If a wire does not come in as expected, the Institution will be notified. The buy transactions are picked up in the same system batch processes as the STF sells discussed above.

Dreyfus charges an overdraft fee if collective overdrafts exceed \$20 million in a given month. An overdraft position occurs when Dreyfus is expecting funds but does not receive them. Therefore, institutions should not enter a BUY STF transaction until they are sure the funds will be received by Dreyfus. If any overdraft fees are assessed, they will be charged to the responsible institution(s).

### ***Transfers***

With the implementation of the centralization concept, transfers between UT System Institutions can be facilitated in CPS. Transfers require action by both Institutions involved in the transaction. The Institution transferring out must enter a transfer transaction in CPS by entering the transfer amount and selecting the Institution to which they wish to transfer the funds. The transaction is not complete until the Institution receiving the funds accepts the transfer in CPS.

### ***Overdrafts***

Institutions are required to rebalance each month to obtain approximately a 10% STF/90% ITF allocation. Although this is the target allocation, Institutions may start the month with 5% to 15% in the STF. To vary outside of the range on the first day of the month, the Institution must obtain approval from the Associate Vice Chancellor for Finance, the Assistant Vice Chancellor for Finance, or the Executive Vice Chancellor for Business Affairs of System Administration. (Contact Terry Hull, U.T. System Office of Finance, 512-499-4494.) This may cause some Institutions to overdraft the STF during the month, which is permissible. CPS will allow Institutions to overdraft their STF account as long as their combined investment in STF and ITF is positive. CPS will verify that total investment funds are available. When an overdraft occurs, an Institution will not be assessed a penalty for the overdraft. The Institution will, however, incur negative interest based on the daily interest rate of the STF. If an Institution's STF account is over drafted, the Institution's funds remain in the ITF until the rebalancing occurs at month end. Therefore, the investments will earn the ITF performance rate for the month.

### ***Interest Allocation***

The Institutions' STF balances earn interest based on the rate earned by a constant net asset value fund. Each Institution's daily balance is multiplied by the daily interest rate. The daily earnings are tallied and deposited to each STF account on the first business day of the following month. The interest earned will be recorded in CPS by UTIMCO automatically to reflect the correct STF balance. If the Institution overdrafts a STF account, the negative balance will also be multiplied by the daily interest rate. After the daily interest activity is tallied for the month, if the amount is negative, the Institution's STF account will be reduced by the negative interest automatically in CPS by UTIMCO. No overdraft penalties will be incurred. The negative interest is simply the amount of interest that was earned by the Institution that "loaned" the funds to the Institution that was in an overdraft position. The Institution overdrafting the account is actually earning the rate of the ITF for these funds until the Institution rebalances at the beginning of the following month. This is one of the basic premises behind centralization that at times an Institution will be in an overdraft position before they rebalance at the first of the next month.

## Intermediate Term Fund (ITF)

### *Purchases*

ITF purchases occur on the first business day of each month. Institutions may enter a purchase any time during the month in CPS, however, the deadline to have it entered in CPS is by 4pm Central on the last business day of the month in order for it to occur on the first business day of the month. If the purchase amount is greater than \$25 million, Institutions are requested to notify UTIMCO of the purchase approximately amount three business days before the last business day of the month.

CPS will reflect the purchase by 10:00 a.m. central on the first business day of the month. The STF will be reduced by the amount of the purchase. An ITF Receivable will reflect the amount of the purchase. The purchase will not immediately be reflected in the ITF; the ITF will reflect the purchase in approximately eight business days. This delay is due to UTIMCO's timing in determining the net asset value of the ITF and the calculation of the net asset value per unit. Based on the underlying ITF's investment in marketable alternative investments, the net asset value of the ITF will not be available until approximately the eighth business day. Until the net asset value per unit is determined, the number of ITF units purchased cannot be recorded. During the first seven business days of the month, the Institutions' ITF balance will be based on the estimated value at the previous month end's estimated value.

### *Redemptions*

ITF redemptions occur on the first business day of each month. Institutions may enter a redemption (sale) any time during the month in CPS, however, the deadline to have it entered in CPS by 4pm Central on the last business day of the month in order for it to occur on the first business day of the month. Institutions are requested to notify UTIMCO three business days before the last business day of the month if the redemption amount is greater than \$25 million. Receipt of proceeds from ITF redemptions may take up to five business days depending upon the liquidity available in the ITF.

CPS will reflect the purchase by 10:00 a.m. central on the first business day of the month. The STF will be increased by the amount of the redemption if the Institution requested an exact amount. (If the Institution requests to liquidate all of their units or would like a percentage amount liquidated, certain estimates will be made initially. See next paragraph for explanation and mechanics.) An ITF Payable will reflect the amount of the redemption. The redemption will not immediately be reflected in the ITF; it will be reflected in the ITF in approximately eight business days. This delay in reporting is due to UTIMCO's timing in determining the net asset value of the ITF and the calculation of the net asset value per unit. Based on the underlying ITF investments in marketable alternative investments, the value of the ITF will not be available until approximately the eighth business day. Until the net asset value per unit is determined, the number of ITF units sold cannot be recorded. During the first seven business days of the month, the Institution's ITF balance will be based on the estimated value at the previous month end's estimated value.

If an Institution requests a redemption amount other than a dollar amount, the Institution will need to notify UTIMCO via e-mail. If an Institution elects to liquidate all of its ITF units, the actual value of those units will not be known until the final net asset value of the ITF is determined, approximately eight business days after month end. Since the

actual value is not known, UTIMCO will estimate the value of the redemption and transfer approximately 90% of the value to the Institution's STF account on the first business day. The remainder of the redemption will occur upon the final determination of the net asset value per unit. Although approximately 10% of the funds in the interim will not be in the STF for the first seven business days, the funds will earn the STF interest rate and not the ITF rate. It is expected that normal redemptions will be requested based on dollar amounts.

### ***Rebalance***

Institutions will rebalance the ITF to 90% of the combined operating funds each month and will either purchase ITF units or redeem ITF units. In some instances, no transaction will be necessary. The Institutions will utilize CPS to determine their total value of their operating funds. The rebalancing will occur based on an estimated value of the ITF. Institutions will be able to view their balances on a daily basis and the ITF will be based on the previous business day's estimated net asset value. The ITF will only have a final net asset value per unit at month end. This value will be available approximately the eighth business day of the month. Therefore, the rebalancing of the ITF to 90% of the total operating funds is an estimate.

Institutions should also consider the monthly ITF distribution when determining the rebalance amount.

### ***Daily Net Asset Value***

The ITF will be a daily valued fund. Investments that have readily available market prices or values will be valued on a daily basis. Investments held in the ITF that do not have a readily available market valuation will be valued with the latest value obtained, which will normally be at a month end. All investment values will be updated at least monthly to obtain a final month end ITF net asset value. **Therefore, as Institutions view their ITF balances during the month, the ITF balances are only estimates.**

### ***Month End Net Asset Value***

The final month end net asset value of the ITF will not be available until the accounting records are officially closed for any given month. This will occur approximately on the seventh business day of the following month and the final net asset value will be available on the eighth business day.

### ***Distributions***

The current rate is 3.0% per annum, or 0.25% per month. The rate for future fiscal years will be approved annually by the Board of Regents.

Distributions from the ITF to the Institutions will be made monthly on the first business day of each month. To calculate the monthly distributions, the distribution rate (e.g., 3% divided by 12) will be multiplied by each Institution's account, determined as follows:

- Net asset value of each Institution's account on the last business day of the second prior month;
- Plus value of each Institution's net purchase/redemption amount on the first business day of the prior month;
- Less the distribution amount paid to each Institution's account on the first business day of the prior month.

CPS will be able to display the expected distribution amount approximately by the 20<sup>th</sup> of the month. This will allow the Institutions to use the expected distribution amount in their monthly rebalancing efforts. For example, the distribution paid on March 1, was available to view in CPS on approximately the 20<sup>th</sup> of February. Institutions can automatically reinvest the distribution or a percentage of the distribution. If an Institution has elected to receive the entire distribution or a percentage of the distribution, the distribution amount will be automatically transferred to the STF on the 1<sup>st</sup> business day of the month. If the Institution has elected to reinvest the distribution or a percentage of the distribution, the amount will purchase additional ITF units on the 1<sup>st</sup> business day of the month.

Distribution activity will be recorded in CPS by UTIMCO. Any changes to the distribution percentage should be made by the last business day of the month prior to the distribution date. The changes should be communicated to UTIMCO via e-mail to [helpdeskif@utimco.org](mailto:helpdeskif@utimco.org).

## Chapter 2: On-line System

### Overview

The Client Participation System (CPS) is used to transfer cash to and from the Short Term Fund and to purchase or sell units of the Intermediate Term Fund. The interface has been designed to maintain simplicity and efficiency.

The website is not accessible from the UTIMCO website to limit casual traffic. A link and a login ID will be provided by UTIMCO. The login ID is a separate system from any of the other UTIMCO applications, therefore requiring a different login ID and password.

The CPS is intended for transaction processing only. For reporting purposes, the Component Reports application has been enhanced to include CPS reporting requirements. The Component Reports application is accessible from the UTIMCO home page.

### New User Setup

All CPS users must be set up by UTIMCO. New user requests must be approved by an authorized person at their Institution, and should include: first and last name of user, e-mail address, phone numbers and Institution's name. An initial password will be set up and the first time the user logs into CPS, they will be prompted to change their password.

### User Verification

UTIMCO should be notified (via e-mail to [helpdeskitf@utimco.org](mailto:helpdeskitf@utimco.org)) when a user's authorization needs to be disabled due to termination or reassignment. Every six months, any user that has not logged in for over six months is automatically disabled. Every three months, all users must be confirmed. An automated process sends an email to the ITF Helpdesk to start the process. A UTIMCO user will email a list of the active users to each institution, who must reply confirming that the list is accurate. Once they respond, the UTIMCO contact will mark the users as confirmed in the system. Ten days from the start of the process, any users not marked as confirmed will be automatically disabled.

### Password requirements

- Requires 3 out of the following 4 groups in password – (1) upper case, (2) lower case, (3) number, (4) special character
- Minimum password length of 8 characters
- User may not reuse last 6 passwords.

### Reset passwords

Passwords expire every 60 days. Upon expiration, CPS will prompt user to change password. Also, after 5 consecutive failed login attempts, user is locked out for 2 days unless UTIMCO is requested to reset password. If a password is reset, new password will be e-mailed to user, and user will be required to change the password on their first login.

## Client Participation System Home Page

The home page consists of four sections and eight tabs as follows;

### Summary as of mm/dd/yyyy

A snapshot of your current balances for all accounts and funds including your allocation.

### Current Activity

A short synopsis of pending transactions with a settle date for that day.

### Future Activity

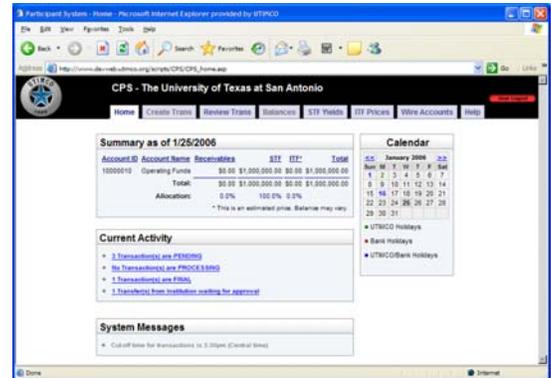
A short synopsis of pending transactions with a settle date after the current day.

### System Messages

An area that will be used to make future announcements by UTIMCO.

### Calendar

A standard calendar to show fund open dates, banking and UTIMCO holidays.



Home – Tab of the current page.

Create Trans – Tab to create transactions, such as wiring funds to your bank account.

Review Trans – Tab to review, print or export previously entered transactions.

Balances – Tab to access your account balances.

STF Yields – Tab to review the daily rates of the STF.

ITF Prices – Tab to review actual and daily estimated ITF prices.

Wire Accounts – Tab to enter your wire destinations previously referred to as recurring wires.

ITF Report – Tab to review ITF performance information provided by UTIMCO.

Help – Tab for this manual and additional help topics as they are developed.

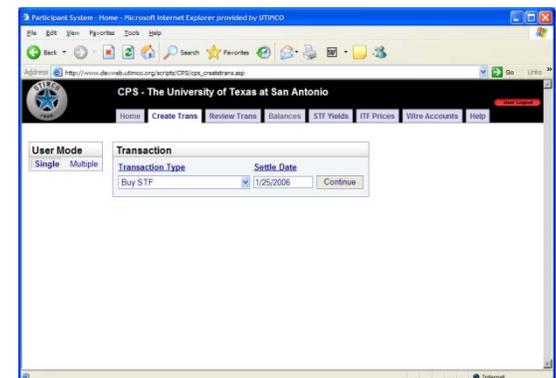
## Create Transactions

The Create Transactions page will be perhaps the most often used page. From here you can generate a select list of transaction to accomplish your intended tasks.

Buy STF units.

The default option in the drop list under Transaction Type is Buy STF. Once Buy STF is selected, enter the date for the transaction. This date can be the current date or any date in the future that is a banking day.

Click on Continue.



The screen will provide you with the option of selecting your internal account, if multiple accounts have been established through UTIMCO. Enter the amount of the transaction in the Buy Amount field. You may enter a comment or source into the optional field and/or select a source from the drop box. The drop box is a list of your existing wire accounts. Additional comments can be added to the transaction for future reference.

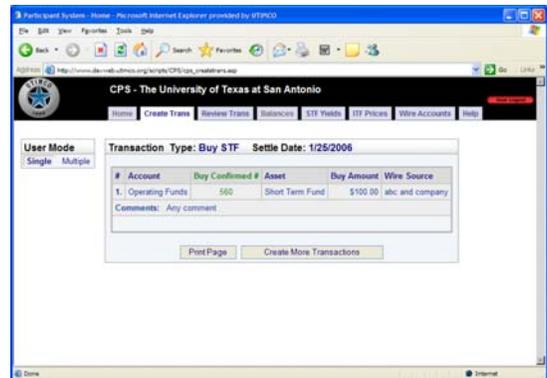
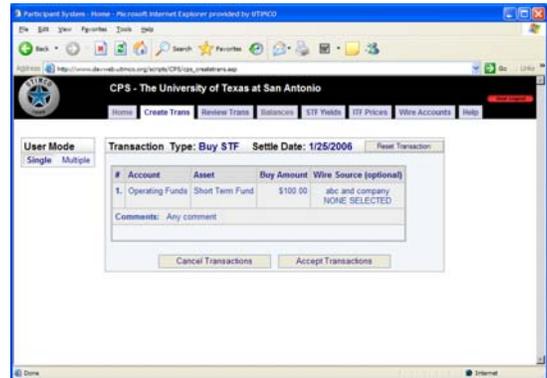
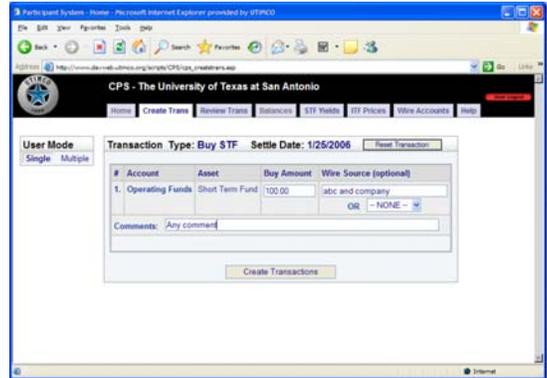
Click on Create Transactions.

The screen will give you a chance to review the transaction. Your options are to Cancel and start over or to Accept Transactions to complete the process.

Once you click on Accept Transactions, you will be shown the UTIMCO confirmation number and given the option to print the page or Create More Transactions.

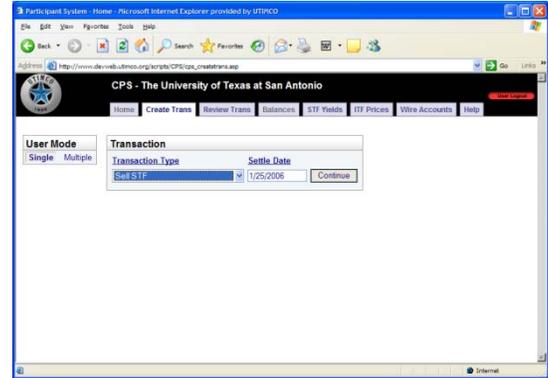
The transaction now has a status of Pending, waiting for the UTIMCO processes to kick off and transmit the instructions to the STF administrator.

At this point you can proceed to any point on the website.



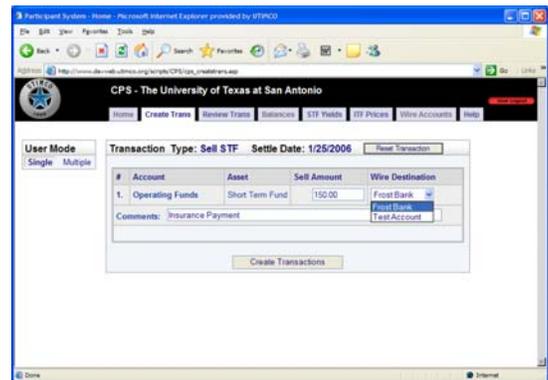
## Sell STF units

Selling STF units is very similar to Buying STF units. The only difference comes in the selection of the Wire Destination. The Wire Destination must be a previously approved wire destination. The process to obtain approval for the wiring destination will be reviewed under the Wire Accounts tab.



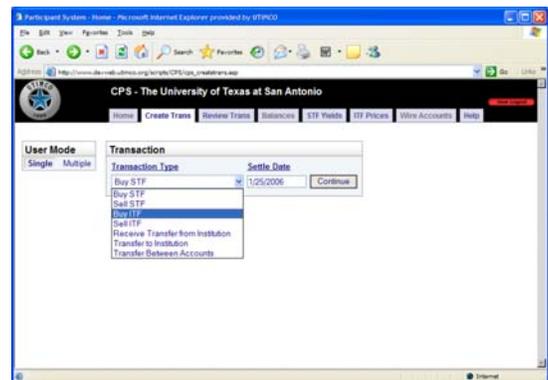
After selecting Sell STF, inputting the date of the transaction and clicking on Continue, you will be given the option to select the Wire Destination from your list of approved wire accounts.

Enter the amount of the wire and its destination then click on Create Transaction. As was done on the Buy STF, you will be provided with a review page. After review you can continue on. Click Create Transaction. You will be given a UTIMCO confirm number and the pending transaction will be entered waiting for the automatic processes to be kicked off.



## Buy or Sell ITF units

Again, the buying or selling of ITF units is similar to buying or selling STF units. The primary difference is the selection of the date. The date is controlled by the system to restrict the settle date to dates the fund is open to new transactions. The fund will be open monthly on the first business day of each month.



After pressing continue you can enter the dollar amount of the purchase and add a comment.

Click on create transactions.



You will be given the opportunity to review the transaction and then accept the transaction.

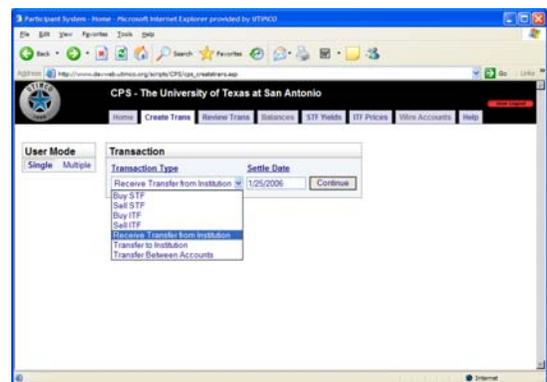
A screen showing the CPS confirmation number will be displayed.



### Receive Transfer From Institution

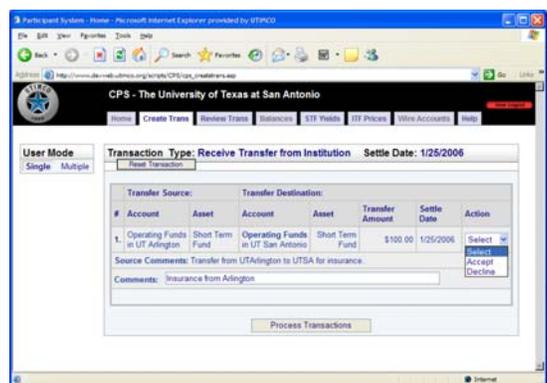
If another Institution has sent you money from their STF account, you will need to select this transaction in order to receive the transfer.

Select Receive Transfer from Institution from the Transaction Type drop box and press continue.



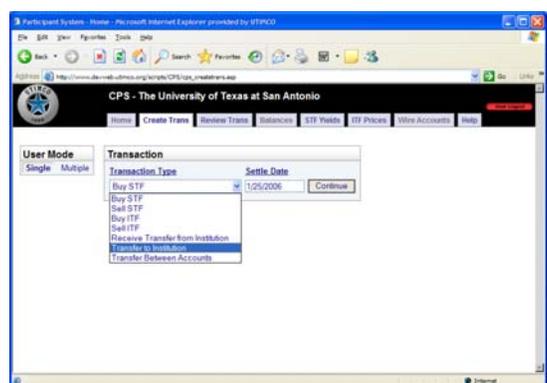
If a transfer has been sent, it will show up on the screen. By using the Action drop box, you can select to Accept or Decline the transaction. If you decline the transaction, the pending transfer will be removed. You can add comments to the transaction for future reference. The comments made by sending institution will not be stored in your transactions.

Click on Process Transactions



### Transfer To Institution

To transfer STF units to another Institution select Transfer to Institution and click on Continue.



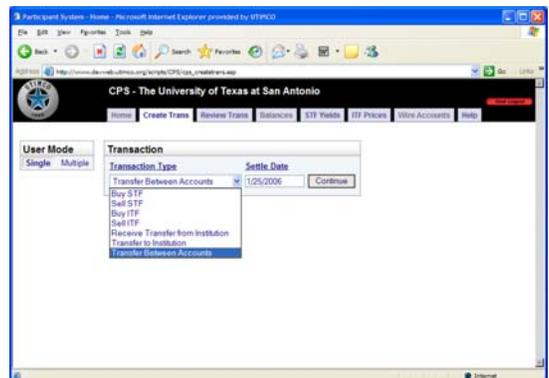
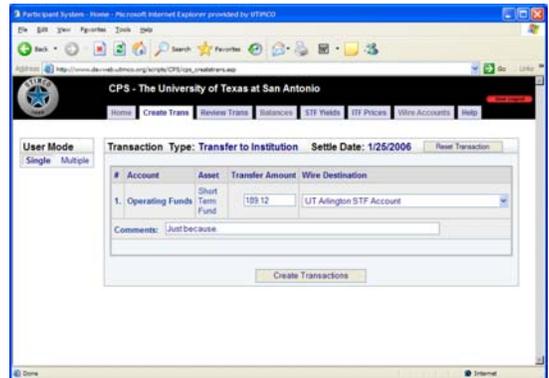
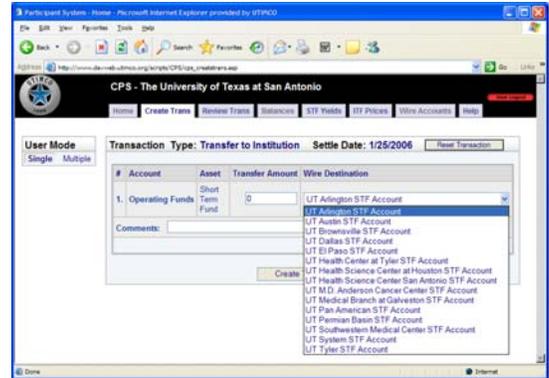
Enter the amount of the transfer and select the Institution from the Wire Destination drop box.

Add comments for your records and as a description for the receiving Institution.

Click on Create Transaction.

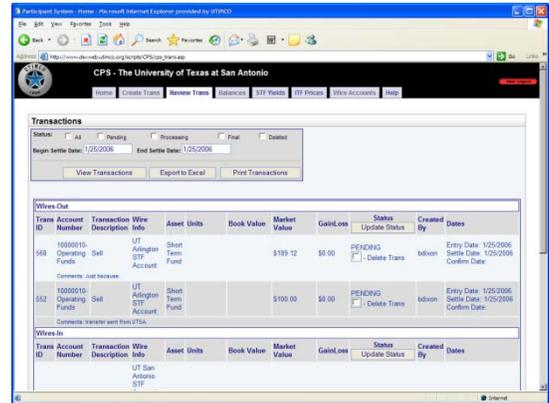
### Transfer Between Accounts

Some Institutions will establish multiple accounts in CPS. This can be done by placing a request with UTIMCO. If multiple accounts are established and the need to transfer balances between the accounts is necessary, then Transfer Between Accounts should be selected.



## Review Transactions

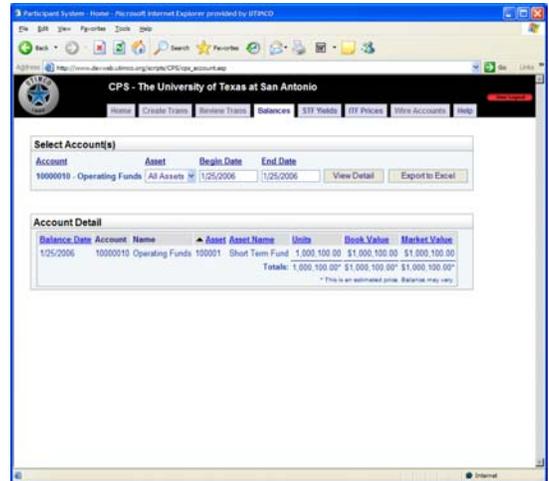
To view any or all of your institution's transactions in CPS, select the Review Trans tab. The page gives you the option to view all, pending, processing, final or deleted transactions. Click on the appropriate box. Enter a date range then click on View Transactions. Any date range is acceptable beginning with February 1, 2006. Transactions will be stored indefinitely. The information displayed can be exported to Excel or printed.



## Balances

Your account balances can be reviewed at any time. Select the Balances tab.

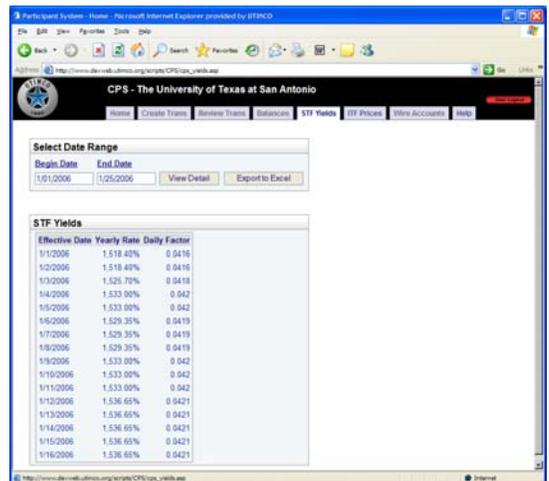
If you have multiple accounts you can select one or all. In the Asset drop box you can select All Assets, STF or ITF balances. Input a date range if you would like to see multiple days then click on View Detail.



ITF balances with an asterisk next to the amount are estimates. Due to the nature of the fund, actual values will only be available for each month end approximately eight business days following each month end.

## Short Term Fund Yields

The daily rates or yields are available for viewing under this tab. Enter a date range then click on View Detail. As with prior screens, this data can be exported to Excel.



## Intermediate Term Fund Prices

ITF estimated and final prices can be viewed on the ITF Prices tab. Prices are also referred to net asset value per unit.

Effective Date	Price	Estimated or Actual
1/1/2006	100.00	Estimated
1/2/2006	101.00	Estimated
1/3/2006	100.00	Actual
1/3/2006	102.00	Estimated
1/4/2006	103.00	Estimated
1/5/2006	105.00	Actual
1/5/2006	95.00	Estimated
1/6/2006	87.00	Estimated
1/7/2006	100.00	Estimated
1/8/2006	104.00	Estimated
1/9/2006	89.00	Estimated
1/10/2006	102.00	Estimated
1/11/2006	103.00	Estimated
1/12/2006	112.00	Actual
1/12/2006	101.00	Estimated
1/13/2006	103.00	Estimated
1/14/2006	106.00	Estimated
1/15/2006	108.00	Estimated

## Wire Accounts

The Wire Accounts tab can be used to review the wire instructions established in CPS. It can also be used to initiate setting up new wire instructions.

To set up a new wire instruction, select Create New Wire Account and enter the requested data into each field.

The Account Nickname is for CPS only and can be any description you desire. This is the label you will see in each Wire Destination transaction drop box.

Upon entering all data click on Submit Update. The Wire Status will be Pending until approved by UTIMCO. In order to finalize this process, print the screen and have two authorized personnel sign the page then fax it to UTIMCO at 512-225-1662 attn: ITF Helpdesk.

UTIMCO will review the fax and then proceed with setting up the instructions with the custodian. Once UTIMCO receives confirmation that the instructions have been set up, UTIMCO will change the status of the Wire Account to Approved. At this point, the account is now available to you for STF sell transactions.

It can take up to two business days to complete the set up process. This screen can also be used to edit the nickname or comments at any time.

## Chapter 3: Frequently Asked Questions

### WEB Question Bulletin Board

The Home page of CPS and on the related Component Reports application contains a section for Frequently Ask Questions (FAQ). In this section you are able to read questions and answers submitted by all users. To submit a question click on the link provided to create an email to UTIMCO. The question will be reviewed, answered by direct reply and if appropriate, added to the list of FAQs. FAQs can be added by any other means of communication with UTIMCO.

#### FAQ

##### Q1: What is Centralization?

**A1:** Centralization refers to the pooled investment management of U. T. System operating funds. Currently, each chief business officer is responsible for investing Institutional operating funds. He or she may select from two funds, the STF and the Intermediate Term Fund (ITF), under the direction of the Executive Vice Chancellor for Business Affairs of System Administration.

##### Q2: When was Centralization implemented?

**A2:** Centralization was fully implemented and effective on February 1, 2006.

##### Q3: How do I go about rebalancing between the STF and the ITF?

**A3:** Rebalancing transactions will occur monthly and will be initiated by the Institution. See **Appendix C**, "The University of Texas System Allocation Policy for Non-Endowment Funds" for information on rebalancing.

**Q4: How do I communicate transactions I wish to initiate related to the STF and ITF? For example, the monthly rebalancing entry – do I inform UTIMCO or the Office of Finance of transactions I wish to see recorded? Is there an online system where I can view my fund activity daily? How do I work with Dreyfus going forward?**

**A4:** In order to allow for overdrafts in individual accounts, Institutions interact (view and transact) with the STF and the ITF using a transaction interface. The interface was created by UTIMCO and on-campus training is available if needed. If you need to schedule training, please contact David Gahagan at UTIMCO at 512-225-1600 to schedule a date. With the CPS system, the Institution does not have to contact Dreyfus, the Office of Finance, or UTIMCO to initiate a transaction. However, for ITF transactions larger than \$25 million, Institutions should contact [helpdeskitf@utimco.org](mailto:helpdeskitf@utimco.org) three business days in advance to facilitate UTIMCO's ability to transact more efficiently. Also, for STF transactions larger than \$50 million, Institutions should contact [helpdeskitf@utimco.org](mailto:helpdeskitf@utimco.org) as soon as possible.

**Q5: How can we be sure that the transaction interface for the STF and the ITF is secure?**

**A5:** In April 2006, UTIMCO completed an application security assessment performed by Denim Group. Additionally, in June 2007, UTIMCO contracted with Calence LLC to perform an external and wireless security assessment. The purpose was to determine if there are any weaknesses in preventing unwanted or unintended sources from accessing the system. As a result, the systems have been hardened to mitigate all known security risks. UTIMCO uses encryption between the server and the client computer to insure data integrity. UTIMCO is an active member of the UT System Chief Information Security Officers Council, and has a strong information security program in place. UTIMCO continues to review and enhance all areas of information security as technology changes.

**Q6: With a reduced amount in the STF, won't overdrafts be more common? How will overdrafts work?**

**A6:** Yes, it's possible that some Institutions will periodically be in an overdraft position in the STF. That is one of the natural results of taking an aggregate approach to correct the problem of being overly liquid and underinvested. For overdrafts, Institutions will be charged a daily compounded rate of interest equal to the STF investment rate for that day. It should be noted that although an Institution may be in an STF overdraft position, it's expected that the System as a whole will have over \$1 billion invested in the STF at any given time.

**Q7: How can we be sure that the new transaction interface will be reliable and available even in the event of a disaster?**

**A7:** Depending on the nature of the disaster, several procedures have been implemented to minimize the effect of the disaster. First and foremost, if the web application is unavailable, instructions may be communicated via phone. Because it is a web based application, the website is accessible from any internet terminal. UTIMCO has an off-site backup recovery in the event of a major disaster at the UTIMCO offices. This recovery would be available in approximately 48 hours. If the situation is a result of local hardware failure, UTIMCO has contracted with appropriate parties to recover systems in approximately 4 hours.

**Q8: I understand the ITF will be diversified and will consist of both income-generating and non-income generating investments. Will income be automatically reinvested? If so, how will we recognize the income earned and reinvested? My concern is that we budgeted for the income and if we do not receive the income, we will not have the recognized investment income to meet our budget.**

**A8:** The ITF is designed to provide a long-term total return that is significantly greater than the investment options which were available before centralization; however, it is not designed to generate significant current income via dividends and interest to support a distribution. As a result of requests from several Institutions, a monthly distribution is being made currently at a fixed rate of 3% (this distribution rate is approved by the Board of Regents each year as outlined in Appendix A – Intermediate Term Fund Investment Policy Statement). Institutions have the option to either receive the distribution directly as part of its budget needs or reinvest the distribution back into the ITF. Please note that due to the nature of the ITF, the distribution will almost certainly be a distribution of income and capital, because the ITF is not expected to generate sufficient interest and dividend income to support a sizeable distribution. As a result, the probability that the unit value of the ITF will decline, particularly over shorter time periods such as one year, will increase.

## Glossary

***Business Day*** - Weekday that is not a bank holiday.

***Client Participant System (CPS)***. CPS is the online system for participants to place trades, view balances in STF and ITF, view wiring instructions.

***Intermediate Term Fund (ITF)*** – The ITF is a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by U.T. System Institutions and U.T. System Administration. It functions as a mutual fund in which each eligible account purchases and redeems ITF units on a monthly basis. Refer to the ITF Investment Policy for more information.

***ITF Receivable*** – Amount to be invested in the ITF from ITF contributions. Until the ITF unit price is finalized each month end, ITF units cannot be bought. Therefore, participant will hold ITF Receivable until final unit price is determined.

***ITF Payable*** – Amount to be withdrawn from the ITF from ITF withdrawals. Until the ITF unit price is finalized each month end, the number of ITF units sold cannot be determined. Therefore, participant will hold ITF payable until final unit price is determined.

***Marketable Alternative Investments*** –Marketable alternative investments are broadly defined to include non-traditional investment strategies whereby the majority of the underlying securities are traded on public exchanges or are otherwise readily marketable. These types of investments can be categorized as equity hedge funds or absolute return hedge funds.

***Net Asset Value*** - Fund assets minus Fund liabilities. The “value” of a Fund.

***Net Asset Value per unit*** – Net Asset Value divided by the number of outstanding units. The final Net Asset Value per unit will be used to calculate the number of ITF units purchased or sold each month based on funds contributed or redeemed, respectively.

***Non-Endowment Funds*** – Non-Endowment Funds include all non-endowment monies owned by the Board of Regents or under the control of the Board of Regents. Funds that are legally required to be invested elsewhere, such as funds held at the State Treasury, are excluded from this policy. Due to Internal Revenue Service restrictions governing tax-exempt debt such as yield restriction and spend-out requirements, debt-related funds are also specifically excluded from this policy. Exceptions for non-endowment funds that would otherwise be invested pursuant to this policy may be made only with the approval of a UT System Authorized Representative

***Short Term Fund (STF)*** - The STF is an institutional money market mutual fund, currently the Dreyfus Institutional Preferred Money Market Fund (Dreyfus Fund). The STF provides daily liquidity and safety of principal by investing in short-term money market obligations. Refer to the STF Investment Policy for more information.

## Appendix A: Intermediate Term Fund Investment Policy Statement

# THE UNIVERSITY OF TEXAS SYSTEM INTERMEDIATE TERM FUND INVESTMENT POLICY STATEMENT

## **Purpose and Structure**

The University of Texas System Intermediate Term Fund (the “ITF”) was established by the Board of Regents of The University of Texas System (the “Board of Regents”) as a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by U. T. System institutions and U. T. System Administration.

## **ITF Organization**

The ITF functions as a mutual fund in which each eligible account purchases and redeems ITF units as provided herein. The ownership of ITF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

## **ITF Management**

Article VII, Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the “PUF”) in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment 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. Pursuant to Section 51.0031(c) of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the ITF.

Ultimate fiduciary responsibility for the ITF rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company (“UTIMCO”), the ITF shall be managed by UTIMCO, which shall a) recommend investment policy for the ITF, b) recommend specific Asset Class and Investment

Type allocation targets, ranges, and performance benchmarks consistent with ITF objectives, and c) monitor ITF performance against ITF objectives. UTIMCO shall invest the ITF assets in conformity with this Policy Statement. All changes to this Policy Statement or the exhibits to this Policy Statement, including changes to Asset Class and Investment Type allocation targets, ranges and performance benchmarks, are subject to approval by the Board of Regents.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board. Managers shall be monitored for performance and adherence to investment disciplines.

### **ITF Administration**

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of ITF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

### **Funds Eligible to Purchase ITF Units**

No account shall be eligible to purchase units of the ITF unless it is under the sole control, with full discretion as to investments, by the Board of Regents. Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the ITF.

### **ITF Investment Objectives**

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 over the intermediate to longer term.

The primary investment objective of the ITF is to maximize investment returns within the risk parameters specified in this Policy Statement without regard to the distribution rate.

The secondary investment objective is to preserve the purchasing power of ITF assets by earning a compound annualized return over rolling five-year periods, net of all direct and allocated expenses, of at least inflation as measured by the Consumer Price Index (CPI-U) plus 3% and to generate average annual returns net of all investment-related expenses, in excess of the approved Policy Portfolio over rolling five-year periods. Investment returns are expressed net of all

investment-related expenses. Additional expenses include U. T. System administrative fees charged to the fund.

Investments must be within the Asset Class and Investment Type ranges, prudently diversified, and within the approved Policy Downside Volatility Bounds, as defined in Exhibit A, and measured at least monthly by UTIMCO's risk model. Liquidity of the ITF will be governed by the Liquidity Policy, overseen by the Risk Committee of the UTIMCO Board.

ITF return, Asset Class and Investment Type allocations, and downside volatility targets are subject to adjustment from time to time by the Board of Regents.

### **Asset Class and Investment Type Allocation and Policy**

Asset Class and Investment Type allocation is the primary determinant of the volatility of investment return and, subject to the Asset Class and Investment Type allocation ranges specified in Exhibit A, is the responsibility of UTIMCO. The Asset Class and Investment Type allocation is designed to accommodate the intermediate investment horizon of the ITF assets with enhanced returns at moderate managed risk levels. UTIMCO is responsible for measuring actual Asset Class and Investment Type allocation at least monthly (incorporating the impact of derivative positions covered under the Derivative Investment Policy), and for reporting the actual portfolio Asset Class and Investment Type allocation to the UTIMCO Board and the Board of Regents at least quarterly. While specific Asset Class and Investment Type allocation positions may be changed within the ranges specified in Exhibit A based on the economic and investment outlook from time to time, the range limits cannot be intentionally breached without prior approval of the Board of Regents.

In the event that actual portfolio positions in Asset Class or Investment Type or the Projected Downside Volatility move outside the ranges indicated in Exhibit A due to market forces that shift relative valuations, UTIMCO staff will immediately report this situation to the UTIMCO Board Chairman and take steps to rebalance portfolio positions back within the policy ranges in an orderly manner as soon as practicable. Extenuating circumstances that could cause immediate rebalancing to be irrational and detrimental to the interest of the ITF asset values could warrant requesting approval of the UTIMCO Board Chairman to waive remedial action.

ITF assets shall be allocated among the following broad Asset Classes and Investment Types based upon their individual return/risk characteristics and relationships to other Asset Classes and Investment Types:

#### Asset Classes:

Investment Grade Fixed Income – Investment Grade Fixed Income represents ownership of fixed income instruments across all maturities,

including real and nominal, US and non-US, that are rated investment grade, including Cash as defined in the Liquidity Policy.

Credit-Related Fixed Income – Credit-Related Fixed Income represents ownership of fixed income instruments across all maturities, including real and nominal, US and non-US, that are rated below investment grade.

Natural Resources - Natural Resources represents ownership directly or in securities, the value of which are directly or indirectly tied to natural resources including, but not limited to, energy, metals and minerals, agriculture, livestock, and timber.

Real Estate - Real Estate represents primarily equity ownership in real property including public and private securities.

Developed Country Equity – Developed Country Equity represents ownership in companies domiciled in developed countries as defined by the composition of the MSCI World Index.

Emerging Markets Equity – Emerging Markets Equity represents ownership in companies domiciled in emerging economies as defined by the composition of the MSCI Emerging Markets Index. In addition, such definition will also include those companies domiciled in economies that have yet to reach MSCI Emerging Markets Index qualification status (either through financial or qualitative measures).

#### Investment Types:

More Correlated & Constrained Investments (“MCC”) – Mandates that exhibit higher levels of beta exposure to the underlying assets being traded, tend to be in a single Asset Class, have lower levels of short exposure and leverage, have more underlying security transparency, are more likely to be in publicly traded securities, and are less likely to entail lock-ups.

Less Correlated & Constrained Investments (“LCC”) – Mandates that exhibit lower levels of beta exposure to the underlying assets being traded, may be across Asset Classes, may have higher levels of short exposure and leverage, may not have underlying security transparency, are more likely to be in publicly traded securities, and may entail lock-ups.

All mandates will be categorized at inception and on an ongoing basis by Asset Class and Investment Type according to the Mandate Categorization Procedures as approved by the UTIMCO Board and then in effect.

#### **Performance Measurement**

The investment performance of the ITF will be measured by the ITF's custodian, an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, compared against the stated Policy Benchmarks of the ITF, as indicated in Exhibit A (incorporating the impact of internal derivative positions) and reported to the UTIMCO Board and the Board of Regents at least quarterly. The Policy Portfolio benchmark will be maintained by UTIMCO and will be comprised of a blend of Asset Class and Investment Type indices reported by the independent custodian and weighted to reflect ITF's approved Asset Class and Investment Type allocation policy targets as defined in Exhibit A. Monthly performance data and net asset values will be available on the UTIMCO website within a reasonable time after each month end.

## **Investment Guidelines**

The ITF must be invested at all times in strict compliance with applicable law. Investment guidelines include the following:

### General

- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of ITF assets in such investments.
- No securities may be purchased or held which would jeopardize the ITF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.
- No internal investment strategy or program employing short sales may be made unless specifically authorized in the Delegation of Authority Policy, the Derivative Investment Policy or by the UTIMCO Board.
- The ITF's investments in warrants shall not exceed more than 5% of the ITF's net assets or 2% with respect to warrants not listed on the New York or American Stock Exchanges.
- The ITF may utilize derivatives only in accordance with the Derivative Investment Policy. The aggregate prorated annual premium of Derivative Investments utilized to reduce long exposure to an Asset Class or hedge against risk shall not exceed 50 basis points of ITF value.

### MCC Investment Grade and Credit-Related Fixed Income

Not more than 5% of the market value of fixed income securities may be invested in corporate and municipal bonds of a single issuer.

### MCC Real Estate, Natural Resources, Developed Country Equity, and Emerging Markets Equity

- Not more than 25% of the market of equity securities may be invested in any one industry or industries (as defined by the standard industry classification code and supplemented by other reliable data sources) at cost.
- Not more than 5% of the market value of equity securities may be invested in the securities of one corporation at cost.

### MCC

- Not more than 7.5% of the market value of equity and fixed income securities taken together may be invested in one corporation at cost.

### **ITF Accounting**

The fiscal year of the ITF shall begin on September 1st and end on August 31st. Market value of the ITF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles (“GAAP”), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO’s Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be “other than temporarily impaired” as defined by GAAP shall be written off and reported to UTIMCO’s Chief Investment Officer and the UTIMCO Board when material. The ITF’s financial statements shall be audited each year by an independent accounting firm selected by the Board of Regents.

### **Valuation of ITF Assets**

As of the close of business on the last business day of each month, UTIMCO shall determine the fair market value of all ITF net assets and the net asset value per unit of the ITF. The final determination of ITF net assets for a month end close shall normally be completed within seven business days but determination may be longer under certain circumstances. Valuation of ITF assets shall be based on the books and records of the custodian for the valuation date.

The fair market value of the ITF’s net assets shall include all related receivables and payables of the ITF on the valuation date and the value of each unit thereof shall be its proportionate part of such net value. Such valuation shall be final and conclusive.

## **Compliance**

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the noncompliant activity within this Policy.

## **ITF Distributions**

The ITF shall provide monthly distributions to the unit holders. The Board of Regents will approve an annual distribution amount. Distributions from the ITF to the unit holders shall be made monthly on the first business day of each month. To calculate the monthly distribution, the distribution rate (% divided by 12) will be multiplied by each unit holder's account, determined as follows:

- Net asset value of each unit holder's account on the last business day of the second prior month;
- Plus value of each unit holder's net purchase/redemption amount on the first business day of the prior month;
- Less the distribution amount paid to each unit holder's account on the first business day of the prior month.

## **Purchase and Redemption of ITF Units**

The ITF participants may purchase units on the first business day of each month upon payment of cash or reinvestment of distributions to the ITF, at the net asset value per unit of the ITF as of the prior month ending valuation date. Such purchase commitments are binding. The ITF participants may redeem ITF units on a monthly basis. The unit redemption shall be paid in cash as soon as practicable after the month end valuation date of the ITF. Redemptions from the ITF shall be at the market price per unit determined at the time of the redemption. Such redemption commitments are binding.

Participants of the ITF are required to provide notification of purchases and redemptions based on specific notification requirements as set forth in The University of Texas System Allocation Policy for Non-Endowment Funds.

## **Securities Lending**

The ITF may participate in a securities lending contract with a bank or non-bank security lending agent for purposes of realizing additional income. Loans of securities by the ITF shall be collateralized by cash, letters of credit, or securities

issued or guaranteed by the U.S. Government or its agencies. The collateral will equal at least 100% of the current market value of the loaned securities. The contract shall state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and collateral, acceptable investment of collateral and indemnification provisions. The contract may include other provisions as appropriate.

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the lending agent shall be reviewed by UTIMCO staff to ensure compliance with contract provisions.

### **Investor Responsibility**

As a shareholder, the ITF has the right to a voice in corporate affairs consistent with those of any shareholder. These include the right and obligation to vote proxies in a manner consistent with the unique role and mission of higher education as well as for the economic benefit of the ITF. Notwithstanding the above, the UTIMCO Board shall discharge its fiduciary duties with respect to the ITF solely in the interest of ITF unitholders, in compliance with the Proxy Voting Policy then in effect, and shall not invest the ITF so as to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

### **Amendment of Policy Statement**

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

### **Effective Date**

The effective date of this Policy shall be September 1, 2016.

Intermediate Term Fund Investment Policy Statement (continued)

EXHIBIT A - INTERMEDIATE TERM FUND  
 ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES, AND PERFORMANCE OBJECTIVES  
 EFFECTIVE DATE SEPTEMBER 1, 2016

POLICY PORTFOLIO	FYE 2017		
	Min	Target	Max
<u>Asset Classes</u>			
Investment Grade Fixed Income	20.0%	34.5%	50.0%
Credit-Related Fixed Income	0.0%	7.5%	12.0%
Real Estate	0.0%	0.0%	10.0%
Natural Resources	0.0%	2.5%	10.0%
Developed Country Equity	20.0%	44.0%	60.0%
Emerging Markets Equity	2.5%	11.5%	20.0%
<u>Investment Types</u>			
More Correlated & Constrained	45.0%	55.0%	65.0%
Less Correlated & Constrained	35.0%	45.0%	55.0%

\*The total Asset Class & Investment Type exposure, including the amount of derivatives exposure not collateralized by Cash, may not exceed 100% of the Asset Class & Investment Type exposures excluding the amount of derivatives exposure not collateralized by Cash.

POLICY BENCHMARK (reset monthly)	FYE 2017
Barclays Capital Global Aggregate Index	30.0%
FTSE EPRA/NAREIT Developed Index Net TRI USD	0.0%
0.0% Bloomberg Commodity Total Return Index, 0.0% MSCI World Natural Resources Index and 100.0% Gold Spot price (XAU) *	2.5%
MSCI World Index with net dividends	15.0%
MSCI Emerging Markets with net dividends	7.5%
Hedge Fund Research Indices Fund of Funds Composite Index	45.0%

POLICY/TARGET RETURN/RISKS	FYE 2017
Expected 10-Year Annual Real Return (Benchmark)	1.60%
One Year Downside Volatility	6.44%
<u>Risk Bounds</u>	
Lower: 1 Year Downside Volatility	70.00%
Upper: 1 Year Downside Volatility	115.00%

\* Bloomberg Commodity Total Return Index and MSCI World Natural Resources Index will be phased out monthly during FY 2017.

**EXHIBIT A - INTERMEDIATE TERM FUND**  
 (continued)  
**ASSET CLASS AND INVESTMENT TYPE TARGETS, RANGES AND PERFORMANCE OBJECTIVES**  
 EFFECTIVE DATE SEPTEMBER 1, 2016

**POLICY BENCHMARKS BY ASSET CLASS AND INVESTMENT TYPE: FYE 2017**

<b>FYE 2017</b>		<b>More Correlated &amp; Constrained</b>	<b>Less Correlated &amp; Constrained</b>	<b>Total</b>
<b>Fixed Income</b>	<b>Investment Grade</b>	<b>Barclays Capital Global Aggregate Index (30.0%)</b>	<b>4.5%</b>	<b>34.5%</b>
	<b>Credit-Related</b>	<b>(0.0%)</b>	<b>7.5%</b>	<b>7.5%</b>
<b>Real Assets</b>	<b>Real Estate</b>	<b>FTSE EPRA/NAREIT Developed Index Net TRI USD (0.0%)</b>	<b>0.0%</b>	<b>0.0%</b>
	<b>Natural Resources</b>	<b>0.0% Bloomberg Commodity Total Return Index, 0.0% MSCI World Natural Resources Index and 100% Gold Spot price (XAU) (2.5%)*</b>	<b>0.0%</b>	<b>2.5%</b>
<b>Equity</b>	<b>Developed Country</b>	<b>MSCI World Index with Net Dividends (15.0%)</b>	<b>29.0%</b>	<b>44.0%</b>
	<b>Emerging Markets</b>	<b>MSCI EM Index with Net Dividends (7.5%)</b>	<b>4.0%</b>	<b>11.5%</b>
<b>Total</b>		<b>55.0%</b>	<b>45.0%</b>	<b>100.0%</b>

 Hedge Fund Research Indices Fund of Funds Composite Index

\* Bloomberg Commodity Total Return Index and MSCI World Natural Resources Index will be phased out monthly during FY 2017.

Investment Policy/Benchmarks are indicated in Black/Bold  
 Reportable Targets are indicated in Gray

## Appendix B: Short Term Fund Investment Policy Statement

**THE UNIVERSITY OF TEXAS SYSTEM  
SHORT TERM FUND  
INVESTMENT POLICY STATEMENT**

**Purpose**

The Short Term Fund (the "STF") was established by the Board of Regents of The University of Texas System (the "Board of Regents") as a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System institutions and System Administration with an investment horizon of less than one year.

**STF Organization**

The STF functions like a mutual fund in which each eligible account purchases and redeems STF units as provided herein. The ownership of STF assets shall at all times be vested in the Board of Regents. Such assets shall be deemed to be held by the Board of Regents, as a fiduciary, regardless of the name in which the assets may be registered.

**STF Management**

Article VII Section 11b of the Texas Constitution authorizes the Board of Regents, subject to procedures and restrictions it establishes, to invest the Permanent University Fund (the "PUF") in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent investor standard. This standard provides that the Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage, or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment 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. Pursuant to Section 51.0031(c) of the *Texas Education Code*, the Board of Regents has elected the PUF prudent investor standard to govern its management of the STF.

Ultimate fiduciary responsibility for the STF rests with the Board of Regents. Section 66.08, *Texas Education Code*, as amended, authorizes the Board of Regents, subject to certain conditions, to enter into a contract with a nonprofit corporation to invest funds under the control and management of the Board of Regents.

Pursuant to an Investment Management Services Agreement between the Board of Regents and The University of Texas Investment Management Company ("UTIMCO"), the STF shall be managed by UTIMCO, which shall: a) recommend investment policy for the STF, b) determine specific Asset Class targets, ranges and performance

benchmarks consistent with STF objectives, and c) monitor STF performance against STF objectives. UTIMCO shall invest the STF assets in conformity with this Policy Statement.

UTIMCO may select and terminate unaffiliated investment managers subject to the Delegation of Authority Policy approved by the UTIMCO Board, as amended. Managers shall be monitored for performance and adherence to investment disciplines.

### **STF Administration**

UTIMCO shall employ an administrative staff to ensure that all transaction and accounting records are complete and prepared on a timely basis. Internal controls shall be emphasized so as to provide for responsible separation of duties and adequacy of an audit trail. Custody of STF assets shall comply with applicable law and be structured so as to provide essential safekeeping and trading efficiency.

### **Funds Eligible to Purchase STF Units**

No account shall be eligible to purchase units of the STF unless it is under the sole control, with full discretion as to investments, by the Board of Regents and/or UTIMCO.

Any account whose governing instrument contains provisions which conflict with this Policy Statement, whether initially or as a result of amendments to either document, shall not be eligible to purchase or hold units of the STF.

The funds of a foundation structured as a supporting organization described in Section 509(a) of the *Internal Revenue Code of 1986*, which supports the activities of the U. T. System and its institutions, may purchase units in the STF provided that a contract between the Board of Regents and the foundation has been executed authorizing investment of foundation funds in the STF.

### **STF Investment Objectives**

The primary investment objective shall be to maximize current income consistent with the preservation of capital and maintenance of adequate STF liquidity. The STF shall seek to maintain a net asset value of \$1.00.

Achievement of this objective shall be defined as a fund return in excess of the average gross return of the median manager of an approved universe of institutional only money market funds.

## **Asset Class Allocation and Policy**

Asset Class allocation is the primary determinant of investment performance and subject to the Asset Class allocation ranges specified herein is the responsibility of UTIMCO. Specific Asset Class allocation targets may be changed from time to time based on the economic and investment outlook.

STF assets shall be allocated to the following broad Asset Class:

Cash and Cash Equivalents – Short-term, highly liquid investments that are readily convertible to known amounts of cash, and which are subject to a relatively small risk of changes in value.

## **Performance Measurement**

The investment performance of the STF will be measured by an unaffiliated organization, with recognized expertise in this field and reporting responsibility to the UTIMCO Board, and compared against the performance benchmarks of the STF. Such measurement will occur at least quarterly.

## **Investment Guidelines**

The STF must be invested at all times in strict compliance with applicable law.

Investment guidelines include the following:

### General

- All investments will be U.S. dollar denominated assets.
- Investment guidelines for index, commingled funds, limited partnerships, and corporate vehicles managed externally shall be governed by the terms and conditions of the respective investment management contracts, partnership agreements or corporate documents.
- Investment guidelines of all other externally managed accounts as well as internally invested funds must be reviewed and approved by UTIMCO's Chief Investment Officer prior to investment of STF assets in such investments.
- No securities may be purchased or held which jeopardize the STF's tax-exempt status.
- No internal investment strategy or program may purchase securities on margin or use leverage unless specifically authorized by the UTIMCO Board.

- No internal investment strategy or program employing short sales may be made unless specifically authorized by the UTIMCO Board.

### Cash and Cash Equivalents

Holdings of cash and cash equivalents may include the following:

- unaffiliated liquid (Money Market Funds) investment funds, subject to Rule 2a-7 of the Investment Company Act of 1940 as amended from time to time, rated AAA<sub>M</sub> by Standard & Poor's Corporation or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO),
- securities of the U.S. Treasury and U.S. Agencies and their instrumentalities with maturities of 397 days or less,
- separately managed accounts with investment guidelines equivalent to, or more stringent than, unaffiliated liquid investment funds, subject to Rule 2a-7 of the Investment Company Act of 1940 as amended from time to time, rated AAA<sub>M</sub> by Standard & Poor's Corporation or the equivalent by a NRSRO,
- the Custodian's late deposit interest bearing liquid investment fund,
- municipal short term securities,
- commercial paper rated in the two highest quality classes by Moody's Investor Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2 or the equivalent),
- negotiable certificates of deposit with a bank that is associated with a holding company whose short-term rating meets the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better by Duff & Phelps,
- floating rate securities, if they meet the single security duration criteria and are based on a spread over or under a well known index such as LIBOR or a Constant Maturity Treasury index. No internally leveraged floating rate securities are permitted (i.e., a coupon equivalent to a formula that creates a multiplier of an index value). The following types of floating rate securities are not eligible for investment: inverse floaters, non-money market based floaters, interest only or principal only floaters, non-dollar based floaters, and range note floaters, and
- repurchase agreements and reverse repurchase agreements transacted with a dealer that is approved by UTIMCO and selected by the Federal Reserve Bank as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent:
  - Each approved counterparty shall execute the Standard Public Securities Association (PSA) Master repurchase agreement with UTIMCO.
  - Eligible Collateral Securities for repurchase agreements are limited to U.S. Treasury securities and U.S. Government Agency securities with a maturity of not more than 10 years.

- The maturity for a repurchase agreement may be from one day to two weeks.
- The value of all collateral shall be maintained at 102% of the notional value of the repurchase agreement, valued daily.
- All collateral shall be delivered to the STF custodian bank. Tri-party collateral arrangements are not permitted.
- The aggregate amount of repurchase agreements with maturities greater than seven calendar days may not exceed 10% of the STF's total assets.
- Overnight repurchase agreements may not exceed 50% of the STF's total assets.

### **Compliance**

Compliance with this Policy will be monitored by UTIMCO's Chief Compliance Officer. UTIMCO's Chief Executive Officer, the UTIMCO Board, and the UTIMCO Audit & Ethics Committee will receive regular reports on UTIMCO's compliance with this Policy. All material instances of noncompliance, as determined by UTIMCO's Chief Compliance Officer and the Chair of the UTIMCO Audit & Ethics Committee, will require an action plan proposed by UTIMCO's Chief Executive Officer and approved by the Chairman of the UTIMCO Board with timelines for bringing the noncompliant activity within this Policy.

### **STF Distributions**

Distributions of income from the STF to the unitholders shall be made as soon as practicable on or after the last day of each month.

### **STF Accounting**

The fiscal year of the STF shall begin on September 1st and end on August 31st. Market value of the STF shall be maintained on an accrual basis in compliance with Generally Accepted Accounting Principles ("GAAP"), Governmental Accounting Standards Board Statements, industry guidelines, or state statutes, whichever is applicable. Significant asset write-offs or write-downs shall be approved by UTIMCO's Chief Investment Officer and reported to the UTIMCO Board. Assets deemed to be "other than temporarily impaired" as defined by GAAP shall be written off and reported to UTIMCO's Chief Investment Officer and the UTIMCO Board when material.

### **Valuation of Assets**

Institutional prime money market funds are valued using a floating net asset value. Investments other than institutional prime money market funds are stated at amortized cost, which in most cases approximates the market value of securities. The objective of the fund is to maintain a stable \$1.00 net asset value; however, the \$1.00 net asset value is neither guaranteed nor insured by UTIMCO.

The STF's net assets shall include all related receivables and payables of the STF on the valuation date.. Such valuation shall be final and conclusive.

### **Purchase of STF Units**

Purchase of STF units may be made on each business day upon payment of cash to the STF or contribution of assets approved by UTIMCO's Chief Investment Officer.

### **Redemption of STF Units**

Redemption of units may be made on each business day.

### **Securities Lending**

The STF may not participate in a securities lending contract with a bank or nonbank security lending agent.

### **Investor Responsibility**

The UTIMCO Board shall discharge its fiduciary duties with respect to the STF solely in the interest of STF unitholders and shall not invest the STF so as to achieve temporal benefits for any purpose, including use of its economic power to advance social or political purposes.

### **Amendment of Policy Statement**

The Board of Regents reserves the right to amend the Investment Policy Statement as it deems necessary or advisable.

### **Effective Date**

The effective date of this policy shall be September 1, 2016.

## Appendix C: Allocation Policy for Non-Endowment Funds

# The University of Texas System Allocation Policy for Non-Endowment Funds

## Purpose

The University of Texas System Allocation Policy for Non-Endowment Funds (“Allocation Policy”) is intended to ensure that sufficient liquidity is available at all times to meet the needs of the institutions and System Administration, while ensuring that all funds not needed for short-term liquidity purposes are invested with an appropriate time horizon to enhance the total return of the Non-Endowment Funds. Eligible Institutions with at least \$5 million of Non-Endowment Funds on the last day of a calendar month and a current financial condition rating from the System Administration Office of the Controller of “Watch” or better will invest in the Intermediate Term Fund (“ITF”) pursuant to this policy. Exceptions for funds that would otherwise be invested pursuant to this policy may be made only with the approval of an Authorized Representative.

## Allocation and Rebalancing

At the beginning of each month, each institution shall have a minimum of \$5 million invested in the Short Term Fund (“STF”). The target allocation for Non-Endowment Funds held by Eligible Institutions shall be 10% in the STF and 90% in the ITF. Institutions that are ineligible to invest in the ITF shall be 100% invested in the STF. If an institution ceases being an Eligible Institution as measured on the last day of any month, then it must rebalance such that 100% of its Non-Endowment Funds are in the STF, unless approval is obtained from an Authorized Representative.

Eligible Institutions are required to rebalance when the projected allocation to the STF at month-end is less than 5% or greater than 15% of the institution’s Non-Endowment Funds, or when a cash inflow or outflow is scheduled to occur during the next calendar month that is likely to result in the institution having less than 5% or more than 15% of its Non-Endowment Funds in the STF at the end of the next calendar month. Each Chief Business Officer is responsible for rebalancing to ensure the institution’s Non-Endowment Funds are within this target range, which will be reviewed on a monthly basis by the System Administration Office of Finance. At least five days prior to the end of each month, each institution should check its balance in the STF and the ITF to determine if rebalancing will be necessary. If necessary, ITF transactions should be initiated on or before the last business day of the month. ITF transactions will be effective on the first business day of the following month; however, proceeds from ITF redemptions may take up to five business days depending upon the liquidity available in the ITF. For ITF transactions greater than \$25 million, the institution should provide notice to The University of Texas Investment Management Company (UTIMCO) at least three business days in advance to facilitate UTIMCO’s ability to transact efficiently.

## STF Investment Allocation

The STF will invest in a combination of unaffiliated liquid investment funds, subject to Rule 2a-7 of the Investment Company Act of 1940 as amended from time to time, including prime, government and Treasury money market funds. All Institution and System Administration STF transactions will be processed using a constant \$1.00 net asset value. Additionally, UT System Administration will work with UTIMCO to manage the allocation of the STF across the different liquid investment funds and absorb any transactional gains or losses in funds having a floating net asset value.

## Interest Allocations

Institutions’ STF balances will earn the rate earned by a constant net asset value fund (i.e. the government money market fund) each month. The difference, if any, between the amount of interest earned across all of the liquid investment funds and the amount allocated to the Institutions’ accounts will be allocated to System Administration and will be used, in part, to offset any transactional gains or losses in funds having a floating net asset value.

## Sharing of Investment Returns

If the total investment return on the ITF in a fiscal year is in excess of the national Consumer Price Index (“CPI-U”) published by the Bureau of Labor Statistics plus 3.0%, then the amount in excess of the CPI-U plus 3.0% will be split, with 90% of the excess return being retained by the institutions and 10% being distributed to System Administration. Any funds distributed to System Administration will be used exclusively for strategic initiatives that benefit the institutions, and all expenditures of the funds by System Administration will require approval of the Board of Regents.

No excess returns will be distributed to System Administration unless the cumulative total investment return of the ITF, measured from the inception date of the ITF through the most recent fiscal year end, is also in excess of the cumulative total return of the CPI-U plus 3.0% (per year) for the same period.

## Definitions

**Authorized Representative** – The Executive Vice Chancellor for Business Affairs at System Administration or the Associate Vice Chancellor for Finance at System Administration.

**Eligible Institutions** – Institutions with at least \$5 million of Non-Endowment Funds on the last day of a month and a current financial condition rating from the System Administration Office of the Controller of “Watch” or better.

**Government and Treasury Money Market Funds** – Investment funds subject to Rule 2a-7 of the Investment Company Act of 1940 that invest at least 99.5% or more of their total assets in cash, government securities or repurchase agreements collateralized by such securities, use the amortized cost method to value portfolio holdings and are offered at a constant \$1.00 net asset value. Currently no liquidity fees and/or redemption gates are anticipated for Government and Treasury funds.

**Prime Money Market Funds** – An investment fund subject to Rule 2a-7 of the Investment Company Act of 1940 that invests primarily in high-quality, short-term money market instruments, including certificates of deposit, banker’s acceptances, commercial paper, Eurodollar and Yankee obligations, and other money market securities. Institutional prime funds value portfolio holdings using market-based factors and sell and redeem their shares based on a floating net asset value rounded to the 4th decimal place (i.e. \$1.0000). Institutional funds also adopt policies and procedures that permit the imposition of liquidity fees or redemption gates.

**Intermediate Term Fund (ITF)** – The ITF is a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by U. T. System institutions and U. T. System Administration. Refer to the ITF Investment Policy for more information.

**Non-Endowment Funds** – Non-Endowment Funds include all non-endowment monies owned by the Board of Regents or under the control of the Board of Regents. Funds that are legally required to be invested elsewhere, such as funds held at the State Treasury and certain trust funds, are excluded from this policy. Due to Internal Revenue Service restrictions governing tax-exempt debt such as yield restriction and spend-out requirements, debt-related funds are also specifically excluded from this policy. Exceptions for Non-Endowment Funds that would otherwise be invested pursuant to this policy may be made only with the approval of an Authorized Representative.

**Short Term Fund (STF)** – The STF is a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System institutions and System Administration with an investment horizon of less than one year. The STF provides daily liquidity and safety of principal by investing in short-term money market obligations. Refer to the STF Investment Policy for more information.