

**Texas Tech University System**  
**INVESTMENT POLICY STATEMENT**

**Long Term Investment Fund**

***Dates Approved or Amended:***

- Initial adoption of policy statement..... 02-26-2010*
  - Sec. 13.2.a amended & Schedule C added..... 02-25-2011*
  - Sec. 15.1.c, 15.3.a-b & 15.5.a amended..... 12-16-2011*
  - Sec. 11.2.a & 11.2.d + Schedule A amended ..... 03-02-2012*
  - Comprehensive review/amendments ..... 08-08-2014*
  - Various amendments throughout..... 05-19-2017*
  - Amendments throughout to: ..... 12-13-2019*
    - update SITIF references to new STIF and ITIF;*
    - update strategic asset class ranges terminology and policy changes (on Schedule A);*
    - update management report requirements; and*
    - align the management fee assessment with the annual budget process.*
  - Amendments throughout to: ..... 12-10-2020*
    - update role and responsibility of the FAI committee, the CIO, and CFO;*
    - delete all references to STIF, ITIF, and IAC; and replace with description and function of the IRC;*
    - clarify/simplify performance benchmark and strategic benchmark;*
    - updates to statement on core investment beliefs; and*
    - inclusion of quarterly report by the CIO to the FAI committee.*
  - Amendments to Sec.18 on fees: ..... 08-08-2024*
    - added the possibility of assessing an investment administrative fee with authority to implement the fee delegated to the chancellor; and*
    - determined that the administrative fee will be used to fund Institutional Advancement departments of the respective component.*
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**Section 0 Definitions.**

- 0.1 “Board” or “BOR” Board of Regents, Texas Tech University System.
- 0.2 “FAI” - Finance, Administration and Investments BOR.
- 0.3 “CIO” Chief Investment Officer of the Texas Tech University System.
- 0.4 “Foundation” Texas Tech Foundation, Inc., Angelo State University Foundation, Inc., and foundations of future component universities.
- 0.5 “LTIF” Long Term Investment Fund.
- 0.6 “NAV” Net Asset Value.
- 0.7 “SEC” Securities and Exchange Commission.



#### **Section 4 Investment of Non-Endowment Institutional Funds in the LTIF.**

Institutional funds are defined in Section 51.002, *Texas Education Code*, as amended or modified. In this policy statement, long-term institutional funds are all non-endowment institutional funds approved by the Board, for investment purposes, for inclusion in the LTIF.

#### **Section 5 Fiduciary Responsibility.**

The Board recognizes its fiduciary responsibility to comply with the restrictions imposed by the donors of endowment funds. The Board acknowledges its legal responsibility to ensure that the management of endowment and other institutional funds is in compliance with state law, including the UPMIFA, per Section 163, *Texas Property Code*, as amended or modified.

#### **Section 6 Management Procedures.**

- 6.1 No endowment or other institutional fund shall be considered for management under this policy unless it is under the sole control of the Board, with full discretion as to investment of principal and expenditure of funds eligible for distribution. Although certain assets of the Foundation are invested in the LTIF, the Foundation's Board of Directors and its officers are legally responsible for the management and control of those assets. The Vice Chancellor for Institutional Advancement shall ensure there are no donor-imposed restrictions preventing the use of the LTIF.
- 6.2 The LTIF is the TTU system's commingled endowment/institutional fund. The LTIF shall be unitized and each new endowment gift added to the fund shall receive units in the fund based upon the market value of the gift and the NAV of the fund at the latest month-end preceding the date the gift is added to the fund. The NAV will be calculated as the month-end market value of the LTIF divided by the number of outstanding units in the LTIF. Earnings determined under the policy statement's spending policy shall be calculated on a unit basis for distribution purposes.
- 6.3 Professional services (investment managers and advisors) deemed appropriate for the management and investment of the fund may be retained. All investment managers and advisors who are required to be registered under the Investment Advisors Act of 1940 shall provide the most recent Form ADV filed with the SEC.

#### **Section 7 Long-SEC**

number of units withdrawn times the NAV as of the end of the most recent valuation of the LTIF. Because of changes in the NAV from the time of initial deposit, the dollar amount of withdrawal may be more or less than the original investment.

## **Section 8 Administration and Management of the LTIF.**

8.1 The Board and institutional personnel of the TTU system shall exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the action or decision. In managing and investing the LTIF, the Board and institutional personnel shall consider all of the following:

- a. the needs of the TTU system and the portfolio to make distributions while also preserving future purchasing power; and
- b. the portfolio asset allocation's expected risk-adjusted returns over multi-year and longer periods of time, which will inevitably include a wide range of events and environments for both economies and markets;
- c. the role that each investment decision plays within the overall investment portfolio;
- d. global, regional and national economic conditions and trajectories;
- e. the expected tax consequences of investment decisions or strategies;
- f. the expected total return from income and appreciation of investments;
- g. other resources of the TTU system for purposes of the system.

b.

- 10.7 Management of liquidity risk is necessary in order to fulfill the portfolio's function within TTUS (stable spending), as well as to create the potential to benefit from inevitable market dislocations.

## **Section 11 Statement of Goals and Objectives.**

The Performance Objective is intended to support the achievement of the TTUS endowment's Strategic Objective. The strategic benchmark reflects the purpose of the endowment within the TTUS. The performance benchmark will be used to evaluate the TTUS OI's portfolio management against the opportunity set in global capital markets and will also anchor expectations for the portfolio's asset allocation.

The investment objectives:

- 11.1 The Strategic Objective is to preserve the real (inflation-adjusted) purchasing power of principal and earnings after accounting for endowment spending and inflation, net of all expenses. The benchmark for the Strategic Objective is to exceed the Consumer Price Index plus 5% over rolling ten-year periods, while providing a stable source of spending for TTUS.
- 11.2 The Performance Objective is to outperform a market benchmark consisting of a Global 60/40 passive portfolio, consisting of the MSCI ACWI-ND and Barclays Global Aggregate Bond Index (unhedged), plus 100 basis points, over rolling three year periods.

## **Section 12 Investment Resource Council (IRC)**

- 12.1 The IRC is a resource council that supports stewardship and communication. The IRC will be managed by the Vice Chancellor and CFO, in coordination with the CIO and will:
  - a.

- d. Component Universities' Foundations recommendation
- f.

- a. Asset allocation is the primary mechanism to select the types of broad categorical risks which drive investment return. To achieve the goal and objectives of the LTIF, the fund's assets may be invested in the categories listed in Schedule A of this policy statement ("Schedule A").
- b. The LTIF shall be diversified both through two primary sub-portfolios, a growth portfolio, and a stable value portfolio.
- c. Any changes to the policy targets within the approved ranges for each asset class must be communicated to the FAI. The Board will be promptly updated upon approval.
- d. Any changes to the policy targets outside the approved ranges for each asset class must be approved in advance by the Board, and Schedule A shall be revised accordingly.
- e. Any changes to the policy benchmark must be approved in advance by the FAI and Schedule A shall be revised accordingly. The Board will be promptly updated upon approval.

13.2 Monitoring and rebalancing of asset allocation.

- a. The asset allocation shall be monitored on an ongoing basis and rebalanced as needed by the CIO. The lower and upper bounds on the tactical ranges should not be exceeded, except in unusual circumstances. In the event the bounds are exceeded, the FAI must be notified at the next quarterly meeting. However, the CIO may rebalance before reaching those limits, or set exposures anywhere within the Tactical Rebalancing Policy ranges.
- b. The CIO is considered in compliance with this policy if asset classes breach a range due to market movements. The CIO must notify the FAI of any such breach and the FAI must be notified at the next quarterly meeting. However, the CIO may rebalance before reaching those limits, or set exposures anywhere within the Tactical Rebalancing Policy ranges.



The following standards of conduct for investment managers and advisors are derived from the *CFA Institute Code of Ethics and Standards of Professional Conduct* and include:

- 14.1 Code of ethics. Investment managers and advisors employed by the TTU system shall:
- a. act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, and colleagues in the investment profession and other participants in the global capital markets;
  - b. place the interest of clients, the interest of their employer, and the integrity of the investment profession above their own personal interest.
  - c. uses reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, or engaging in other professional activities;
  - d. practice, and encourage others to practice, in a professional and ethical manner that will reflect credit on themselves and the profession;
  - e. promotes the integrity of and uphold the rules governing global capital markets; and
  - f. maintains and improve their professional competence.
- 14.2 Standards of professional conduct:
- a. Knowledge of the law. Investment managers and advisors must understand and comply with all applicable laws, rules, and regulations of any government

- d. Misconduct. Investment managers and advisors must not engage in any conduct involving dishonesty, fraud, deceit, or commit any act that reflects adversely on their integrity, trustworthiness, or professional competence.
- 14.3 Investment analysis and recommendations. Investment managers and advisors shall:
- a. exercise diligence, independence, and thoroughness in conducting investment analysis, making investment recommendations, and taking investment actions; and
  - b. has a reasonable and adequate basis, supported by appropriate research and investigation, for any investment analysis, recommendation, and action.
- 14.4 Disclosure and conflicts of interest:
- a. Managers, advisors, and potential managers must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with their respective duties to the TTU system.
  - b. Managers and advisors must, on an annual basis, ensure that such disclosures are prominently set forth, are delivered in plain language, and communicate the relevant information using the Texas State Auditor’s Uniform Disclosure Form.
  - c. Managers, advisors, and potential managers are investing public funds and are subject to the Texas Open Records Act.

**Section 15 Conflicts of Interest on Investments and Restrictions on Investments for Board Members and Employees of the TTUS Office of Investments.**

- 15.1 Introduction.
- a. It is the policy of the TTU system that members of the Board and TTUS OI employees having authority over, or input into, the selection of investments or investment managers shall act in a manner consistent with their responsibilities to the TTU system and avoid circumstances in which their financial or other ties to outside persons or entities could present an actual, potential, or apparent conflict of interest or impair the reputation of the TTU system.
  - b. Board members and TTUS OI employees should avoid any actions or situations that might result in or create the appearance of using their association with the TTU system for private gain, according unwarranted preferential treatment to any outside individual or organization, losing independence or impartiality, or adversely affecting the reputation of or public confidence in the integrity of the TTU system. Toward this end, it is the responsibility of each Board member

and TTUS OI employee to ensure that the system is made aware of situations that involve personal, familial, or business relationships that could jeopardize the reputation of or public confidence in the TTU system by complying with this policy and making all disclosures and certifications as set forth herein.

- c. For the purposes of this section, “business entity” means: any entity recognized by law through which business is conducted, including a sole proprietorship, partnership, firm, corporation, limited liability company, holding company, joint stock company, receivership, or trust.

15.2 Conflict of interest. A conflict of interest arises when the TTU system has or is considering a transaction or other business relationship with a Board member a TTUS OI employee, or a family member of one of these individuals (defined to include a spouse and any dependent relatives or household members). For this reason, any transaction or other business relationship between the TTU system and a Board member a TTUS OI employee, or any family member of one of these individuals is prohibited.

15.3 Presumed conflict of interest.

- a. A conflict of interest is presumed to arise when the TTU system has or is considering an investment in a business entity in which a Board member, a TTUS OI employee, or a family member of any of these individuals has a substantial financial interest. A financial interest is presumed to be substantial if it entails:
  - (1) any ownership or investment interest in a business entity (including stock, options, a partnership interest, or any other ownership or investment interest) valued at more than \$10,000, except equity in a company amounting to less than 10% ownership interest in the company;
  - (2) receipt of funds from the business entity that exceed 10 percent of the Board member’s gross income for the previous year, or the expectation of the receipt of such funds in the future;
  - (3) any ownership interest in real property, personal property, intellectual property or any other interest valued at \$10,000 or more;
  - (4) a position of real or apparent authority in a business entity such as director, officer, trustee, partner, agent, controlling shareholder, shareholder with a 10% or more voting interest, or a direct or indirect participating interest in any shares, stock or otherwise, regardless of whether voting rights are included, in 10% or more of the profits, proceeds or capital gains of the entity involved; or
  - (5) any position as an employee of the entity involved.



- a. All Board members and TTUS OI employees annually shall:
  - (1) review this policy on conflicts of interest and restrictions



**Section 20 Amendment of Investment Policy Statement.**

The Board will review and, if necessary, update the LTIF investment policy statement on an annual basis.

**Section 21 Effective Date.**

This investment policy was approved by the Board on August 8, 2024.

## Schedule A

### 1. POLICY ALLOCATION TARGET & RANGES

<b>Sub-Portfolio</b>	<b>Performance Benchmark</b>	<b>Target</b>	<b>Strategic Range</b>	<b>Tactical Range</b>
Growth Sub-Portfolio	MSCI All Country World Index – Net Dividends	60%	+/-20%	+/-10%
Stable Value Sub-Portfolio	Barclays Global Aggregate – Unhedged	40%		



## Schedule B

### DERIVATIVES POLICY

The risks of derivatives, like all investments, should be evaluated in the context of the total portfolio. The CIO will employ a Derivatives Manager to implement derivatives transactions and manage collateral for the LTIF. Investment Managers may utilize derivatives within the scope of their respective investment policies.

1. Permissible Derivatives:
  - a. Forward-based derivatives, including forward contracts, futures contracts, interest rate swaps, total return swaps, and similar instruments.
  - b. Option-based derivatives, including put options, call options, interest rate caps and floors, and similar instruments.
  - c. Both Exchange Traded and Over-the-Counter (“OTC”) derivatives may be utilized (see Managing Counterparty Risk below).
2. Derivatives Exposure Limits:
  - a. The “Collateral Assets” of the LTIF.
  - b. The total notional value of all derivatives contracts managed by the Derivatives Manager on behalf of the LTIF is the “Total Derivatives Notional”.
  - c. Total Derivatives Notional is limited to 200% of the value of Collateral Assets.
  - d. For example, if Collateral Assets are \$250 million, then the Total Derivatives Notional can be no more than \$500m.
  - e. In addition, the notional value of proprietary investment strategies developed by investment banks and delivered using derivative contracts are limited to 10% of the total value of the LTIF due to their complexity.
  - f. The Total Derivatives Notional is calculated without regard to the notional value of derivatives by Investment Managers, as those exposures are governed by strategy-level investment policies.
3. Counterparty Risk: Counterparty risk arises through the use of OTC derivatives. Counterparty risk is mitigated primarily through the use of collateral (cash or Treasuries) that is moved to cover any mark-to-market exposure that arises. Any OTC transactions

entered into by the LTIF will be governed by ISDA documentation including a Credit Support Annex (CSA). The Derivatives Manager will be responsible for monitoring all counterparty exposures on behalf of the LTIF and will work with derivatives counterparties to move collateral to appropriately as documented in CSAs agreed with each counterparty. LTIF Investment Managers that utilize OTC derivatives are also required to monitor counterparty risk, to transact under ISDA/CSA documentation and to ensure that all derivatives transactions are adequately collateralized.

- a. All counterparties shall have a long-term credit rating of at least BBB/Baa2 or equivalent by at least one nationally recognized rating agency at the time the related derivative is executed. If the term of the derivative contract is less than one year, a counterparty shall have a short-term credit rating of at least A1/P1 or equivalent by at least one nationally recognized rating agency at the time the related derivative is executed. If a counterparty is downgraded below the required levels, the Derivativ

## **Schedule C**

### **CONSULTANT RESPONSIBILITIES**

The CIO may retain the services of a consultant with consultation and approval of the CFO to assist staff as needed.