

TEXAS STATE UNIVERSITY SYSTEM



Investment Policies

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TEXAS STATE UNIVERSITY SYSTEM

INVESTMENT POLICIES

Table of Contents

Investment Policies

1 - 19

Appendices:

Angelo State University

Lamar University

Lamar Institute of Technology

Lamar State College - Orange

Lamar State College - Port Arthur

Sam Houston State University

Sul Ross State University

Texas State University - San Marcos

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 total 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 total portfolio per issuer
Maximum Aggregate Position	50% of total portfolio

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

Maximum Term	5 year maturity
Maximum Single Purchase	10% of total portfolio per issuer
Maximum Aggregate Position	50% of total 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 total portfolio per issuer
Maximum Aggregate Position	25% of total 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 total portfolio per issuer
Maximum Aggregate Position	25% of total 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 total portfolio per issuer
Maximum Aggregate Position	25% of total 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 total portfolio per issuer
Maximum Aggregate Position	25% of total 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 total portfolio per issuer
Maximum Aggregate Position	25% of total 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 total portfolio per issuer
Maximum Aggregate Position	25% of total 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 per Insurer	10% of total portfolio
Maximum Aggregate Position	25% of total 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 total portfolio per issuer
Maximum Aggregate Position	25% of total 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 total portfolio
Maximum Aggregate Position	25% of total 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. The 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. The 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 total portfolio per issuer
Maximum Aggregate Position	10% of total 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
Maximum Single loan	5% of total portfolio per issuer
Maximum Aggregate Position	10% of total 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

- B. Domestic and Foreign Corporate Bonds

Investments in either domestic or foreign bonds is 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

C. 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
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D. 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.

SAM HOUSTON STATE UNIVERSITY

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:

- A. If the endowment or trust agreement contains specific directions for income distribution, these directives will be followed.
- B. 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 according to the following formula:
(Board Office to provide format for this calculation).

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.