

TEXAS SOUTHERN UNIVERSITY, INVESTMENT POLICY

PREFACE

The purpose of this document is to set forth specific investment policy and strategy guidelines for Texas Southern University ("TSU") in order to achieve the goals of safety, liquidity, yield and public trust for all investment activity. The Board of Regents of TSU shall review its investment strategies and policy not less than annually. This policy serves to satisfy the statutory requirements (specifically the Public Funds Investment Act, Chapter 2256 of the Texas Government Code [the Act]) to define, adopt and review a formal investment strategy and policy.

It is the policy of TSU that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State and Federal regulations, applicable Bond Resolution requirements, adopted Investment Policy and adopted Investment Strategy.

Effective investment strategy development coordinates the primary objectives of TSU's Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings and reduce investment risk and aggressive cash management to increase the available "investment period." Maturity selections shall be based on cash flow and market conditions to take advantage of interest earnings as viable and material revenue to all TSU funds. TSU's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with the Investment Policy.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund's unique requirements.

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INVESTMENT POLICY

1. **PURPOSE.** The purpose of this investment policy (the Policy) is to set forth specific investment policy and strategy guidelines for TSU in order to achieve the goals of safety, liquidity, achieving a market rate of return and maintaining public trust for all investment activities. The Board of Regents of TSU shall review the investment strategy and policy at least annually, and the Board of Regents shall annually approve the Investment Policy, including any revisions.

2. **POLICY.** It is the policy of Texas Southern University ("TSU") that after allowing for the anticipated cash flow requirements of TSU and giving due consideration to the safety and risks of investments, all available funds shall be invested in conformance with these legal and administrative guidelines to obtain a market rate of return.

Effective cash management is recognized as essential to good fiscal management. An active cash management and investment policy will be pursued to take advantage of investment interest as a viable and material source of revenue for TSU funds. TSU's portfolio shall be designed and managed in a manner designed to maximize this revenue resource, to be responsive to the public trust, and be in compliance with legal requirements and limitations. TSU will invest TSU funds in a manner, which will provide the maximum security and a market rate of return while meeting the daily cash flow demands of TSU.

Investment shall be made with the primary objectives of:

- **Safety** and preservation of principal
- Maintenance of sufficient **liquidity** to meet operating needs
- Obtaining a market rate of return (yield)
- **Public trust** from prudent investment activities

3. **INVESTMENT STRATEGY.** TSU maintains a portfolio that utilizes specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolio. TSU maintains a comprehensive and proactive cash management program, which is designed to monitor and control all TSU funds to ensure maximum utilization and yield a market rate of return. The investment strategy emphasizes low credit risk, diversification, and the management of maturities. In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. The composite portfolio will have a dollar weighted average maturity of two (2) years or less. The management of maturities refers to structuring the maturity dates of the direct investments so that, while funds are initially invested for a longer period of time, some investments mature as cash needs require. The allowable investment instruments as defined in Section 7 of this Policy reflect the avoidance of credit risk. Diversification refers to dividing investments among a variety of securities offering independent returns. This strategy uses local government investment pools to achieve diversification.

3.1 **The primary investment strategy and objectives** of TSU as specified in this Policy (See Section 2.) are listed below, in their order of importance:

- Safety and preservation of principal;
- Maintenance of sufficient liquidity to meet operating needs;
- Achieve a market rate of return on the investment portfolio; and
- Seek at all times to maintain public trust by adhering to the above stated objectives.

3.2 **The list of investments authorized** by this Policy intentionally excludes some investments allowed by state law. The restrictions limit possible credit risk and provide the maximum measure of safety. Within the investment objectives, the investment strategy is to utilize authorized investments for maximum advantage to TSU. To increase the interest earnings for funds identified as being available for investment over longer periods of time based upon a cash requirements projection, TSU will consider the following strategies:

3.2.1 **Strategy No. 1.** Diversifying TSU's investment opportunities through the use of local government investment pools and money market mutual funds as authorized by the Board of Regents. An investment pool is an entity created to invest public funds jointly on behalf of its participants and whose investment objectives in order of priority match those objectives of TSU. Funds are usually available from investment pools on a same-day basis, meaning the pools have a high degree of liquidity. Because of the size and expertise of their staff, investment pools are able to prudently invest in a variety of the investment types allowed by state law. In this manner, investment pools achieve diversification. The strategy of TSU calls for the use of investment pools as a primary source of diversification and supplemental source of liquidity. Funds that may be needed on a short-term basis but that are in excess of the amount maintained at the depository bank are available for deposit in investment pools.

3.2.2 **Strategy No. 2.** Building a ladder structure of Investment Policy authorized securities with staggered maturities for all or part of the longer term investable funds. The benefits of this ladder approach include the following:

- It is straight-forward and easily understood;
- It represents a prudent diversification method;
- All investments remain within the approved maturity horizon;
- It will normally allow TSU to capture a reasonable portion of the yield curve; and,
- It provides predictable cash flow with scheduled maturities and reinvestment opportunities.

3.2.3 **Strategy No. 3.** Pursuant to the Public Funds Investment Act (Texas Government Code 2256.003), TSU may, at its discretion, contract with an investment management firm registered under the Investment Advisors Act of 1940 (15 U.S.C.

Section 80b-1 et seq.) and with the State Securities Board to provide for investment and non-discretionary management of its public funds or other funds under its control.

An appointed Investment Advisor shall act solely in an advisory and administrative capacity, within the guidelines of this Investment Policy. At no time shall the Advisor take possession of securities or funds or otherwise be granted authority to transact business on behalf of TSU. Any contract awarded by TSU for investment advisory services may not exceed two years, with an option to extend by mutual consent of both parties.

Duties of the Investment Advisor contracted by TSU shall abide by the Prudent Expert Rule, whereby investment advice shall, at all times, be given with the judgment and care, under circumstances then prevailing, which persons paid for their special prudence, discretion and intelligence in such matters exercised in the management of their client's affairs, not for speculation by the client or production of fee income by the advisor or broker, but for investment by the client with emphasis on the probable safety of the capital while considering the probable income to be derived.

Chapter 2263 of the Texas Government Code mandates certain actions by governing boards of state entities involved in the management and investment of state funds and adds disclosure requirements for outside financial advisors and service providers. Ethic and disclosure requirements for outside financial advisors and service providers are in Chapter 2263.01 through 2263.06 of the Texas Government Code.

3.2.4 **Strategy No.4.** TSU will maintain portfolio(s), which utilize four specific investment strategy considerations designed to address the unique characteristics of the fund group(s) represented in the portfolio(s):

3.2.4.1 Investment strategies for operating funds and pooled funds containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure that will experience minimal volatility during economic cycles through diversification by security type, maturity date, and issuer. All security types, as authorized by this policy, are considered suitable investments for the operating and pooled funds.

3.2.4.2 Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date(s). These funds have predictable payment schedules.

Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date, or funds shall be maintained in an investment pool or money market mutual fund to be available for debt service payments.

- 3.2.4.3 Investment strategies for bond funds and debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund with low degree of volatility. Managing the Debt Service Reserve Fund's portfolio maturities to not exceed the call provisions of the bond issue will reduce the investment's market risk if TSU'S bonds are called and the reserve fund liquidated. Except as may be required by the bond ordinance specific to an individual issue, securities should be of high quality, with short to medium term maturities. No investment maturity shall exceed the final maturity of the bond issue.
- 3.2.4.4 Debt Service Funds, including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately.
- 3.2.4.5 Investment strategies for special projects or capital projects funds will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. Market conditions and arbitrage regulations will influence the investment of capital project funds, When market conditions allow, achieving a positive spread to applicable arbitrage yield is the desired objective; although at no time shall the anticipated expenditure schedule be exceeded in an attempt to increase yield.

Strategy No. 5 - Hold until Maturity. The strategy of TSU is to maintain sufficient liquidity in its portfolio so that it does not need to sell a security prior to maturity. Should it become necessary to sell a security prior to maturity, where the sale proceeds are less than the current book value, the Investment Officer may authorize the sale of those securities.

- 4. **SCOPE.** The Investment Policy shall govern the investment of all financial assets considered to be part of a TSU entity and includes the following funds or fund types: Operating, Auxiliary, Unexpended, and Plant Replacement Funds, Loan Funds, Debt Service Funds, and any other funds which have been contractually delegated to TSU for management purposes. TSU may add or delete funds as may be required by law, or for proper accounting procedures. This policy does not include funds governed by approved trust agreements, or assets administered for the benefit of TSU by outside agencies under retirement or deferred compensation programs. Additionally, bond funds (including debt service and reserve funds) are governed by bond ordinances and are subject to the provisions of the Internal Revenue Code and applicable federal regulations governing the investment of bond proceeds.

5. **INVESTMENT OBJECTIVES.** TSU shall manage and invest its cash with four primary objectives, listed in order of priority: **safety, liquidity, yield, and public trust.** The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to public trust and consistent with all applicable Texas statutes, this Policy and any other approved, written administrative procedures.

TSU shall maintain a comprehensive cash management program which includes collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum yield on short-term investment of pooled idle cash.

The four objectives of TSU's investment activities shall be as follows (in the order of priority):

- 5.1 **Safety of Principal.** Safety of principal invested is the foremost objective in the investment decisions of TSU. Each investment transaction shall seek to ensure the preservation of capital in the overall portfolio. The risk of loss shall be controlled by investing only in authorized securities as defined in this Policy, by qualifying the financial institutions with whom TSU will transact, and by portfolio diversification. Safety is defined as the undiminished return of the principal on TSU'S investments.
- 5.2 **Liquidity.** TSU's investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, the portfolio will also be placed in money market mutual funds or local government investment pools which offer same day liquidity for short-term funds.
- 5.3 **Market Rate-of-Return (Yield).** TSU's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objective described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.
- 5.4 **Public Trust.** All participants in TSU's investment program shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction which might involve a conflict of interest or otherwise impair public confidence in TSU's ability to govern effectively. All officials of TSU having either a direct or indirect role in the process of investing idle funds shall act responsibly as custodians of the public trust.

6. **INVESTMENT RESPONSIBILITY AND CONTROL.** The authority for investing funds rests with the Board of Regents. As provided in this policy, the daily operation and management of TSU's investments are the responsibility of the following persons. These individuals must be qualified and capable in making investment decisions.

6.1 **Delegation of TSU.** The Board of Regents delegates the authority to invest TSU funds to the Chief Investment Officer. Therefore, the Chief Investment Officer is authorized to deposit, withdraw, invest, transfer or manage in any other manner the funds of TSU. In the management of the investment program, the Chief Investment Officer shall establish written procedures for the operation of the investment program consistent with this Policy. Such procedures shall include explicit delegation of TSU to persons responsible for investment transactions. All persons involved in investment activities will be referred to in this Policy as "Investment Officials." No persons may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Chief Investment Officer. The Chief Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate Investment Officials. The system of controls shall be designed to provide reasonable assurance that ensures the assets of TSU are protected from loss, theft or misuse.

The concept of reasonable assurance recognizes that:

- (1) the cost of a control should not exceed the benefits likely to be derived;
- and,
- (2) the valuation of costs and benefits requires estimates and judgments by management.

The Chief Investment Officer shall be designated as the primary investment officer for TSU and shall be responsible for investment decisions and activities under the direction of the Board of Regents and President. The Chief Investment Officer may delegate any phase of the investment program to an Investment Officer. Both the Chief Investment Officer, and Investment Officer are responsible for daily investment decisions and activities; however, ultimate responsibility for investment decisions will rest with the Chief Investment Officer. Commitment of financial and staffing resources in order to maximize total return through active portfolio management shall be the responsibility of the Board of Regents and President.

6.2 **Prudence.** The standard of prudence to be applied by the Investment Officer shall be the "prudent investor" rule, which states, "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, considering the probable safety of their capital as well as the probable income to be derived." In determining whether the Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the following:

- 6.2.1 The investment of all funds over which the Investment Officer had responsibility rather than a consideration as to the prudence of a single investment; and,
 - 6.2.2 Whether the investment decision was consistent with the written investment Policy and procedures of TSU.
- 6.3 **Due Diligence.** The Investment Officer acting in accordance with written policies and procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes. All Investment Officials involved in investment transactions will be bonded.
- 6.4 **Ethical Standards and Conflicts of Interest.** All TSU Investment Officials having a direct or indirect role in the investment of TSU funds shall act as custodians of the public trust avoiding any transaction which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions.

An Investment Officer who has a personal business relationship with the depository bank or with any entity seeking to sell an investment to TSU shall file a statement disclosing that personal business interest. Investment official shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Investment Officials shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of TSU.

An Investment Officer who is related within the second degree of affinity or consanguinity to an individual seeking to sell an investment to TSU shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the Board of Regents.

- 6.5 **Training.** Each member of the Board of Regents shall attend at least one training session related to the person's responsibilities within six months after taking office or assuming duties. The training will include education in investment controls, security risks, strategy risks, market risk, diversification of investment portfolio, and compliance with the Public Funds Investment Act.

The investment officers shall attend at least one training session containing at least 5 hours of instruction relating to the officer's responsibility under the Public Funds Investment Act within six (6) months after assuming duties, and attend an investment training session not less than once every two years, receiving an additional five (5) hours of training. The investment training session shall be provided by an independent source approved by the Board of Regents or a designated investment committee advising the investment officer. Such training from an independent source shall include the Texas

Higher Education Coordinating Board, the Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, the University of North Texas Center Public Management, or any other professional organization, institute of higher learning, or any other sponsor other than a business organization with whom the Board of Regents may engage in an investment transaction.

6.6 **Internal Control.** The Investment Officer shall establish a system of written internal controls, which shall be reviewed annually by independent auditors. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. The internal controls are to be reviewed annually in conjunction with an external independent audit. This review will provide assurance of compliance with policies and procedures as specified by this Policy. TSU, in conjunction with its annual financial audit, shall perform a compliance audit of management controls and adherence to TSU'S established investment policy. The internal controls shall address the following points.

- Control of collusion.
- Separation of transactions authority from accounting and record keeping. Custodial safekeeping.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation for telephone (voice) transactions for investment and wire transfers,
- Development of wire transfer agreement with the depository bank or third party custodian.

7. **AUTHORIZED INVESTMENTS.** As stated previously, safety of principal is the primary objective in investing TSU funds and can be accomplished by limiting two types of risk-credit risk and interest rate risk. Credit risk is the risk associated with the failure of a security issuer or backer. Interest rate risk is the risk that the value of a portfolio will decline due to an increase in the general level of interest rates. In order to provide for safety of principal as TSU's primary objective, only certain investments are authorized as acceptable investments for TSU. TSU is not required to liquidate investments that were authorized investments at the time of purchase. The following list of authorized investments for TSU intentionally excludes some investments authorized by law. These restrictions are placed in order to limit possible risk and provide the maximum measure of safety to TSU funds.

7.1 **Authorized and Acceptable Investments.** The authorized list of investment instruments are as follows:

7.1.1 **Obligations of the United States** or its agencies and instrumentalities.

7.1.2 **Direct Obligations** of the State of Texas, or its agencies and instrumentalities.

7.1.3 **Other Obligations**, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities.

7.1.4 **Collateralized Certificates of Deposit**. A certificate of deposit issued by a depository institution that has its main office or a branch office in this state, and is:

- guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;
- secured by obligations that are described by Section 2256.009(a) of the Public Funds Investment Act, including mortgage backed securities directly issued by a federal agency or instrumentality, but excluding those mortgage backed securities of the nature described in Section 2256.009(b) of the Act; or
- secured in any other manner and amount provided by law for deposits of TSU.

7.1.5 **Eligible Local Government Investment Pools**. Public funds investment pools which invest in instruments and follow practices allowed by the current law as defined in Section 2256.016 of the Texas Government Code, provided that:

- the investment pool has been authorized by the Board of Regents;
- the investment pool has an advisory board as specified in the Public Funds Investment Act.
- the pool shall have furnished the Investment Officer an offering circular containing the information required by Section 2256.016(b) of the Texas Government Code;
- the pool shall furnish the Investment Officer investment transaction confirmations with respect to all investments made with it;
- the pool shall furnish to the Investment Officer monthly reports containing the information required under Section 2256.016(c) of the Texas Government Code;
- the pool is continuously rated no lower than "AAA" or "AAA-m" or an equivalent rating by at least one nationally recognized rating service;
- the pool marks its portfolio to market daily;

- the pool's investment objectives shall be to maintain a stable net asset value of one dollar (\$1.00); and
- the pool's investment philosophy and strategy are consistent with this Policy.

7.1.6 **Repurchase Agreements, Reverse Repurchase Agreements, Bankers' Acceptances.** Fully collateralized Repurchase Agreements. The agreement must have a defined termination date and must be secured by obligations of the United States or its agencies and instrumentalities.

7.1.6.1 The agreement must be pledged to TSU, held in the name of TSU, and deposited at the time the investment is made with TSU's custodial (safekeeping) agent, and is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the state of Texas.

7.1.6.2 No repurchase agreement shall be entered into unless a Master Repurchase Agreement has been executed between TSU and its trading partner.

7.1.6.3 All repurchase agreement transactions will be on a deliver vs. payment basis.

7.1.6.4 Securities received for repurchase agreements must have a market value greater than or equal to 102 percent at time funds are disbursed.

7.1.7 **Bankers' Acceptances.** These investments are authorized, under the following condition:

- has a stated maturity of 270 days or fewer from the date of its issuance;
- will be, in accordance with its terms, liquidated in full at maturity;
- is eligible for collateral from borrowing from a Federal Reserve Bank and
- is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, of a bank holding company of which the bank is the largest subsidiary, are rated not less the A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency

7.1.8 **Regulated No-Load Money Market Mutual Funds.** These investments are authorized, under the following conditions:

- the money market mutual fund is registered with and regulated by the Securities and Exchange Commission;
- the fund provides TSU with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940;
- the fund has a dollar-weighted average portfolio maturity of sixty (60) days or less;
- the investment objectives include the maintenance of a stable net asset value of one dollar (\$1.00) per share; and
- the fund is continuously rated no lower than "AAA" or an equivalent rating by at least one nationally recognized rating service
- TSU may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund.

7.1.9 **Regulated No-load Mutual Fund** is an authorized investment if the mutual fund:

- is registered with the Securities and Exchange Commission;
- has an average weighted maturity of less than two years;
- is invested exclusively in obligations approved by this Policy;
- is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.
- complies with the information and reporting requirements for investment pools as prescribed in the Public Fund Investment Act.
- TSU may not invest funds under its control in an amount that exceeds 15% of the total monthly average fund balance, excluding bond proceeds, reserves and debt service funds.

7.1.10 **Commercial Paper** with a stated maturity of 270 days or less from the date of issuance that either: is rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies; or is rated at least A1, P-1, or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state thereof.

7.1.11 **Obligations of States, Agencies, Counties, Cities**, and other political subdivisions of any State having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent.

7.1.12 **Securities Lending Program** in accordance with Chapter 2256.0115 of the Public Funds Investment Act.

7.1.13

Investment Instruments NOT Authorized. State law specifically prohibits investment in the following securities:

- 7.1.1 Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal.
- 7.1.2 Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
- 7.1.3 Collateralized mortgage obligations that have a stated final maturity date of greater than ten years.
- 7.1.4 Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

8. **EFFECT OF LOSS OF REQUIRED RATING.** The Investment Officer will take all prudent measures that are consistent with this Investment Policy to liquidate an investment that is downgraded to less than the required minimum rating.

9. **DIVERSIFICATION.** Diversification of investment instruments shall be utilized to avoid incurring unreasonable risks resulting from over-concentration of investments in a specific maturity, a specific issue, or a specific class of securities. With the exception of U.S. Government securities, as authorized in this Policy, and authorized local government investment pools, no more than seventy percent (70%) of the total investment portfolio will be invested in any one security type or with a single financial institution. Diversification of the portfolio considers diversification by maturity dates and diversification by investment instrument.

9.1 **Diversification by Maturities.** The longer the maturity of investments, the greater their price volatility. Therefore, it is TSU's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risks caused by change in interest rates, except for endowment funds. TSU will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, TSU will not directly invest in securities maturing more than ten (10) years from the date of purchase. However, the above described obligations, certificates, or agreements may be collateralized using longer date instruments. TSU shall diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Maturity scheduling shall be managed by the Investment Officer so that maturities of investments shall be timed to coincide

with projected cash flow needs.

The entire TSU portfolio, including funds at TSU's depository bank, shall comprise one pooled fund group, and the maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio is two (2) years or less. Investment maturities for debt service interest and sinking funds and/or other types of reserve funds, whose use are longer-term, may not exceed ten (10) years.

9.2 **Diversification by Investment Instrument.** Diversification by investment instrument shall not exceed the following guidelines for each type of instrument:

**Percentage of Portfolio
(Maximum)**

U.S. Treasury Obligations	100%
U.S. Government Agency Securities and Instrumentalities of Government-Sponsored Corporations	80%
Authorized Local Government Investment Pools	100%
Fully Collateralized Certificates of Deposit	100%
Fully Collateralized Repurchase Agreements	10%
SEC-Regulated No-Load Money Market Mutual Funds	70%
SEC-Regulated No-Load Mutual Funds	70%
Commercial Paper	20%
Obligations of States, Agencies, Counties, Cities	20%

**Percentage of Portfolio
(Minimum)**

U.S. Treasury Obligations	50%
U.S. Government Agency Securities and Instrumentalities of Government-Sponsored Corporations	20%
Authorized Local Government Investment Pools	0%
Fully Collateralized Certificates of Deposit	0%
Fully Collateralized Repurchase Agreements	0%
SEC-Regulated No-Load Money Market Mutual Funds	0%
SEC-Regulated No-Load Mutual Funds	0%
Commercial Paper	0%
Obligations of States, Agencies, Counties, Cities	0%

10. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS. Financial institutions (federally insured banks) with and through whom TSU invests shall be state or national banks, which have main offices or a branch office in this state. No public deposit shall be made except in a qualified public depository as established by state laws. Broker/dealers authorized to provide investment services to TSU may include only those authorized by the Board of Regents. All banking services will be governed by a depository contract awarded by the Board of Regents, In addition, the Chief Investment Officer or Investment Officer shall maintain a list of authorized security brokers/dealers, and investment pools that are authorized by the Board of Regents.

10.1 **Financial Institutions.** All financial institutions and brokers/dealers with whom TSU does business must supply the following as appropriate: (1) audited financial statements; (2) proof of Financial Industry Regulatory Authority (FINRA) certification; (3) proof of state registration; (4) completed broker/dealer questionnaire; (5) certification of having read TSU'S investment policy signed by a qualified representative of the organization, acknowledging that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between TSU and the organization.

10.2 **Annual Review of Bidders Financial Conditions.** An annual review of the financial condition and registration of qualified bidders will be conducted by the Chief Investment Officer. The review may include, but is not limited to, review of rating agency reports, review of call reports, and analyses of management, profitability, capitalization, and asset quality. Financial institutions and brokers/dealers desiring to conduct business with TSU shall be required to provide any financial data requested by the Investment Officer. Upon completion of the annual review by the Chief Investment Officer, the financial institutions and brokers/dealers desiring to conduct business with TSU shall be approved by the Board of Regents.

Selection Criteria for federally insured financial institutions shall include the following: (1) the financial institution must be insured by the FDIC; (2) the financial institution must be incorporated under the laws of the State of Texas or of the United States of America; and (3) the financial. Institution must be located within the corporate boundaries of TSU. Depositories located outside TSU limits, but within Harris County may be eligible to bid on investments, provided the financial institution maintains a place of business within the State of Texas and offers within the State the services required by the depository services contract; and the Board of Regents, has adopted a written policy expressly permitting the consideration of applications received by TSU from a :financial institution that is not doing business within TSU, after taking into consideration what is in the best interest of TSU in establishing a depository.

Monitoring Investments. The Investment Officer of TSU is responsible for monitoring the investments made by a financial institution and/or broker/dealer to determine that they are in compliance with the provisions of the Investment Policy.

11. **DELIVERY VERSUS PAYMENT** It is the policy of TSU that all security transactions entered into with TSU shall be conducted on a "**DELIVERY VERSUS PAYMENT**" (DVP) basis through the Federal Reserve System, with the exception of investment pools and mutual funds. By doing this, TSU funds are not released until TSU has received, through the Federal Reserve wire, the securities purchased. TSU shall authorize the release of funds only after receiving notification from the safekeeping bank that a purchased security has been received in the safekeeping account of TSU. The notification may be oral, but shall be confirmed in writing.

12. **SAFEKEEPING AND COLLATERALIZATION**

12.1 **Safekeeping.** All securities owned by TSU shall be held by its safekeeping agent, except the collateral for bank deposits. The collateral for bank deposits will be held in a Federal Reserve Bank account in TSU's name or a third-party bank, at TSU's discretion. Original safekeeping receipts shall be obtained and held by TSU. TSU shall contract with a bank or banks for the safekeeping of securities either owned by TSU as part of its investment portfolio or held as collateral to secure time deposits.

12.2 **Collateralization.** Consistent with the requirements of the Public Funds Collateral Act, it is the policy of TSU to require full collateralization of all TSU funds on deposit with a depository bank. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value of principal and accrued interest on the deposits or investments reduced to the extent that the deposits are insured by the Federal Deposit Insurance Corporation (FDIC) unless otherwise noted in this section. Securities pledged as collateral shall be held in TSU'S name in a segregated account at the Federal Reserve Bank or by an independent third party with whom TSU has a current custodial agreement. The agreement is to specify the acceptable investment securities as collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. The safekeeping agreement must clearly state that the safekeeping bank is instructed to release purchased and collateral securities to TSU in the event TSU has determined that the depository bank has failed to pay on any matured investments in certificates of deposit, or has determined that the funds of TSU are in jeopardy for whatever reason, including involuntary closure or change of ownership. A clearly marked evidence of ownership, e.g., safekeeping receipt, must be supplied to TSU and retained by TSU. Any collateral with maturity over five (5) years must be approved by the Investment Officer before the transaction is initiated. Release of collateral or substitution of securities must be approved in writing by the Investment Officer. The total market value of the eligible security must be reported at least once each month to the Board.

12.2.1 TSU may accept the following securities as collateral for bank deposits (V.T.C.A., Government Code, Section 2256.001, et. seq., formerly Article 842a-2, Section 2, V.T.C.S., as amended);

- FDIC coverage;
- U.S. Government securities; including bonds, certificates of indebtedness, or Treasury Notes of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States,
- Debt obligations, including letters of credit, from government sponsored enterprises limited to the Federal Home Loan Bank (FHLB), the Federal Farm Credit Bank (FFCB), the Federal National Mortgage Association (Fannie Mae”) and the Federal Home Loan Mortgage Corporation (Freddie Mac”), or other high-quality Agency collateral.
- State of Texas bonds; including obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas,
- Bonds issued by other Texas governmental entities (City, County, school district, or special districts) with a remaining maturity of twenty (20) years or less. Bonds must be (and must remain) investment quality: that is, with a rating of at least "A" or its equivalent; or
- A surety bond that meets the requirements of the Public Funds Investment Act.
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by, the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities.

12.2.2 For certificates of deposit and other evidences of deposit, collateral shall be at 102% of market or par, whichever is lower. The market value of collateral will always equal or exceed the principal plus accrued interest of deposits at financial institutions.

12.2.3 Financial institutions with whom TSU invests or maintains other deposits, shall provide monthly, and as requested by the Investment Officer, a listing of the collateral pledged to TSU, marked to current market prices. The listing shall include total pledged securities itemized by name, type, description, parvalue, current market value, maturity date, and Moody's or Standard & Poor's rating, if applicable. TSU and the financial institution shall jointly assume the responsibility for ensuring that the collateral is sufficient.

12.2.4 **Collateralized Deposits.** Consistent with the requirements of State law, TSU requires all bank deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as TSU depositories will be required to sign a "Depository Agreement" with TSU and TSU's safekeeping agent. The collateralized deposit portion of the Agreement shall define TSU's rights

to the collateral in the event of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- the Agreement must be in writing;
- the Agreement has to be executed by the Depository and TSU contemporaneously with the acquisition of the asset;
- the Agreement must be approved by the Board of Directors of the Loan Committee of the Depository and a copy of the meeting minutes must be delivered to TSU; and,
- the Agreement must be part of the Depository's "official record" continuously since its execution.

12.2.5 **Competitive Pricing.** In making investment purchases, the Investment Officers shall compare yields on potential investments to yields on US Treasury Bills and Notes, money market accounts at TSU's depository bank, and local government pools.

13. **PERFORMANCE.** TSU'S investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio shall be designed with the objective to obtain a market rate of return on investments commensurate with investment risk constraints and cash flow requirements of TSU.

14. **REPORTING.** The Chief Investment Officer shall submit a signed quarterly investment report that summarizes the investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter.

14.1 **Annual Report.** The reports prepared by the Chief Investment Officer shall be formally reviewed at least annually by an independent auditor and the result of the review shall be reported to the Board of Regents by that auditor.

14.2 **Methods.** The quarterly investment report shall include a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the past quarter. This management summary will be prepared in a manner, which will allow TSU to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be prepared in compliance with generally accepted accounting principles. The report will be provided to the Board of Regents. The report will include the following:

- 14.2.1 A listing of individual securities held at the end of the reporting period. This list will include the name of the fund or pooled group fund for which each individual investment was acquired;
- 14.2.2 Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period. Market values shall be obtained from financial institutions or portfolio reporting services independent from the broker/dealer from which the security was purchased;
- 14.3.3 Additions and changes to the market value during the period;
- 14.3.4 Fully accrued interest for the reporting period;
- 14.3.5 Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks;
- 14.3.6 Listing of investments by maturity date;
- 14.3.7 The percentage of the total portfolio which each type of investment represents; and
- 14.3.8 Statement of compliance of TSU's investment portfolio with State Law and the investment strategy and policy approved by the Board of Regents,

15. **INVESTMENT POLICY ADOPTION AND AMENDMENT.** TSU's Investment Policy shall be adopted by resolution of the Board of Regents only. It is TSU's intent to comply with state laws and regulations. TSU's written policies and procedures for investments are subject to review not less than annually to stay current with changing laws, regulations and needs of TSU. The Board of Regents must adopt a written instrument that it has reviewed the Investment Policy and investment strategies and the written resolution so adopted shall record any changes made to the Investment Policy or strategies.

**TEXAS SOUTHERN UNIVERSITY
INVESTMENT POLICY**

August 31, 2021

Adoption Date

By:


Chair, Board of Regents