

TEXAS STATE UNIVERSITY SYSTEM



Investment Policies

**Approved
Board Meeting November 14-15, 2007**

BOARD OF REGENTS
of
THE TEXAS STATE UNIVERSITY SYSTEM
Austin, Texas

**RESOLUTION TO ACKNOWLEDGE
REVIEW OF INVESTMENT POLICY AND STRATEGY**

WHEREAS, The Texas Public Funds Investment Act requires that the investment policies and strategies of each University System and its components be annually reviewed by its governing board; and

WHEREAS, the law also requires the governing body to adopt a written instrument stating that is has reviewed the investment policies and strategies;

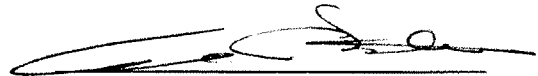
NOW THEREFORE BE IT RESOLVED that the Texas State University System Board of Regents, by issuance of this Resolution, hereby approves the investment policies and strategies of the Texas State University System and its components as reviewed on November 15, 2007; and

BE IT FURTHER RESOLVED that a copy of this resolution be spread upon the minutes of the November 15, 2007 meeting of the Board.

Attest:



Bernie C. Francis, Chairman



Charles R. Matthews, Secretary

Texas State University System

Investment Policies

Table of Contents

	Page
System Investment Policy	2
Appendices	
Lamar University	20
Sam Houston State University	24
Sul Ross State University	28
Texas State University – San Marcos	32
Lamar Institute of Technology	37
Lamar State College – Orange	40
Lamar State College – Port Arthur	44

Texas State University System

Investment Policies

I. POLICY AND OBJECTIVE

It is the policy of Texas State University System (TSUS) to invest public funds in a manner which is in compliance with the Public Funds Investment Act (PFIA), Government Code Chapter 2256, and the Uniform Management of Institutional Funds Act (UMIFA), Property Code Chapter 163. The investment policy of TSUS is designed to fulfill the following objectives:

NON-OPERATING FUNDS OTHER THAN ENDOWMENTS

- provide maximum security of invested principal;
- ensure liquidity for cash flow purposes;
- manage interest-rate risk;
- maximize overall return within the established risk constraints; and
- manage the diversification of investment assets.

ENDOWMENTS

- invested upon consideration of both long-term and short-term needs;
- present and anticipated financial requirements;
- expected return on the investment;
- price level trends; and
- general economic conditions.

This *Investment Policy* applies to all non-operating funds held by TSUS. Non-operating funds are defined as Current Funds (Unrestricted and Restricted), Loan Funds, Endowment Funds, Plant Funds, and Agency Funds which are not immediately needed for day-to-day operations.

This policy does not apply to operating funds, which are defined to be those funds immediately needed for day-to-day operations within any fund group. Such funds are covered by TSUS's *Policy and Procedures for the Control of Depository Funds*. Also, this policy is not applicable to a foundation's funds, if the foundation has its own investment policies.

The amended Public Funds Investment Act does not apply to investments donated to the System Universities for a particular purpose or donated according to terms specified by a donor.

II. DELEGATION OF AUTHORITY

The chief financial officer (CFO) for System Administration and each Texas State University System component is responsible for investment management decisions and activities of their respective entity.

The CFO shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and staff.

The CFO shall develop and maintain written administrative procedures and guidelines for the operation of the investment program which are consistent with this *Investment Policy*. Procedures will include safekeeping, PSA Master Repurchase Agreements, wire transfer agreements, collateral/depository agreements, banking service contracts, trading authorizations, and other investment related activities.

The CFO, his/her designees, and/or Board authorized investment advisor shall act as the investment officer and/or liaison. The duties of this individual shall be clearly outlined in the investment procedures. The name and title of each component's investment officer(s) shall be filed with the Board Office. Any changes must be filed there as they occur.

An investment officer for TSUS or its components having a personal business relationship with a business organization engaging in an investment transaction with TSUS and/or a component must file a statement disclosing such a relationship. An investment officer has a personal business relationship with a business organization if:

- A. the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- B. funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or
- C. the investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

An investment officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment shall file a statement disclosing that relationship.

Decisions regarding security purchases with final stated maturities in excess of five (5) years will require Board approval as well as approval by the investment officer and the component CFO (for those instances in which the CFO is not acting as the investment officer.) In the event circumstances require timely action, alternative approvals should be provided for in the components' administrative procedures; however, the CFO may not act for the Board, and the investment officer may not act for the CFO.

No officer or designee may engage in an investment transaction except as provided under terms of this policy as approved by the Texas State University System Board of Regents.

The CFO and his/her designee shall not be held personally liable for a specific security's credit risk or market value change if he/she followed the prudent person rule, acted in accordance with written investment policies and procedures, reported any unexpected deviations to the Board in a timely manner, and took appropriate action to control adverse developments.

The Texas State University Board of Regents may contract with an investment management firm registered under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or the State Securities Board to provide for the investment and management of the public funds or other funds under its control. A contract may not be for a term exceeding two years. A renewal or extension of the contract must be made by the Board through the adoption of an official Board agenda item. A copy of the Board's Investment Policies must be given to the investment management firm and written acknowledgment must be obtained in accordance with Section X, Paragraph E.

III. PRUDENCE

- A. The "Prudent person" standard will be used in the investment function and shall be applied in the context of individual transactions as well as management of the overall portfolio. Accordingly, all investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, emphasizing the probable safety of their capital as well as the expected income to be derived.
- B. Investments made must be consistent with the Board approved investment policy.

IV. INTERNAL CONTROLS

TSUS and each component shall establish a system of written internal controls designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the University. These controls shall be incorporated into the written administrative procedures.

The administrative procedures for each component are shown in Appendix A. Internal controls are exhibited in Appendix B.

Each component's Internal Auditor will biennially review these internal controls for adequacy and shall test them for effectiveness in meeting the goals established in TSUS investment strategies.

V. INVESTMENT STRATEGIES

TSUS and each of its components shall adopt distinct investment strategies designed to address the unique characteristics and needs of each fund group represented in the investment portfolio.

Appendix C incorporates the strategies for the TSUS and its components. Appendix D includes any special rules specific to an individual component.

VI. AUTHORIZED INVESTMENTS

All investments made by TSUS must comply with all applicable federal and state statutes, rules, regulations or policies. Investment of bond proceeds must be in accordance with the bond resolution.

NON-OPERATING FUNDS - OTHER THAN ENDOWMENTS

A. Fixed Rate Investments

1. U.S. Treasury Securities (Including Letters of Credit) - Coupon bearing and zero coupon instruments are permissible. There are no restrictions on stated coupon levels.

Maximum Term	5 year maturity
Maximum Single Purchase	No limit
Maximum Aggregate Position	No limit

2. Bullet Federal Agency Securities - Coupon bearing and zero coupon non-callable federal agency securities are permissible. There are no restrictions on stated coupon levels.

Maximum Term	5 year maturity
Maximum Single Purchase	10% of portfolio per issue
Maximum Aggregate Position	No limit

3. Callable Federal Agency Securities - There are no restrictions on stated

coupon levels.

Maximum Term	5 year maturity
Maximum Single Purchase	10% of portfolio per issuer
Maximum Aggregate Position	50% of portfolio

1. Step-Up Federal Agency Securities - There are no restrictions on stated coupon levels.

Maximum Term	5 year maturity
Maximum Single Purchase	10% of portfolio per issuer
Maximum Aggregate Position	50% of portfolio

5. Mortgage-Backed Securities (MBS) - Federal agency guaranteed mortgage-backed securities are permitted. There are no restrictions on stated coupon levels. There are no restrictions on stated final maturity.

Maximum Base Case Avg. Life (Assuming a PSA of 100)	5 years
Maximum Single Purchase	10% of portfolio per issuer
Maximum Aggregate Position	25% of portfolio

The aggregate investment in mortgage-backed securities and collateralized mortgage obligations shall not exceed 25% of the total portfolio.

6. Collateralized Mortgage Obligation (CMOs) - Federal agency issued CMOs that are backed by federal agency guaranteed mortgage-backed pools are permissible. There are no restrictions on stated coupon levels. There are no restrictions on stated final maturity.

Maximum Average Life (Assuming a PSA of 100)	5 years
Maximum Single Purchase	10% of portfolio per issuer
Maximum Aggregate Position	25% of portfolio

All CMOs must pass the FFIEC high-risk stress test at time of purchase.

The Bloomberg median prepayment estimate will be used when performing the FFIEC stress test on CMOs. Upon purchase, the median estimate must be based on at least three prepayment sources. When performing the quarterly retests, the median estimate must be based on at least two prepayment sources.

7. Money Market Securities - Federally insured certificates of deposits,

commercial paper rated A1/P1, and bankers acceptances are permitted (see F at VIII. Prohibited Investments and Activities for restrictions.)

Maximum Term	18 months maturity for CDs; 270 days for CP and BAs.
Maximum Single Purchase	10% of portfolio per issuer
Maximum Aggregate Position	25% of portfolio

8. Municipal Securities - Taxable or non-taxable municipal securities are permitted. Two nationally recognized statistical rating organizations must rate the security, at the time of purchase, in one of the three highest rating categories (i.e. AAA to A).

Maximum Term	5 year maturity
Maximum Single Purchase	5% of portfolio per issuer
Maximum Aggregate Position	25% of portfolio

B. Variable Rate Investments

1. Federal Agency Notes - Variable rate non-callable agency notes are permitted. The index is tied to a domestic interest rate including U.S. LIBOR. The coupon must float directly with the index and cannot be leveraged or de-leveraged. There are no restrictions on final maturity. Permissible indices include any Treasury index, the 11th DCOF, LIBOR, or Prime.

Maximum Term	5 year maturity
Maximum Single Purchase	10% of portfolio per issuer
Maximum Aggregate Position	25% of portfolio

2. Mortgage-Backed Securities - Federal agency guaranteed, adjustable rate mortgage securities (ARMS) are permissible. There are no coupon rate restrictions. The index is tied to a domestic interest rate, which includes U.S. LIBOR. The coupon must float directly with the index and cannot be leveraged or de-leveraged. There are no restrictions on final maturity. Permissible indices include any Treasury index, the 11th DCOF, LIBOR, or Prime.

Maximum Annual Reset Cap	2%
Minimum Lifetime Cap	2%

Minimum Reset Frequency	Annual
Maximum Base Case Avg. Life (Assuming a PSA of 100)	5 years
Maximum Single Purchase	10% of portfolio per issuer
Maximum Aggregate Position	25% of portfolio

The aggregate investment in mortgage-backed securities and collateralized mortgage obligations shall not exceed 25% of the total portfolio.

3. Collateralized Mortgage Obligations (CMOs) - Federal agency issued, floating rate CMOs backed by federal agency guaranteed mortgage-backed pools are permissible. The index is tied to a domestic interest rate, including U.S. LIBOR. There are no restrictions on coupon levels. The coupon reset must float directly with the index and cannot be leveraged or de-leveraged. There are no restrictions on final maturities. Permissible indices include any Treasury index, the 11th DCOF, LIBOR, or Prime.

Minimum Reset Frequency	Annual
Maximum Base Case Avg. Life (Assuming a PSA of 100)	5 years
Maximum Single Purchase	10% of portfolio per issuer
Maximum Aggregate Position	25% of portfolio

All CMOs, including floating rate bonds, must pass all three parts of the FFIEC high-risk stress test at the time of purchase.

4. Corporate Securities - Corporate securities may be purchased if two nationally recognized statistical rating organizations have it rated, at time of purchase, in one of the two highest rating categories (i.e. AAA to AA).

Maximum Term	5 year maturity
Maximum Single Purchase	5% of portfolio per issuer
Maximum Aggregate Position	25% of portfolio

5. State of Israel Bonds - Bonds issued, assumed, or guaranteed by the State of Israel are approved investment instruments for the Texas State University System.

Maximum Term	5 year maturity
Maximum Single Purchase	5% of portfolio
Maximum Aggregate Position	25% of portfolio

C. Mutual Funds and Investment Pools

Investment in no-load money market mutual funds, investment pools, and no-load mutual funds are permitted as long as the mutual fund restricts its investment portfolio to investments and investment transactions that are permissible by TSUS. Money market mutual funds must have as an investment objective the maintenance of a stable net asset value (NAV) of \$1 for each share. An investment pool must mark its portfolio daily, to the extent reasonably possible stabilized at a \$1 net asset value, maintain an advisory board, and must be rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service. An investment pool must invest in instruments and follow practices allowed by law as defined in Section 2255.016 and 2256.019 of the Texas Government Code. Mutual funds must be registered with and regulated by the Securities and Exchange Commission and rated by at least one nationally recognized rating firm of not less than AAA or its equivalent.

Maximum Term

Money Market Mutual Funds
 Dollar-weighted average
 stated maturity of 90 days or
 fewer
 Investment Pools
 Dollar-weighted average
 stated maturity of 90 days or
 fewer
 Mutual Funds
 Dollar-weighted average of
 stated maturity of less than
 two years

Maximum Aggregate Position

Money Market Mutual Funds
 No limit, except may not
 invest an amount that
 exceeds 10% of the total
 assets of the mutual fund
 Investment Pools
 No limit, except may not
 invest an amount that
 exceeds 10% of the total
 assets of the investment pool
 Mutual Funds
 No more than 15% of the
 monthly average fund
 balance, except may not
 invest an amount that
 exceeds 10% of the total
 assets of the mutual fund

D. Repurchase Agreements

Investment in fully collateralized repurchase agreements that does not exceed 90 days is permitted if the repurchase agreement:

- a. has a defined termination date;
- b. is secured by obligations of the United States or its agencies and instrumentalities; and
- c. requires the securities being purchased by the component to be pledged to the component, held in the component's name, and deposited with the component or with a third party approved by the component; and
- d. is placed through a primary government securities dealer.

Maximum Term	90 days maturity
Maximum Single Purchase	5% of portfolio per issuer
Maximum Aggregate Position	10% of portfolio

E. Securities Lending

A securities lending program is an authorized investment provided:

- a. the value of the securities is at least 100% collateralized;
- b. a loan made under the program must allow for termination at any time;
- c. a loan under this program must be secured by either (1) pledged obligations guaranteed by governmental entities, (2) pledged irrevocable letters of a credit issued by a bank organized under the laws of the United States or any other state that is continuously at not less than A or its equivalent, or (3) cash invested in governmental securities, commercial paper, mutual funds, or investment pools;
- d. the securities being held as collateral under the loan must be pledged to the investing component, held in the investing component's name, and deposited at the time of the investment with the component or an approved third party; and
- e. the loan must be placed by a primary government securities dealer or a financial institution doing business in Texas.

Maximum Term	1 year or less maturity
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Maximum Single loan	5% of portfolio per issuer
Maximum Aggregate Position	10% of portfolio

ENDOWMENT FUNDS

- A. Endowment Funds may be invested in authorized securities as described for Non-operating Funds Other Than Endowments. The investments are subject to the same constraints as discussed previously.

- B. Domestic and Foreign Stocks

Investments may be made in either domestic or foreign stocks if the stock is traded on a regional or national exchange in the United States. Foreign stocks must be traded in US dollars. Investments in specific stocks are limited to 5% for an individual company and 25% for a specific industry as classified in the S&P 500 of the total portfolio.

Maximum Single Purchase	5% of total portfolio per issuer
Maximum Aggregate Position	Domestic
	50% of total portfolio
	Foreign
	10% of total portfolio

- C. Domestic and Foreign Corporate Bonds

Investments in either domestic or foreign bonds are limited to those traded in US dollars, thereby limiting exposure to changes in the foreign currency rate of exchange. The bonds must be rated by at least one nationally recognized statistical rating agencies, at time of purchase, in one of the three highest rating categories (i.e. AAA to A). Investments in specific bonds are limited to 5% of total portfolio.

Maximum Term	No limit
Maximum Single Purchase	5% of the portfolio per issuer
Maximum Aggregate Position	Domestic
	50% of total portfolio
	Foreign
	10% of total portfolio

- D. Common Funds

Investments in common funds or similar commingled vehicles, both equity and fixed income, are permitted as long as the common fund restricts its investment

portfolio to investment transactions that are permissible by TSUS. Specific authority is granted to invest in the Common Funds' Multi-Strategy-Equity Fund, Multi-Strategy Bond Fund, and High Quality Bond Fund. Common funds must be rated by at least one nationally recognized rating firm of not less than AAA or its equivalent.

Maximum Aggregate Position
Limitations

No more than 10% of the total assets
of the common fund
No more than 70% of the total
portfolio

A. Real Property

Real property received as a gift may be retained; however, the purchasing and selling of real property for investment purposes is not permitted.

VII. DIVERSIFICATION

The Chief Financial Officer (CFO) shall diversify maturities, within the investment guidelines for each type of securities allowed maximum aggregate position, to reduce risk and enhance income while meeting cash flow requirements. A cash flow projection for the subsequent three years must be prepared. The CFO is required to update projections of cash flow quarterly and submit these to the President and System Office.

Unless matched to a specific requirement, the CFO may not invest more than 25% of the investment portfolio of Non-operating Funds - Other Than Endowments for a period greater than three years. Unless matched to a specific requirement, the CFO may not invest any portion of the portfolio of Non-operating Funds - Other Than Endowments for a period greater than five years. Endowment Funds may be invested for periods of time as deemed appropriate to meet the requirements of the gift instrument and demands for income. The CFO shall consider extension risk when diversifying and matching maturities.

VIII. PROHIBITED INVESTMENTS AND ACTIVITIES

The following list is comprised of prohibited activities and securities that are unauthorized investments for TSUS. These securities may not be purchased unless the Finance and Audit Committee for the Board of Regents has evaluated all the risks and rewards associated with the security and has given written approval for the purchase.

A. The TSUS may not purchase or sell financial derivatives, such as futures, options, interest rate swaps, or forward rate agreements.

- B. The TSUS may not engage in adjusted trading or short sales.
- C. The TSUS may not purchase stripped Mortgage-Backed securities, residual interests in CMOs/REMICs, mortgages serving rights, commercial mortgage related securities, or small business related securities (this does not include a security guaranteed by the Small Business Administration). Specific securities that may not be purchased are:
 - 1. inverse floaters
 - 2. principal only strips
 - 3. interest only strips
 - 4. accrued interest notes
 - 5. any other “exotic” type CMOs
- D. The TSUS may not purchase zero coupon bonds in excess of five year maturities.
- E. The TSUS may not purchase adjustable rate securities not tied to domestic interest rates as stated in the Treasury index, the 11th DCOF, LIBOR, or Prime indices.
- F. The TSUS may not purchase 144A private placement securities regardless of rating.
- G. Officials, officers, and employees of the TSUS may not accept anything of value in connection with investment transactions.

Investments that were at the time of acquisition but that are not currently authorized, including those no longer meeting the minimum rating requirements are not required to be immediately liquidated. However, prudent measures will be taken, consistent with the investment policies, to manage these investments.

IX. SAFEKEEPING AND COLLATERALIZATION

- A. All security transactions, including collateral for repurchase agreements, but excluding investment pool funds, certificates of deposit, and mutual funds, entered into by TSUS components shall be conducted on a delivery versus payment basis. All securities shall be held by a third party custodian in the name of the TSUS component. The third party custodian shall be required to issue a safekeeping receipt to the TSUS component listing the specific instrument, rate, maturity, safekeeping receipt number, and other pertinent information. Any collateral safekeeping receipt shall be clearly marked on its face that the security

is "pledged to TSUS". Any safekeeping receipt for component owned securities shall clearly identify ownership as being TSUS.

- B. Collateralization shall be required on the uninsured portion of certificates of deposit and repurchase agreements as well as deposits addressed in the Texas State University System's *Policy And Procedures for The Control Of Depository Funds*. In order to anticipate market changes and provide a level of additional security for all funds, the collateralization level will be, at a minimum, 102% of the market value of principal and interest.

Collateral for repurchase agreements and CD's shall consist of any of the securities authorized for investment purposes. Collateral shall be provided at a margin level of at least 102%.

X. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

- A. Transactions (bids and offers) will require competitive bidding by at least three Board authorized broker/dealers who have fulfilled all compliance requirements of the Board. Exceptions to this rule require written justification and Board approval.
- B. A "Qualified List" of financial institutions and broker/dealers authorized to do business with TSUS that are available for use by the investment officers shall be compiled and maintained by the System Office. Annually, the Board shall review, revise and adopt a current qualified list of approved broker/dealers and banks. The Board may add or remove any broker/dealer and/or bank from the qualified list during the fiscal year.
- C. TSUS will establish written compliance requirements and procedures for any financial dealer or institution with which it does business. A questionnaire will be completed by each bank and broker/dealer and maintained with financial statements in TSUS compliance files held in the System Office. Security brokers/dealers not affiliated with a Texas bank shall be required to be dealers designated by the New York Federal Reserve Bank as "primary dealers" or regional dealers that qualify under the Securities and Exchange Commission's "Uniform Net Capital Rule". In addition, broker/dealers must be NASD certified and registered with the Texas Securities Commission.
- D. Banks and savings and loans holding certificates of deposit or deposits shall provide their most recent "consolidated report of condition" (call report) quarterly. Institutions providing safekeeping services for the collateral or securities of the TSUS components shall provide financial statements annually and information on the institution shall be maintained as part of the compliance

files by the System Office.

- E. A written copy of the investment policy shall be presented to any person seeking to engage in an investment transaction with TSUS or a component. This includes, but is not limited to: investment pools, banks (not applicable to certificates of deposit), and investment management firms. The registered principal of the business organization offering to engage in an investment transaction shall execute a written instrument substantially to the effect that the registered principal has:
1. received and reviewed the investment policy of TSUS;
and
 2. acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between TSUS and/or component and the organization that are not authorized by TSUS's investment policy, except to the extent that this authorization is dependent on an analysis

of the makeup of the entire portfolio or requires an interpretation of subjective investment standards.
- F. The TSUS or component investment officer may not acquire or otherwise obtain any authorized investment from a person who has not delivered to TSUS a receipt as required by Subsection E.

XI. INVESTMENT REPORTING AND MONITORING

- A. The weighted average life (WAL) of the portfolio for Non-operating Funds - Other than Endowments, excluding collateralized mortgage obligations currently held that are no longer an approved investment, shall be maintained at no more than five (5) years to reflect the sources and uses of these funds. WAL is defined as the average time to receipt of principal of a security. Choices for individual securities and transactions will be guided by this overall WAL consideration. No specific time requirements are established for the WAL related to Endowment Funds, as each endowment may carry restrictions that would impact the maturity schedule. The WAL of the funds shall be reported quarterly in the required reporting to the Board.
- B. The CFO of each component shall submit quarterly and annual reports to the TSUS Vice Chancellor for Finance for consolidation into a system-wide report to be submitted to the Finance and Audit Committee of the Board of Regents in the format prescribed by the Public Funds Investment Act, the General Appropriations Act and requirements promulgated by other oversight agencies.

The reports must:

1. describe in detail the investment position of the component on the date of the report;
2. be prepared by the investment officer(s) of the component;
3. be signed by the investment officer(s) of the component;
4. contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the:
 - (a) beginning market value for the reporting period;
 - (b) additions and changes to the market value during the period;
 - (c) ending market value for the period; and
(Market value is to be determined through information published in the Wall Street Journal and/or through contractual arrangements with an organization which provides this type of service.)
 - (d) fully accrued interest for the reporting period;
5. state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
6. state the maturity date of each separately invested asset that has a maturity date;
7. state the account or fund or pooled group fund for which each individual investment was acquired; and
8. state the compliance of the investment portfolio of the TSUS component as it relates to:
 - (a) the investment strategy expressed in the TSUS investment policy; and
 - (b) relevant provisions of the Public Funds Investment Act.
9. Benchmarks - The report will include a summary analysis of the fixed income investment portfolio's performance based upon its total return and in comparison with one of the preselected indices (benchmarks) listed below.

- (a) Investment of Non-operating Funds (other than Endowments) - the benchmark is one of the following:
 - (1) Merrill Lynch 182 Day Treasury
 - (2) Merrill Lynch Treasury/Agency 1-3 Years
 - (3) Merrill Lynch Treasury/Agency 1-5 Years
 - (4) 1 Year CMT, Continually Maturing Treasury

- (b) Investment of Endowment Funds - the benchmark is one of the following:
 - (1) Standard & Poor's 500 Index
 - (2) Wilshire 5000 Index
 - (3) Russell 3000 Index
 - (4) Lehman Brothers Aggregate
 - (5) Lehman Brothers Government/Corporation Intermediate

The investment officer should select an index that most closely matches the type of portfolio held by the university.

The quarterly report shall be presented to the Board of Regents (through the Finance and Audit Committee), the Chancellor, and the President of each component within a reasonable time after the end of the period. This is generally by the end of the month following the end of each quarter; however, the fourth quarter report is due upon issuance of the Annual Financial Report

XII. SPENDING POLICY

Each component of the Texas State University System may develop a spending policy for the income generated from the investment of endowment principal. The spending policy for each endowment must take into consideration any specific requirement imposed by the donor at the time of the gift. If a component adopts a percentage of principal (based upon market value) spending policy, the component is authorized to incorporate an adjustment for inflation, based upon the Consumer Price Index (CPI) or the Higher Education Price Index (HEPI) as part of their spending policy.

XIII. TRAINING

Each Board member and each investment officer is required by Section 2256.007(a), Government Code (TPIA), to attend investment training within six months after taking office or assuming duties.

Each CFO and designated investment officer(S) must attend a training session not

less than once in a two-year period and may receive training from any independent source approved by the Board. To qualify as an independent source, the entity conducting the training must not be engaged in providing investment services to TSUS or its components. In addition, CFO must prepare and deliver to the Board a report on Section 2256.007 not later than the 180th day after the last day of each Regular Session of the Legislature.

XIV. AUDITS

- A. Each TSUS component shall have a compliance audit of management controls on investments and adherence to statutory requirements and to the System's and component's established investment policies at least once every two years. The audit shall be performed by the component's internal auditor or by a private auditor and the results of the audit shall be reported to the Board and the State Auditor not later than January 1 of each even-numbered year.

If a component invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts, the reports prepared by the investment(s) officers shall be reviewed at least annually by the internal auditor, and the results reported to the Board.

- B. Notwithstanding any other law, TSUS may employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the Board.

XIV. INVESTMENT POLICY ADOPTION AND CERTIFICATION

TSUS's investment policies together with the appendices, as approved by the Board of Regents, shall be reviewed on an annual basis by the Board and modifications thereto must be approved by the Board.

Lamar University

Investment Policies and Procedures

Appendix A: Administrative Procedures

1. Investments and cash balances held in depository bank account will be monitored on a daily basis by the Director of Cash Management.
2. Daily, the Director of Cash Management will monitor the cash needs of Lamar University and report the needs to the Assistant Vice President for Finance and/or Vice President for Finance and Operations.
3. The Director of Cash Management will review those assessments and make necessary adjustments in the investment allocations and bank balances.
4. All investment transactions and cash transfer confirmations will be prepared by the Director of Cash Management with the related banking transactions being made by the Assistant Vice President for Finance or by the Vice President for Finance and Operations.
5. All investment transactions will maintain a subsidiary investment ledger for reconciliation with the Monthly Operating Report, The Common Fund statements, and other broker/dealer statements. These reports are to be reconciled on a monthly basis.
6. Quarterly investment reports are prepared by investment personnel and approved by the Vice President for Finance and Operations in accordance with the Investment Policy.
7. The Director of Cash Management will provide a quarterly cash flow projection for the next three years to the Assistant Vice President for Finance. These projections will serve as the basis for investment maturity diversification decisions.

Lamar University

Investment Policies and Procedures

Appendix B: Internal Controls

1. The Investment Policy will be reviewed or updated annually.
2. All securities shall be held by a third party custodian in the name of the University. A safekeeping receipt will be issued to the University listing the specific instrument, rate, maturity, safekeeping receipt number, and other pertinent information.
3. The signature of the President or Vice President for Finance and Operations is required for the early release of securities.
4. A periodic evaluation of the portfolio value and mark to market report will be made.
5. The investment subsidiary ledger will be reconciled on a monthly basis to the Monthly Operating Report, General Ledger, The Common Fund statements, and other broker/dealer statements. The reconciliations are reviewed by the Vice President for Finance and Operations or his/her designee on a regular basis.
6. A quarterly reconciliation of income received will be prepared by the Director of Cash Management or Assistant Vice President for Finance.
7. All purchases of securities and deposits or withdrawals of funds from TexPool and other government approved pools require the signature of any two of the following: the Vice President for Finance and Operations, Assistant Vice President for Finance, or Director of Cash Management.

Lamar University

Investment Policies and Procedures

Appendix C: Endowment Funds - Investment Strategies

1. GENERAL

Lamar University invests its endowment funds to provide funding for scholarships, fellowships, professorships, academic chairs, and other uses as specified by donors. Investments of University funds shall be accomplished with the following principles:

- A. There are two primary investment objectives. One is to provide a continuing and dependable cash payout, stable after giving effect to inflation. The second is to cause the total value of the funds to appreciate, over time, exclusive of growth derived from donation.
- B. The cash payout requirement for endowment funds is significant and continuous. Income must be sufficient to provide an adequate cash stream to support the programs for which the endowments were created. In addition, the corpus of the accounts must appreciate to insure preservation of its purchasing power.
- C. Endowment funds will be invested to meet these objectives, by maximizing returns consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally, the investment shall be diversified at all times to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an excessive impact on the funds.

2. ASSET ALLOCATION

The overall objective of endowment funds investment is to achieve a sensible balance of growth of corpus and consistent payout while maintaining the purchasing power of these endowments as can reasonably be achieved within the framework of the policy consistent with the objective of the safety and preservation of capital. The following guidelines will be used as flexible framework for asset allocation (as measured at market value).

Type of securities target range:

- 0% - 60% - Equity funds per paragraph D of the Endowment Funds section of Chapter VI of this Policy. Currently, the Common Fund is the preferred vehicle. Lamar University will utilize the Multiple Strategy - Equity Fund of the Common Fund - This fund's stated investment objective is to achieve a superior long-term total return through both capital appreciation and yield

with asset allocation in seven focused strategies: Core, Equity-Income Growth, International/Global, Absolute Return (Equitized), Hedging, and Specialized Strategies. When equities exceed 60%, no additional funds will be added until such time as the percentage is less than 60%.

3. DISTRIBUTION OF INCOME

Distribution will be made as received to the individual endowment funds (accounts) participating in the investment fund. Income will consist of interest earnings, dividends, and realized capital gains. Income will be disbursed to expenditure accounts based upon one of the following criteria:

- A. If the endowment of trust agreement contains specific directions for income distribution, these directives will be followed.
- B. In all other instances, the income will be distributed, excluding fees, in an amount equal to no more than 5% of the market value at the end of the last fiscal year.

Sam Houston State University

Investment Policies and Procedures

Appendix A: Administrative Procedures

- Investments will be monitored on a weekly basis and cash balances held in the depository bank account will be monitored on a daily basis by the Vice President for Finance and Operations (VPFO) and the Assistant to the VPFO.
- The selection of the appropriate investment vehicle to meet the University's current investment needs and the subsequent transactions and cash transfers will require approval by the VPFO or in his absence the President or the Associate VPFO and the Assistant to the VPFO.
- All investment transactions and cash transfers will be prepared by investment personnel with the related banking transactions being made by the VPFO or in his absence the President or the Associate VPFO and the Assistant to the VPFO.
- All investment transactions including transfers, purchases, sales, and interest will be recorded by investment personnel in a timely manner.
- Investment personnel will maintain a subsidiary investment ledger for reconciliation with the Account Balance Reports General Ledger accounts at month end, TexPool statements, and other broker/dealer statements. These reports are to be reconciled on a monthly basis.
- Quarterly investment reports are prepared by investment personnel and approved by the VPFO in accordance with SHSU Investment Policy.
- The investment reports prepared will provide fund information by type and maturity.
- The cash needs of SHSU will be monitored daily by the VPFO and the Assistant to the VPFO.
- Necessary adjustments in investment allocations and/or depository bank balances will be prepared by the VPFO.
- All investment transactions (transfers, purchases, sales, interest income, expenses) will be recorded by the VPFO, the Assistant to the VPFO and the Department of Administrative Accounting.

Sam Houston State University

Investment Policies and Procedures

Appendix B: Internal Controls

- The Investment Policy will be reviewed or updated annually.
- All securities shall be held by a third party custodian in the name of the University. A safekeeping receipt will be issued to the University listing the specific instrument, rate, maturity, safekeeping receipt number, and other pertinent information.
- The signatures of the President and the Vice President for Finance and Operations (VPFO) are required for the release of securities from safekeeping.
- A quarterly evaluation of the portfolio value and market to market report will be made each calendar quarter ended November 30, February 28(29), May 31, and August 31.
- The investment subsidiary ledger will be reconciled by the Assistant to the VPFO on a monthly basis to the Monthly Operating Report, General Ledger, TexPool statements, and other broker/dealer statements. These reconciliations shall be reviewed each month by the VPFO, the SHSU Internal Auditor and Assistant Director of Business Office.
- A monthly reconciliation of investment accounts will be prepared by the Assistant Director of the Business Office.
- All wire transfers, check transfers, or other bank items are carried to the bank by someone other than the person preparing them.
- TexPool investment control is governed by the RESOLUTION and PARTICIPATION AGREEMENT with TexPool.
- The Depository Contract governs transaction control regarding the SHSU bank depository.
- All purchases of securities and deposits or withdrawals of funds from TexPool and other government approved pools require the signature of the Vice President for Finance and Operations or in his absence the President or the Associate VPFO and Assistant to the VPFO.

Sam Houston State University

Investment Policies and Procedures

Appendix C: Investment Strategies - Endowment and Quasi Endowment Funds

I. GENERAL

Sam Houston State University (University) invests its endowment funds to provide funding for scholarships, fellowships, professorships, academic chairs, and other uses as specified by donors. Investments of University funds for endowments and quasi endowments shall be accomplished in accordance with the following principals:

- A. There are two primary investment objectives. One is to provide a continuing and dependable cash payout, stable, and preferably growing in real terms, after giving effect to inflation. The second is to cause the total value of the funds to appreciate, over time, exclusive of growth derived from donations.
- B. The cash payout requirement for endowment and quasi endowment funds are significant and continuous. Income must be sufficient to provide an adequate cash stream to support the programs for which the endowments and quasi endowments were created. In addition, the corpus of the endowment and quasi endowment accounts need to appreciate to insure preservation of purchasing power, and also to satisfy the need for future growth in payouts.
- C. The endowment and quasi endowment funds will be invested to meet these objectives, by maximizing returns consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally, the investments shall be diversified at all times to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an excessive impact on the funds.

II. ASSET ALLOCATION

The overall objective of the endowment funds investment is to achieve a sensible balance of growth of corpus and consistent payout while maintaining the purchasing power of these endowments as can reasonably be achieved within the framework of the policy consistent with the objective of the safety and preservation of capital. The following guidelines will be used as a flexible framework for asset allocation (as measured at market value) at the end of each quarter (November 30, February 28, May 31, August 31).

Type of securities and their target range for endowment funds:

10% - Basic Structure (Range 5% - 95%)

Cash on Hand
TexPool (short-term)
U.S. Treasury Bills
Fixed maturity and fixed rate federal agency securities.
Callable Federal Agency Securities
Step-Up Federal Agency Securities
Mortgage-Backed Securities (MBS)
Municipal Securities (Taxable or Non-Taxable)

- 90% - Common Fund (Range 5% - 95%)
Multi Strategy - Equity Fund of the Common Fund or/and Domestic Equity Fund.
(This fund's stated investment objective is to achieve a superior long-term total return through capital appreciation and yield.
Multi Strategy Bond Fund
High Quality Bond Fund

III. DISTRIBUTION OF INCOME

Distribution will be made as received to the individual endowment funds (accounts) participating in the investment fund. Income will consist of interest earnings, dividends, and realized capital gains. Income will be deposited to expenditure accounts based upon one of the follow criteria:

8. If the endowment or trust agreement contains specific directions for income distribution, these directives will be followed. If the endowment or trust agreement contains no specific directives for income distribution, the income will be distributed, in an amount equal to no more than 5% of the last 12-quarter rolling average market value.

Quarterly Income Distribution - Average of the ending market value of the previous 12 quarters, multiplied times 5% divided by 4. SHSU needs cash for August registration period and January registration period of each year. Therefore, semi-annual income distribution will be: average of ending market value of the previous 12 quarters, multiplied x 5% divided by 2.

Distribution of income will be made quarterly, as soon as practicable, after the last calendar day of November, February, May and August of each fiscal year.

Sul Ross State University

Investment Policies and Procedures

Appendix A: Administrative Procedures

Sul Ross State University utilizes the following administrative procedures in the processing and monitoring of its investment transactions:

- A. The University's Vice President for Finance and Operations serves as the investment officer for Sul Ross State University. All investment purchases and sales require written approval from the investment officer. In emergency situations when the investment officer is not available, alternate approval will be obtained from the TSUS Vice Chancellor for Finance.
- B. Investments are monitored on a timely basis at least once a month. Cash balances held in the depository bank accounts are monitored on a daily basis by accounting personnel who then provide the information to investment personnel. The cash balances are evaluated as to investment needs.
- C. Market conditions are monitored by investment personnel on a timely and periodic basis.
- D. The investment officer selects the appropriate investment instrument to meet the University's investment needs. The subsequent related transactions and cash transfers require written approval by the Controller and the investment officer.
- E. All investment transactions and cash transfers are prepared by investment personnel with the related banking transactions being made by the University Controller with the approval of the Vice President for Finance and Operations.
- F. All investment transactions including transfers, purchases, sales, maturities and interest receipts are recorded on a timely basis but no less often than monthly.
- G. Investment personnel maintain a subsidiary investment ledger and files for reconciliation with the Monthly Operating Report, Texpool statements, Securities Portfolio Reports, and other broker/dealer statements. These reports are reconciled on a monthly basis.
- H. Quarterly investment reports are prepared by investment personnel and approved by the Vice President for Finance and Operations in accordance with the TSUS Investment Policy.

Sul Ross State University

Investment Policies and Procedures

Appendix B: Internal Controls

Sul Ross State University maintains a strong system of internal controls in its financial systems. In addition, the following internal controls have been implemented in the processing and monitoring of all SRSU investment transactions:

- A. The University adheres to the current Texas State University System Investment Policy approved by the Board. This policy is a system-wide policy with appendices prepared for individual member institutions.
- B. The investment policy is reviewed and/or updated annually.
- C. Except for certificates of deposit, all securities purchased by Sul Ross State University are held by a third party custodian in the name of the University. A safekeeping receipt is issued to the University listing the specific instrument, rate, maturity, safekeeping receipt number, and other pertinent information. A safekeeping receipt is issued to the University in the University's name for certificates of deposit. These receipts are kept in fireproof cabinets.
- D. All sales or purchases of securities require the written approval and signature of the investment officer.
- E. Portfolio market values are evaluated on a periodic and timely basis but at least monthly to insure that the University is aware of any market changes.
- F. The investment subsidiary ledger is reconciled on a monthly basis to the Monthly Operating Report, General Ledger, Texpool statements, and other broker/dealer statements. These reconciliations are reviewed by accounting personnel on a regular basis and by the investment officer monthly.
- G. A periodic reconciliation of income expected and received is prepared by investment and accounting personnel.
- H. All wire transfers for the purchase of securities are performed by accounting personnel not involved in the decision process. These wire transfers are then confirmed in writing by at least two University officials.
- I. The University's investment processes and procedures are audited at least every two years by the Internal Auditor with an audit report presented to the Board.

Sul Ross State University

Investment Policies and Procedures

Appendix C: Investment Strategies – Endowment Funds

I. GENERAL

Sul Ross State University (University) invests its endowment funds to provide funding for scholarships, fellowships, academic departmental excellence, and other uses as specified by donors. Investments of University Endowment funds shall be accomplished in accordance with the following principals:

- A. There are two primary investment objectives. One is to provide a continuing and dependable cash flow, stable, and preferably growing in real terms, after giving effect to inflation. The second is to cause the total value of the funds to appreciate, over time, exclusive of growth derived from donations.
- B. The cash flow requirement for endowment funds is significant and continuous. Income must be sufficient to provide an adequate cash flow to support the programs for which the endowments were created. In addition, the corpus of the accounts should appreciate in order to insure preservation of its purchasing power, and also to satisfy the need for future growth in payouts.
- C. The endowment funds will be invested to meet these objectives, by maximizing returns consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally, the investments shall be diversified at all times to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an excessive impact on the funds.

II ASSET ALLOCATION

The overall objective of the endowment funds investment is to achieve a sensible balance of growth of corpus and consistent payout while maintaining the purchasing power of these endowments as can reasonably be achieved within the framework of the policy consistent with the objective of the safety and preservation of capital. The following guidelines will be used as a flexible framework for asset allocation (as measured at market value) over a 20-quarter moving time period. The equity allocation target and allowable range may be modified if market conditions warrant.

Type of securities target range:

	<u>Target</u>	<u>Allowable Range</u>	
Equity	30%	15%-65%	(The Common Fund is the desired vehicle for equity investment to provide SRSU the necessary

		flexibility and liquidity)
Fixed Income	70%	35%-85%
Cash	0%	0%-10%

III. DISTRIBUTION OF INCOME

Distribution will be made monthly to the individual endowment funds (accounts) participating in the investment fund during the previous month. Income will consist of interest earnings, dividends, and realized capital gains. Unrealized gain may also be distributed monthly to allow a complete return analysis. Income will be disbursed based upon one of the following criteria:

- A. If the endowment or trust agreement has specific directives for income distribution, these directives will be followed first.
- B. In all other instances, the income will be distributed, net of fees, in an amount equal to the greater of 5 percent of the last 24 months rolling average endowment market value or the amount spent the previous fiscal year according to the following formula:

Monthly Income Distribution = Average ending market value of the previous 24 months multiplied by 5% and divided by twelve or the amount spent the previous fiscal year, whichever is greater.

In cases of unusual returns, the distribution percentage may be modified and the reasons for such actions will be documented.

Texas State University - San Marcos

Investment Policies and Procedures

Appendix A: Administrative Procedures

- 1) The Investment Policy will be reviewed and, if needed, updated annually in concert with the Texas State University System policy.
- 2) All investment securities shall be held by a third party custodian in the name of the University. A safekeeping receipt will be issued to the University listing the specific instrument, rate, maturity, safekeeping receipt number, and other pertinent information.
- 3) Signatures required for the release of securities from safekeeping shall include two of the following: President, Vice President for Finance and Support Services, or Treasurer
- 4) The University Investment Committee will meet no less than annually to review the performance of the investments and the investment strategy.
- 5) Not less than quarterly, the General Accounting Office/Financial Services will prepare the portfolio value and mark-to-market report, which will be reviewed by the Treasurer.
- 6) The investment subsidiary detail records will be reconciled to the Monthly Operating Report, General Ledger, statements, and other broker/dealer statements by the General Accounting Office on a monthly basis. These reconciliations are reviewed by Financial Services and the Treasurer on a regular basis.
- 7) A periodic reconciliation of income received will be prepared by the General Accounting Office and reviewed by Financial Services and the Treasurer.
- 8) All purchases and sales of securities and deposits or withdrawals of funds from TexPool and other approved investments shall be documented with the signature of both the Vice President for Finance and Support Services and the Treasurer or the Associate Vice President for Finance & Support Services Planning in the Treasurer's absence.
- 9) The General Accounting Office, as part of this policy, will maintain adequate separation of duties for all assigned investment-related responsibilities.

Texas State University - San Marcos

Investment Policies and Procedures

Appendix B: Internal Controls

- 1) Investments and cash balances held in the depository bank account will be monitored on a daily basis by the Treasurer or the Associate Vice President for Finance & Support Services Planning in her absence.
- 2) On a daily basis, the Treasurer (or designee) will monitor the cash needs of Texas State, review those cash needs and make necessary adjustments in the investment allocations and bank balances.
- 3) All investment transactions and cash transfer confirmations will be prepared for entry into the financial system by the General Accounting Office. The related banking transactions will be executed by the Treasurer or the Associate Vice President for Finance & Support Services Planning in the Treasurer's absence, and approved by the VPFSS.
- 4) All investment transactions including transfers, purchases, sales, and interest will be recorded by the General Accounting Office within five business days.
- 5) The General Accounting Office will maintain subsidiary investment detail records for reconciliation with the Monthly Operating Report, TexPool statements, and other broker/dealer statements. These reports are to be reconciled on a monthly basis.
- 6) Quarterly investment reports will be prepared by the General Accounting Office, reviewed by the Treasurer and the Associate Vice President for Financial Services, and approved by the Vice President for Finance and Support Services in accordance with Section XI of this Investment Policy.
- 7) Financial Services will provide historical cash flow information and any prudent current cash flow information to the Treasurer. The Treasurer, in collaboration with Financial Services, will formulate cash flow projections. These projections will serve as the basis for investment maturity diversification decisions.
- 8) The Treasurer will provide the VPFSS with a report each month showing investments by type and maturity.

Texas State University - San Marcos

Investment Policies and Procedures

Appendix C: Endowment Funds Investment Strategies

I. GENERAL

Texas State University-San Marcos invests its endowment funds to provide funding for scholarships, fellowships, professorships, academic chairs, and other uses as specified by donors. Investment of University funds for endowments shall be accomplished in accordance with the following principles:

- A. There are two primary investment objectives. One is to provide a continual and dependable cash payout, stable and preferably growing in real terms, after giving effect to inflation. The second is to cause the total value of the funds to appreciate, over time, exclusive of growth derived from donations.
- B. The cash payout requirement for endowment funds shall be consistent and continuous. Income must be sufficient to provide an adequate cash stream to support the programs for which the endowments were created. In addition, the corpus of the endowment accounts should appreciate to insure preservation of purchasing power, and also to satisfy the need for future growth in payouts.
- C. Endowment funds will be invested to meet these objectives, by maximizing returns consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally, the investments shall be diversified to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an excessive impact on the funds.

II. ASSET ALLOCATION

The overall objective of investing endowment funds is to achieve an appropriate balance of growth of corpus and consistent payout while maintaining the purchasing power of these endowments. This objective shall be achieved within the framework of the policy and should reasonably insure the safety and preservation of capital. The following guidelines will be used as a flexible framework for asset allocation (as measured at market value) over a 12-quarter moving time period. Investment of endowment funds will be in accordance with the Endowment section of Chapter VI of the TSUS Investment Policy.

Type of securities target and ranges:

5% - CASH (Range 0 – 10%)

35% - FIXED INCOME (Range 25 - 45%)

Basic composition of fixed income investments will be approximately as detailed below.

These percentages may vary, depending upon market conditions and recommendations of the university's investment advisors.

10% - 30% - Cash ready &/or Tex Pool

- Laddered Treasury Securities – short or intermediate term
- Common Fund Short-term Bond Fund
- Corporate Bonds (short-term maturities at time of purchase)

50% - 70% - U.S. Treasury securities

- Laddered one-year securities - intermediate term
- Laddered two-year securities - long term
- Common Fund Intermediate Term Bond Fund
- Common Fund Multi-Strategy Bond Fund
- Corporate Bonds (intermediate term maturities at time of purchase)

10% - 30% - Fixed maturity and fixed rate federal agency securities

- Laddered agency securities and agency discount notes; intermediate term and long term
- Laddered five year securities-callable at three years - long term
- Common Fund Multi-Strategy Bond Fund
- Common Fund High Quality Bond Fund
- Corporate Bonds (long-term maturities at time of purchase)

60%- EQUITIES (Range 50-70%)

Investment in equity securities may be made in accordance with the Endowment Funds section of Chapter VI of the TSUS Investment Policy. The Common Fund Multi-Strategy Equity Fund will generally be utilized. This fund's stated investment objective is to achieve a superior long-term total return through both capital appreciation and yield with asset allocation in seven focused strategies: Core, Equity-Income, Growth, International/Global, Absolute Return (Equitized), Hedging and Specialized Strategies.

Benchmark yields and targeted investments by maturity category (short, intermediate and long-term) are contained in section XI of the TSUS Investment Policy.

III. DISTRIBUTION OF INCOME (SPENDING POLICY)

A. Spending Policy Distribution – Amounts will be appropriated to recipient accounts (e.g., restricted fund scholarships and other operating accounts) based upon the methodologies detailed below.

- (1) An amount equal to no more than 5% of a 12-quarter rolling average market value as of a date specified by the VPFSS (or designee). Generally, the spending policy amount will

be determined not later than December 1 of each fiscal year for use the following fiscal year, based on a 12-quarter average market value as of August 31 of the previous fiscal year. The budgeted appropriation amount will be determined in accordance with the following formula:

Total Budgeted Appropriation = Average of the ending market value of the endowed investment portfolio for the previous 12 quarters as of August 31, multiplied times not more than 5%.

Each recipient account will be budgeted an amount equal to their proportion share of the spending policy amount. The proportion share will be determined on an equitable basis (such as a unitized pool) that takes into consideration the amount of time endowed funds have been in the endowed group.

- (2) If the endowment or trust agreement contains specific directions for income distribution (such as 50% expendable for scholarships and 50% added to the corpus of the endowment), these directives will be followed. However, the expendable and reinvested portions will be determined in accordance with the Spending Policy Distribution methodology. For example, if the spending policy percentage is set at 4% of the rolling 12-quarter market value and a specific endowment agreement requires that 50% of earnings is for scholarships and 50% is to be added to the corpus, these amounts will be assigned 2% respectively based on the 4% spending policy.
- B. Inflation Adjustment - The 5% maximum spending rate may be adjusted, based on the most recent annual published Consumer Price Index (CPI), so that the corpus of the endowment does not change in real (inflation-adjusted) value. For example, with an annual increase in the CPI of 4% and a total rate of return of 7%, the 5% maximum spending rate should be adjusted downward to 3%.
- C. Realized earnings – Actual amounts will be recorded as received, net of fees. Earnings will consist of interest income, dividends, and realized capital gains/losses as well as amortized premiums and discounts on investments in bonds and similar securities.
- D. Differences between Spending Policy Distributions and Actual Realized Earnings – Appropriated amounts based on the maximum 5% of market value may exceed or be less than the actual realized earnings of the endowed investments. Distributions greater than actual realized earnings may require funding from another source or the sale of investments. Actual realized earnings which exceed the Spending Policy appropriations may be utilized to offset past or future differences which resulted from actual realized earnings being less than the appropriations.
- E. Detailed policies and procedures for the Spending Policy methodology will be established by the VPFSS, the Treasurer, the AVP for Financial Services and the Investment Committee.

Lamar Institute of Technology

Investment Policies and Procedures

Appendix A: Internal Controls

- The Investment Policy will be reviewed or updated annually.
- All securities shall be held by a third party custodian in the name of the Institute. A safekeeping receipt will be issued to the Institute listing the specific instrument, rate, maturity, safekeeping receipt number, and other pertinent information.
- The signature of the President or Vice President for Finance & Operations is required for the release of securities from safekeeping. This authorization requires Board approval.
- Not less than quarterly, an evaluation of the portfolio value and mark to market report will be made.
- The investment subsidiary ledger will be reconciled on a monthly basis to the Monthly Operating Report, General Ledger, statements, and other broker/dealer statements. These reconciliations are reviewed by the Vice President for Finance and Operations on a regular basis.
- A periodic reconciliation of income received will be prepared.
- All wire transfers, check transfers, or other bank items are carried to the bank by someone other than the person preparing them.
- All purchases of securities and deposits or withdrawals of funds from Texpool and other government approved pools require the signature of the Vice President for Finance and Operations.

Lamar Institute of Technology

Investment Policies and Procedures

Appendix B: Administrative Procedures

- Investments will be monitored on a weekly basis and cash balances held in the depository bank account will be monitored on a daily basis by investment personnel.
- The selection of the appropriate investment vehicle to meet the Institute's current investment needs and the subsequent transactions and cash transfers will require approval by the Vice President for Finance & Operations.
- All investment transactions and cash transfers will be prepared by investment personnel with the related banking transactions being approved by the Vice President for Finance & Operations.
- All investment transactions including transfers, purchases, sales, and interest will be recorded by investment personnel on a timely basis.
- Investment personnel will maintain a subsidiary investment ledger for reconciliation with the Monthly Operating Report, Texpool statements, and other broker/dealer statements. These reports are to be reconciled on a monthly basis.
- Quarterly investment reports are prepared by Director of Finance and approved by the Vice President for Finance & Operations in accordance with the Investment Policy.
- The Director of Finance will provide a quarterly cash flow projection for the next three years to the Vice President for Finance and Operations.

Lamar Institute of Technology

Investment Policies and Procedures

APPENDIX C: ENDOWMENT FUNDS – Investment Strategies

- Lamar Institute of Technology does not have endowment funds at this time. An Investment strategy will be written if endowments are established in the future.

Lamar State College - Orange

Investment Policy

Appendix A - Administrative Procedures

- All investment transactions (such as deposits and withdrawals from TexPool) require written approval of the President or Chief Financial Officer (or Designee). The Director of Finance or the Director of Accounting may serve as Designee, on behalf of the Chief Financial Officer.
- Investments and cash balances held in depository bank accounts will be monitored on a daily basis by the Chief Financial Officer (or Designee).
- The selection of the appropriate investment vehicle(s) to meet the College's current investment needs and the subsequent transactions and cash transfers will be made by the President or Chief Financial Officer.
- All investment/banking transactions will be prepared by the Chief Financial Officer (or Designee).
- All investment transactions, including transfers, purchases, sales, and interest will be recorded into the College's accounting records by investment personnel on a timely basis.
- Investment personnel will maintain a subsidiary investment ledger for reconciliation with the monthly Operating report, TexPool statements, and other broker/dealer statements. These reports are to be reconciled on a monthly basis and are to be reviewed by the Chief Financial Officer (or Designee).
- Quarterly investment reports are prepared by investment personnel and approved by the Chief Financial Officer (or Designee), in accordance with Section 11 of the TSUS Investment Policy. The report includes quarterly cash flow projections for the next three fiscal years (current plus two).

Lamar State College – Orange

Investment Policy

Appendix B – Internal Controls

- The investment Policy will be reviewed or revised annually.
- All securities shall be held by a third party custodian in the name of the College. A safekeeping receipt will be issued to the College, listing the specific instrument, rate, maturity, safekeeping receipt number, and other pertinent information.
- The signature of the President or Chief Financial Officer (or Designee) is required for the release of securities from safekeeping. This authorization requires Board approval.
- A periodic evaluation, not less than quarterly, of the portfolio value and market to market report will be made.
- The investment subsidiary ledger will be reconciled on a monthly basis to the monthly Operating Report, General Ledger, investment pool statements, and other broker/dealer statements. These reconciliations are reviewed by the Director of Finance or the Chief Financial Officer on a regular basis.
- A periodic reconciliation of income received will be prepared.
- All wire transfers, check transfers, or other bank items are transmitted and/or transported to the bank by someone other than the preparer.
- All purchases of securities and deposits or withdrawals of funds from TexPool and other government approved pools require written approval of the President or Chief Financial Officer (or Designee). Designees who may act on behalf of the CFO are the Director of Finance and Director of Accounting.

Lamar State College – Orange

Investment Policy

Appendix C – Endowment Funds Investment Strategies

I. GENERAL

The College invests its endowment funds to provide funding for scholarships and other uses, as specified by donors. Investments of College funds shall be accomplished in accordance with the following principles:

- A. There are two investment objectives. The primary objective is to provide protection of the principal (corpus) of the endowment. The second is to provide a consistent source of funds for cash payout which is stable, and preferably growing in real terms, after giving effect to inflation. Assuming that these two objectives can be met, it is also desirable to cause the total value of the funds to appreciate, over time, exclusive of growth derived from donations.
- B. The cash payout requirement for endowment funds is on-going. Income should be sufficient to provide an adequate cash stream to support the programs for which the endowments were created. In addition, the corpus of the accounts should appreciate, to insure preservation of purchasing power, and also to satisfy the need for future growth in payouts.
- C. Endowment funds are to be invested to meet these objectives, by maximizing returns consistent with an appropriate level of risk and subject to generation of adequate current income. Additionally, the investments shall be diversified (where practicable) so as to provide reasonable assurance that investment in a single security, a class of securities, or industry will not have an adverse impact on the funds.

II. ASSET ALLOCATION

The overall objective of endowment funds investment is to achieve a sensible balance of growth of corpus and consistent payout while maintaining the purchasing power of these endowments. This must be reasonably achieved within the framework of the policy which requires the safety and preservation of principal. The following guidelines may be used as a flexible framework for the investment of endowment funds, with asset allocation (measured at market value) over a 20-quarter moving time period.

Type of securities target range:

- 100% Tex Pool
- Common Fund Multi-Strategy Equity Fund
- Common Fund Multi-Strategy Bond Fund
- Common Fund High Quality Bond Fund

Treasury securities may be added, in the event that there is a significant change in interest rates which would result in improved earnings for the endowment.

III. DISTRIBUTION OF INCOME

Distribution will be made to the individual endowment funds (accounts) participating in the investment fund. Income will consist of interest earnings, dividends, and realized capital gains. Income will be disbursed to expenditure accounts based upon one of the following criteria:

- A. In accordance with stipulations of the endowment or trust agreement regarding income distribution.
- B. In the absence of specific distribution instructions, the income will be distributed (net of fees) in an amount equal to no more than 5% of the last 4-quarters rolling average market value according to the following formula:

$$\text{Quarterly income distribution} = 5\% \text{ of the average ending market value of the previous 4quarters divided by } 4$$

Lamar State College – Port Arthur

Investment Policy

Appendix A: Administrative Procedures

- LSC – Port Arthur adheres to the Texas State University System’s (TSUS) Investment Procedures.
- LSC – Port Arthur does not employ outside investment advisors or managers.
- LSC – Port Arthur does not use soft dollar arrangements for brokerage services.
- Investments will be monitored on a daily basis and cash balances held in the depository bank account will be monitored on a daily basis by investment personnel.
- The selection of the appropriate investment vehicle to meet the College’s current investment needs and the subsequent transactions and cash transfers will require approval by the Vice President of Finance or in his/her absence the Director of Accounting.
- All investment transactions and cash transfers will be prepared by investment personnel with the related banking transactions being approved by the Vice President of Finance or in his/her absence the Director of Accounting.
- All investment transactions including transfers, purchases, sales, and interest will be recorded by investment personnel on a timely basis.
- Investment personnel will maintain a subsidiary investment ledger for reconciliation with the Monthly Operating Report, Texpool statements, and other broker/dealer statements. These reports are to be reconciled on a monthly basis.
- Quarterly investment reports are prepared by investment personnel and approved by the Vice President of Finance in accordance with Section 12 of the TSUS Investment Policy.
- The Treasury Officer will provide a quarterly cash flow projection for the next three years to the Vice President of Finance.

Lamar State College – Port Arthur

Investment Policy

Appendix B: Internal Controls

- The Investment Policy will be reviewed or updated annually.
- Investments and cash balances held in the depository bank account will be monitored on a daily basis by the Treasury Officer.
- The Treasury Officer will monitor the cash needs of LSC-PA daily to make necessary adjustments in the investment allocations and bank balances.
- All investment transactions including transfers, purchases, sales, and interest will be recorded by accounting personnel other than the Treasury Officer on a timely basis.
- All securities shall be held by a third party custodian in the name of the College. A safekeeping receipt will be issued to the College listing the specific instrument, rate, maturity, safekeeping receipt number, and other pertinent information.
- The signature of the President or Vice President of Finance is required for the release of securities from safekeeping. This authorization requires Board approval.
- Not less than quarterly, an evaluation of the portfolio value and mark to market report will be made.
- The investment subsidiary ledger will be reconciled on a monthly basis to the Monthly Operating Report, General Ledger, statements, and other broker/dealer statements by accounting personnel other than the Treasury Officer. These reconciliations are reviewed by the Vice President of Finance on a regular basis.
- A periodic reconciliation of income received will be prepared.
- All wire transfers, check transfers, or other bank items are carried to the bank by someone other than the person preparing them.
- All purchases of securities and deposits or withdrawals or funds from TexPool and other government approved pools require the signature of both the Vice President of Finance and the Treasury Officer.

Lamar State College – Port Arthur

Investment Policy

Appendix C: Endowment Funds

Lamar State College - Port Arthur has no donor-restricted endowment funds at this time. An investment strategy will be written if such an endowment is established in the future.

FOUNDATIONS

The Port Arthur Higher Education Foundation is a non-profit organization, which was established for the purpose of cooperating with and working on behalf of the College. Neither the transactions of this organization or its fund balances are reflected in the financial statements of the College. Mr. Jack Verret manages the foundation and may be contacted at (409) 982-4113.