

Texas Woman's University Regent Policy

Regent Policy Name: Endowment Investment and Distribution Policy

Regent Policy Number: Regent Policy: E.50110

POLICY STATEMENT

It is the policy of Texas Woman's University ("University") with regard to donations, gifts, and trusts, to establish endowment funds that operate similar to trusts and are managed under prudent person standards. As defined in the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") the "prudent person standard" means the standard of judgment and care that persons of ordinary prudence, discretion, and intelligence exercise in the management of their affairs in regard to investments of their funds, considering probable income as well as probable safety of their capital. It is the intent of the Board of Regents that the endowment funds of the University be invested to include equities as a significant portion of the portfolio.

This policy is intended to establish guidelines for investment, management, distribution, and administration of University endowment funds and property.

APPLICABILITY

This policy is applicable to TWU Employees.

DEFINITIONS

None

POLICY

I. Authority

Authority. The Public Funds Investment Act (PFIA), Texas *Government Code* 2256, and the Uniform Prudent Management of Institutional Funds Act (UPMIFA), *Property Code* Chapter 163 provide the authority for investment of University endowment funds.

II. Investment Strategy and Objectives

Section 1 The Endowment Portfolio

The Endowment Portfolio will be managed with a long-term perspective and structured to:

- 1.1 Control risk by diversification of asset classes and within asset classes, and
- 1.2 Achieve a long-term rate of return that:
 - a. Exceeds the long-term of inflation as measured by the Consumer Price Index for All Urban Consumers (CPI-U 1982-84=100) over rolling five-year periods by an annualized 4%, and
 - b. Exceeds the return of a custom benchmark of the respective long-term normal asset mix weighting of the major asset classes.

Section 2 Market Cycle. For performance measurement purposes, a market cycle will be used to measure long-term performance, defined as rolling five-year periods of annualized rates of return. The Board does not expect that all investment objectives will be attained in each year, and recognizes that over various time periods, the portfolio may produce significant over or under performance relative to the broad markets. Consideration will also be given to the need for safety of principal, liquidity, diversification, yield and quality.

III. Asset Allocation

Section 1 Asset Allocation

- 1.1 Asset allocation is the primary determinant of the Endowment's Portfolio performance. Asset allocation may be changed from time to time based on the economic and financial markets outlook as well as income requirements. The overall risk level of the assets, in terms of potential for price fluctuation, should not be extreme. The primary means for achieving such a risk profile are:
 - a. Diversification among equity, fixed income, and alternative asset investments;
 - b. Careful control of the risk level within each asset class, through avoidance of over-concentration and by not taking extreme positions against the market averages;
 - c. A degree of emphasis on stable growth of the corpus.
- 1.2 The return objective of the Endowment should be primarily long-term in nature and focused upon maintaining asset growth above the rate of inflation.

Section 2 Establishing Asset Allocation

2.1 In establishing asset allocation, recognition of the role of various classes of investments will be considered. These include:

- a. Fixed income investment provide a dependable and predictable source of income.
- b. Equity investments provide both current income and growth of income, but their principal purpose is to provide appreciation of the portfolio.
- c. Alternative assets represent an asset class that can provide benefits of diversification and may lower risk and increase expected returns.
- d. Cash equivalent short-term investments provide current income, but their principal purpose is to store purchasing power to fund longer term investments.

2.2 To pursue the foregoing return objectives at an acceptable risk level, the asset allocation shall be within the assigned ranges.

<u>Equity Portfolios</u>			
Asset Class	Target	Minimum	Maximum
Domestic Multi-Cap	60	30	65
International	10	0	15
Total Equities	70	30	75

<u>Fixed Income Portfolios</u>			
Asset Class	Target	Minimum	Maximum
Fixed-Income	30	25	70
Total Fixed Income	30	25	70

<u>Alternative Assets Portfolios</u>			
Asset Class	Target	Minimum	Maximum
Treasury Inflation Protected Securities (TIPS)	0	0	10
Total Alternatives	0	0	10
Cash Equivalents	0	0	25
Total Endowment	100%	N/A	N/A

2.3 On a book-value basis, no more than five percent of the portfolio can be invested in any one company within any asset class and no more than twenty percent of the portfolio can be invested in any one industry, as defined by Standard and Poor's broad categories.

IV. Expected Long-term Returns with Benchmark

Expected Returns. The following table depicts each eligible asset class of the portfolio and their respective target allocations and performance benchmarks. The Expected Long-Term Rate of Return for each asset class is also provided as an indication of possible returns based upon the history of U. S. financial assets. The total expected return is not a guarantee or a forecast of future returns, and assumes that the Endowment's portfolio remains fully invested over long time frames at each asset class target allocation.

<u>Equity Portfolios</u>			
Asset Class	Target (%)	Expected Rate of Return (%)	Benchmark
Domestic Multi-Cap	60	7.0	Russell 1000
International	10	8.0	MSCI EAFE
Total Equities	70	7.1	

<u>Fixed Income Portfolios</u>			
Asset Class	Target (%)	Expected Rate of Return (%)	Benchmark
Fixed-Income	30	3.5	Barclays Capital Intermediate Govt/Credit
Total Fixed Income	30	3.5	

<u>Alternative Assets Portfolios</u>			
Asset Class	Target (%)	Expected Rate of Return (%)	Benchmark
Treasury Inflation Protected Securities (TIPS)	0	0	Barclays Capital TIPS Index
Total Alternatives	0	0	
Cash Equivalents	0	2.0	91-day U.S. Treasury Bills
Total Endowment	100%	6.1%	

V. Authorized Investments

Section 1 Authorized Investment Instruments Include:

1.1 Common and preferred stock issued by United States domiciled corporations and common stocks of foreign companies listed on the major U.S. or foreign security exchanges.

Section 2 Obligations of the United States or its Agencies and Instrumentalities;

2.1 Eligible investments include U.S. Government Obligations, which are debt instruments issued by the U.S. Government, such as Treasury Bills, Notes, and Bonds, as well as Savings Bonds. These investments are backed by the full faith and credit of the United States Government.

2.2 Eligible Investments include the obligations Government Sponsored Enterprises (GSE) and Federally Related Institutions (FRI).

VI. Approved GSEs

- Section 1 Farm Credit System Financial Assistance Corp (FCSFAC);
- Section 2 Federal Home Loan Bank (FHL Bank);
- Section 3 Federal Home Loan Mortgage Corporation (FHLMC) (Freddie Mac);
- Section 4 Federal National Mortgage Association (FNMA) (Fannie Mae);
- Section 5 Student Loan Marketing Association (SLMA) Sallie Mae) Approved FRIs;
- Section 6 Farmers Home Administration (FmHA);
- Section 7 Government National Mortgage Association (GNMA);
- Section 8 Small Business Administration (SBA);
- Section 9 U.S. Department of Veterans Affairs;
- Section 10 Tennessee Valley Authority (TVA);
- Section 11 Direct obligations of the State of Texas or its agencies and instrumentalities;
- Section 12 Collateralized mortgage obligations directly issued by a federal agency or instrumentality and secured by an agency of the United States:
 - 12.1 Interest-only strips ("IO's") and principal-only strips ("PO's") with underlying mortgage-backed security collateral;
 - 12.2 Inverse floating collateralized mortgage obligations (CMO's) with interest rates determined by an index which adjusts inversely to the market index;
- Section 13 Other obligations whose principal and interest are unconditionally backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;

- Section 14 Obligations of states, agencies, counties, cities, and other political subdivisions rated as A or its equivalent by a nationally recognized investment rating firm;
- Section 15 Certificates of deposit or share certificates issued by a depository institution that has its main office or a branch in the State of Texas and insured by the Federal Deposit Insurance Corporation, or its successor or the National Credit Union Share Insurance Fund or its successor, or is secured at 102% market value by securities listed as A-E above.
- 15.1 Collateral will be held in an independent third party custodian approved by the University. Negotiable certificates of deposit shall be limited in principal to the FDIC insured amount.
- 15.2 In addition, certificates of deposit may be purchased by a broker or depository institution that has its main office or a branch in the State of Texas. The broker must be selected and appointed by the University from a list authorized by the Board of Regents or designated investment committee of the University.
- 15.3 This list of authorized broker dealers shall be updated no less frequently than annually by the Board of Regents or designated investment committee of the University. The broker or depository institution selected must arrange for the deposit of funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the University.
- 15.4 The full amount of the principal and accrued interest of each of the certificates must be insured by the United States or an instrumentality of the United States. With respect to the certificates of deposit issued for the account of Texas Woman's University, the University shall appoint the depository institution or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the University;
- Section 16 Fully collateralized repurchase agreements that have a defined termination date not to exceed three (3) years, and are secured by a combination of cash and/or obligations (including letters of credit) of the United States or its agencies and instrumentalities.
- 16.1 Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal

Reserve, or any financial institution doing business in the State of Texas and executed under a Master Repurchase Agreement. Additionally, the cash or securities purchased must represent 102% in market value and be held in the University's name and deposited with a third party or the University.

16.2 Repurchase agreements are defined as a simultaneous agreement to buy, held for a specified time, and sold back at a future defined date. The market value of the securities, at the time the funds are disbursed, must not be less than the principal amount of the funds disbursed; Repurchase agreements include direct security repurchase agreements and reverse security repurchase agreements. The term of a reverse security agreement is limited to a maximum of 90 days.

16.3 Money received under the terms of a reverse repurchase agreement must be used to purchase additional authorized investments. The term of those investments must not be later than the expiration date of the reverse repurchase agreement;

Section 17 Bankers' acceptances that meet the following criteria:

17.1 The acceptance has a maturity date of 270 days or less from the issuance date.

17.2 The acceptance is liquidated in full at maturity.

17.3 It is eligible for use as collateral for borrowing from a Federal Reserve Bank.

17.4 It is accepted by a bank organized under the laws of the United States or any state.

17.5 The short term obligations of the bank or its largest subsidiary, if a bank holding company, are rated A-1 or P-1 by at least one nationally recognized credit rating agency;

Section 18 Commercial paper with a maturity date of 270 days or less from the issuance date and is rated A-1 or P-1 by both Moody's and Standard and Poor's;

Section 19 Money market funds which are registered with and regulated by the Securities and Exchange Commission (SEC), provides the University with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.), have a dollar weighted average stated maturity of 90 days or less, and have an investment objective of a stable asset value of one

dollar for each share. No-load money market mutual funds may not represent more than 80 percent of the University's investment fund, excluding bond proceeds and reserves and other funds held for debt service;

Section 20 Mutual funds which are registered with the SEC, have a dollar weighted average stated maturity of less than two years, are invested exclusively in obligations approved by the Texas Public Funds Investment Act, are rated not less than AAA or its equivalent, and conform to the requirements of eligibility of investment pools under the Act.

20.1 Bond proceeds and reserves may not exceed more than 15 percent of the University's monthly average fund balance excluding bond proceeds and reserves and other funds held for debt service.

20.2 The University investment may not exceed 10 percent of the total assets of the mutual fund;

Section 21 Guaranteed Investment Contracts for bond proceeds, if the guaranteed investment contract:

21.1 Has a defined termination date;

21.2 Is secured by obligations of the United States or its agencies or instrumentalities in an amount at least equal to 102% market value of the amount of bond proceeds invested under the contract; and

21.3 Is pledged to the University and deposited with the University or with a third party selected and approved by the University;

21.4 Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.

21.5 To be eligible as an authorized investment:

a. The Board of Regents of the University must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance or resolution authorizing the issuance on bonds;

b. The University must receive bids from at least three separate providers with no material financial interest in the bonds from which the proceeds were received;

- c. The University must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
- d. The price of the guaranteed investment contract must take into account the reasonable expected drawdown schedule for the bond proceeds to be invested; and
- e. The provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract;

Section 22 Investment pools that are an entity created to invest public funds jointly on behalf of the entities that participate in the pool. The investment pool must invest in instruments that are authorized under the Act, meet the disclosure and reporting requirements of the Act and calculate yield according to the rules and regulations governing open-end management companies under the Investment Company Act of 1940.

22.1 Public fund investment pools that function as a money market mutual fund must mark their investment portfolio to market on a daily basis. The fund must also sell its holdings so as to maintain a ratio of between 0.995 and 1.005. Investment pools are required to establish advisory boards composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise.

22.2 In the case of public fund investment pools, created under Chapter 791, *Texas Government Code*, and managed by a state agency, the board participants must be qualified to advise the investment pool and be composed equally of participants in the pool and persons having no business relationship with the pool. A public fund investment pool must be (continuously) rated AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating;

Section 23 Cash management and fixed income funds sponsored by organizations exempt from income tax under Section 501(f), *Internal Revenue Code* of 1986 (26 U.S.C. Section 501 (f));

Section 24 Corporate bonds, debentures, or similar debt obligations rated as investment grade by Moody's and Standard & Poor's, at the time of purchase. No more than 20% of bonds may be rated in the lowest investment grade category.

VII. Security Procedures

All investment transactions must comply with the policies and procedures established in this policy.

- Section 1 Cash. Cash is invested so that uninvested cash, which earns little or no interest, is minimized.
- Section 2 Delivery. A security purchased by the University shall be delivered to the custodial bank selected by the University. The delivery shall be made under normal and recognized practices in the securities and banking industries, including the book entry procedure of the Federal Reserve Bank. Settlement of all investment transactions, except investment pools and mutual funds, must be on a delivery versus payment basis.
- Section 3 Investment Ratings. Ratings of applicable investments will be monitored on a monthly basis through the custodian, nationally recognized credit rating agencies or other means. If a rating drops below the established minimum of this policy, the Investment Officer, the Vice President for Finance and Administration and the University's Investment Manager will review the investment and make a decision regarding the liquidation of the investment
- Section 4 Security Liquidation. Investments that were authorized at the time of purchase and are now prohibited investments need not be liquidated before their stated final maturity date.

VIII. Board and Investment Officer Responsibility

- Section 1 Vice President for Finance and Administration
- 1.1 The Board delegates authority to the Vice President for Finance and Administration ("VPFA") to manage Texas Woman's University's endowment investment portfolio.
- 1.2 The Vice President for Finance and Administration will appoint the Investment Officer for the University endowment funds and may acquire the services of an investment management firm.
- 1.3 The authority to deposit, withdraw, invest, transfer, or manage the University's investment portfolio is effective until rescinded or until the termination of the Investment Officer's employment.
- 1.4 The VPFA and Investment Officer shall attend training by an independent source approved by the Board of Regents not less than once each state fiscal biennium.

- 1.5 The Investment Officer shall prepare a report on changes in the Public Funds Act and the UPMIFA for the Board within 180 days of the end of each regular session of the Legislature.

Section 2 Investment Officer

- 2.1 The University's designated Investment Officer will initiate and administrate a process for the selection by the Board of a qualified firm to serve as Investment Manager.
- 2.2 The Process will solicit proposals from firms that are qualified by the Securities and Exchange Commission under the U.S. Investment Advisors Act of 1940.
 - a. This qualification provides assurance that the firm chosen to serve as investment manager does comply with Texas Government Code Section 2256.005 (b)(3) concerning the quality and capability of investment management.
 - b. The term of the contract with an investment management firm shall be two years, and may provide for two additional one-year extensions to the original term.

Section 3 Disclosure of Personal Business or Family Relationship

- 3.1 The VPFA and the Investment Officer must disclose to the Texas Ethics Commission and the Board any personal business or family relationship with any business organization offering to engage in an investment transaction with the University.
- 3.2 Any relationship that conflicts with or impairs judgment concerning the investment portfolio must be reported.
- 3.3 Relationships such as ownership of ten percent or more of the voting stock or shares of the business organization or ownership of \$5,000 or more of the market value of the business organization, or funds received by the VPFA or Investment Officer from the business organization exceed ten percent of the VPFA or Investment Officer's gross income for the previous year, or the VPFA or 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 VPFA or Investment Officer are considered reportable relationships. Family relationships within the second degree by affinity or consanguinity, as defined under Chapter 573, require disclosure.

- Section 4 Liability. The Investment Officer will not be held personally liable for fluctuations in market value or loss on the portfolio if this Policy and all procedures are followed.
- Section 5 Training. Each member of the Board and the VPFA and the Investment Officer must attend required formal training sessions within six months of appointment or assumption of duties. The Texas Higher Education Coordinating Board will provide the authorized training.
- Section 6 Investment Activity Reports. The Board shall receive, not less than quarterly, reports that describe investment activity and changes in market value of all investments. The Board shall review the annual compliance audit of management's controls for investments and adherence to the endowment investment policy.
- Section 7 Policy Review. The Board shall review, not less than annually, its Endowment Investment and Distribution Policy and strategy. Any changes approved by the Board will be stipulated in the resolution approving the Policy.
- Section 8 Investment Management. It is the responsibility of the investment officer in conjunction with the investment management firm to manage the University's endowment investment portfolio in the manner outlined in this policy. The investment officer may establish procedures to conduct the transactions necessary to perform their duties and provide records of the transactions.

IX. Investment Reporting

- Section 1 Quarterly Reports. The Investment Officer in conjunction with the investment management firm must prepare and submit signed quarterly reports to the Board, the Chancellor and President, and the Vice President for Finance and Administration that include:
- 1.1 A detailed description of the investment position of the University endowment funds,
 - 1.2 A summary statement of each pooled fund group which includes the beginning market value, ending market value, and the fully accrued interest for the reporting period,
 - 1.3 The book value and market value of each separately invested asset at the end of the reporting period by type of asset and fund type invested,
 - 1.4 Maturity date of each separately invested asset,

- 1.5 Statement of compliance with the investment policy and strategy,
 - 1.6 Statement of account and fund group or pooled fund group for each investment acquired.
- Section 2 Prices. The prices used for establishing market value on the portfolio will be obtained or verified from an independent source.
- Section 3 Independent Auditor Review. If investments are made 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 or similar accounts, the reports shall be formally reviewed at least every two years by an independent auditor, and the result of the review shall be reported to the Board by that auditor.

X. Investment Manager

Section 1 Investment Manager Transaction Requirements

- 1.1 The investment manager may not engage in an investment transaction unless a qualified representative of the investment management firm submits a written instrument stating that:
 - a. A qualified representative has received and reviewed the University's investment policy and;
 - b. The investment management firm has implemented reasonable procedures and controls to preclude investment transactions conducted between the University and firm that are not authorized by the University's investment policy.
- Section 2 Ethics and Disclosure Requirements. The investment management firm shall comply with Texas *Government Code* Chapter 2263, with regard to ethics and disclosure requirements for outside financial advisors and service providers.

XI. Qualifying Institution

Investment with Other Institutions. The board (or its designee) may contract to invest its funds with another Texas public institution as per Section 51.0031 of the Texas Education Code. Endowment funds invested with a qualifying institution will be invested in accordance with the qualifying institution's Investment Policy and the asset allocation of the qualifying institution's policy will supersede the Investment Guidelines Section of this policy. Distribution will be in accordance with a qualifying institution's distribution policy. The qualifying institution's investment officer(s) will provide investment performance reports to the board.

XII. Internal Controls

- Section 1 Investment Officer Responsibilities. The Investment Officer is responsible for all investment transactions undertaken and shall control access to investments through a system of controls that regulate the activities of subordinates. The Investment Officer may not establish procedures that abrogate any portion of this policy or the authorizing statute.
- Section 2 Non-Investment Officer Restrictions. No person may engage in an investment transaction for the University except as provided under the terms of this policy and the procedures established by the Investment Officer.

REVIEW

This policy will remain in effect and published until it is reviewed, updated, or archived. This policy is to be annually reviewed. Interim review may be required as a result of updates to federal and state law or regulations, or internal processes or procedures.

REFERENCES

Tex. Gov't Code Ch. 2256

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

17 C.F.R. Section 240.15c3-3

15 U.S.C. Section 78a et seq.

15 U.S.C. Section 80a-1 et seq.

Tex. Gov't Code Ch. 791

26 U.S.C. Section 501 (f)

Texas Education Code Section 51.0031

FORMS AND TOOLS

None

Adopted: February 27, 2007

Revised or Reaffirmed: February 22, 2008; June 06, 2008; June 05, 2009; November 06, 2011; June 13, 2011; November 04, 2011; August 17, 2012; August 16, 2013; August 15, 2014; August 14, 2015; February 19, 2016; August 11, 2017; August 10, 2018; August 9, 2019; August 14, 2020; November 12, 2021