UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Endowment Management

ITEM: Annual review and approval of the UH System Investment Policy for Non-Endowed Funds

DATE PREVIOUSLY SUBMITTED: Last reviewed and approved on February 15, 2011

SUMMARY:
In accordance with section IX of the UH System Investment Policy for Non-Endowed Funds, the Endowment Management Committee shall review this policy at least once a year. There are no recommended changes to the policy.

SUPPORTING DOCUMENTATION: Redlined and clean copy of UH System Investment Policy for Non-Endowed Funds

FISCAL NOTE:

RECOMMENDATION/ACTION REQUESTED: Administration recommends approval of this item.

COMPONENT: University of Houston System

EXECUTIVE VICE CHANCELLOR
Carl Carlucci

CHANCELLOR
Remu Khator

DATE
1/27/2012
1/31/12

02/15/2012
CONSENT DOCKET – EM-K55
I. INVESTMENT AUTHORITY AND SCOPE OF POLICY

A. General Statement

All non-endowed financial assets of the University of Houston System are to be invested in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the System and conforming to all state statutes governing investment of such funds. This investment policy applies to all non-endowed financial assets of all funds of the UH System at the present time and any funds to be created in the future.

B. Investment Officer

The System Treasurer may invest funds that are not immediately required to pay obligations of the System. The Board shall designate by resolution one or more additional officers or employees as investment officers. The Endowment Management Committee may also appoint one or more investment managers to invest the System's funds under the terms of this policy.

If an investment officer has a personal business relationship with an entity or is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the System, the investment officer must file a statement disclosing that personal business interest or relationship with the Texas Ethics Commission.

II. INVESTMENT OBJECTIVES

A. Safety and Maintenance of Adequate Liquidity

Safety of principal is a primary objective in any investment transaction involving non-endowed financial assets. The System's investment portfolio must be structured in conformance with an asset/liability management plan that provides for liquidity necessary to pay obligations as they become due.

B. Diversification

The System will diversify its portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments.

C. Yield

The System seeks to earn the maximum rate of return allowed on its investments within constraints imposed by its safety and liquidity objectives, and state and federal law governing investment of public funds.
D. Maturity

Portfolio maturities will be structured to meet the obligations of the System first and then to achieve the highest return of interest. When the System has funds that will not be needed to meet current-year obligations, maturity restraints will be imposed based upon investment strategy.

E. Investment Managers

Hiring of investment managers requires Endowment Management Committee approval except, when on the recommendation of the committee staff and the investment consultant, the chair of the Endowment Management Committee and the chair of the Finance and Administration Committee jointly determine that time is of the essence and immediate action in lieu of a called committee meeting is necessary to hire or terminate an investment manager, the recommended change can then be made. The chair of the Endowment Management Committee will have the staff immediately report any such action taken to the members of the Endowment Management Committee and the Chairman of the Board of Regents after such action is taken.

F. Asset Allocation

The non-endowed funds will be allocated into two tiers of liquidity to better reflect the actual liquidity requirements of these assets. The approved liquidity tiers and target allocation to each tier is as follows:

1. 50% allocated to a cash pool with a one-year time horizon; designed to meet the annual operating needs of the system. This cash pool will be invested in money market funds in conformity with section III. The benchmark for this pool will be the Merrill Lynch 91-Day T-Bill Index.

2. 50% allocated to a liquidity pool with a horizon of one to five years, designed to serve as a margin of safety in the unlikely event that the cash pool is insufficient to meet spending needs. The liquidity pool will be invested in intermediate-term bonds in conformity with section III. The benchmark for this pool will be the BofA ML 1-5 Yr Govt/Corp Index and the BofA ML 1-5 Yr Govt/Corp Index AA and above.

A customized Total Portfolio Benchmark will be employed to measure the overall performance of the portfolio. This benchmark will blend the returns of the two benchmarks specified above, weighted according to the target allocation for each respective tier.

Policy targets and allowable ranges for the Non-Endowed Funds are as follows:

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G. Rebalancing

02/15/2012

CONSENT DOCKET – EM-K57
Given the substantial difference in expected return among these two pools, and the regular use of funds from the cash pool for operational purposes, these pools may need to be rebalanced occasionally. The Endowment Management Committee should consider rebalancing a pool when it exceeds a five percent over-or-underweight relative to its allowable ranges.

Between meetings of the Committee, should the exposure for any pool reach a level of 5% or more beyond the uppermost limit or 5% below the lower end of the specified range as measured at the end of the month, the Treasurer shall consult with the System’s Investment Consultant (if any) and make a recommendation to the Executive Vice Chancellor or designee as to the appropriate rebalancing actions to take. By mutual agreement, those parties may then proceed to take what rebalancing actions they deem to be reasonable and practical. Any rebalancing actions taken shall be communicated to the entire Committee by the Executive Vice Chancellor in a timely matter but in any case, no later than the next Committee meeting.

H. Quality and Capability of Investment Management

The System will provide periodic training in investments for the System Investment Officers through courses and seminars offered by professional organizations and associations in order to insure the quality, capability and currency of the System Investment Officers in making investment decisions.

III. AUTHORIZED INVESTMENT TYPES

The System Investment Officer shall use any of the following authorized investment instruments consistent with this policy and governing law. The following are authorized investments:

A. Obligations of the United States or its agencies and instrumentalities;

B. Direct obligations of this state or its agencies or instrumentalities;

C. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

D. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities; and

E. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

F. Certificates of deposit if issued by a state or national bank domiciled in this state or a savings and loan association domiciled in this state that are:

1. Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor;

2. 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 that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed

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securities of the nature described as Prohibited Investment Instruments in this policy; or

3. Secured in any other manner and amount provided by law for deposits of the System.

G. A fully collateralized repurchase agreement or reverse repurchase agreement, as defined in the Public Funds Investment Act, if it:

1. Has a defined termination date;
2. Is secured by obligations described by Section 2256.009(a)(1) of the Public Funds Investment Act;
3. Requires the securities being purchased by the System to be pledged to the System, held in the System’s name, and deposited at the time the investment is made with the System or with a third party selected and approved by the System; and
4. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

Notwithstanding any law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received by the System under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

H. A banker’s acceptance if it:

1. has a stated maturity of 270 days or fewer from the date of its issuance;
2. will be, in accordance with its terms, liquidated in full at maturity;
3. is eligible for collateral for borrowing from a Federal Reserve Bank; and
4. 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, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

I. Commercial paper if it:

1. has a stated maturity of 270 days or fewer from the date of its issuance; and
2. is rated not less than A-1 or P-1 or an equivalent rating by at least:
   a. two nationally recognized credit rating agencies; or
   b. 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.
J. Mutual Funds and money market mutual funds with limitations described below:

1. A no-load money market mutual fund is authorized if it:
   a. is registered with and regulated by the Securities and Exchange Commission;
   b. has a dollar-weighted average stated maturity of 90 days or fewer; and
   c. includes in its investment objectives the maintenance of a stable net asset value of $1 for each share.

2. A no-load mutual fund is authorized if it:
   a. is registered with the Securities and Exchange Commission;
   b. is Securities and Exchange Commission 2a-7 compliant;
   c. has an average weighted maturity of less than two years;
   d. is invested exclusively in obligations approved by this policy; and
   e. is continuously rated as to investment quality by the two nationally recognized statistical rating organizations that rate our debt of not less than AAA or its equivalent.

The System may not invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund or money market mutual fund in an amount that exceeds 10 percent of the total assets of the mutual fund or money market mutual fund.

K. Eligible investment pools approved by the Board. An investment pool shall invest the funds it receives from entities in authorized investments permitted by the Public Funds Investment Act. The System by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

L. Cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501 (f), Internal Revenue Code of 1986.

M. Negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency.

N. Corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradation within those categories.

O. Any other investment types, other than prohibited investment instruments, not listed above as approved by the Endowment Management Committee.

IV. RISK CONTROL AND INVESTMENT LIMITS

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CONSENT DOCKET – EM-K60
In the interest of risk control and diversification, the following limits will be placed on allocation among allowable investments within the liquidity pool:

A. Types of issues permitted

<table>
<thead>
<tr>
<th>(1) U.S. Government</th>
<th>Restrictions</th>
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<tbody>
<tr>
<td>No Limit</td>
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<table>
<thead>
<tr>
<th>(2) Federal Agencies</th>
<th>Restrictions</th>
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<tbody>
<tr>
<td>20% per Agency</td>
<td></td>
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<tr>
<td>(GNMA collateralized mortgages issued by FNMA or FHLMC count under U.S. Government limit)</td>
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<thead>
<tr>
<th>(3) Municipal Obligations</th>
<th>Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 % per issuer</td>
<td></td>
</tr>
<tr>
<td>30 % aggregate limit</td>
<td></td>
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<tr>
<td>Rated A/A and above by S &amp; P and Moody’s</td>
<td></td>
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<tr>
<td>(There is a 50% aggregate limit for corporate bonds and taxable municipal obligations.)</td>
<td></td>
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<table>
<thead>
<tr>
<th>(4) Corporate Bonds</th>
<th>Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% per issuer</td>
<td></td>
</tr>
<tr>
<td>Rated AA and above by S&amp;P or Moody’s</td>
<td></td>
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<tr>
<td>25% per economic sector</td>
<td></td>
</tr>
<tr>
<td>(There is a 50% aggregate limit for corporate bonds and taxable municipal obligations.)</td>
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</tbody>
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<table>
<thead>
<tr>
<th>(5) Mortgage Securities</th>
<th>Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>30% aggregate limit</td>
<td></td>
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<tr>
<td>Final maturity 10 years or less</td>
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<tr>
<td>Average life less than 5 years</td>
<td></td>
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</table>

<table>
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<tr>
<th>(6) SEC Registered Money Market Funds</th>
<th>Restrictions</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>(7) Commercial Paper (under 270 day maturities)</th>
<th>Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 % per issuer</td>
<td></td>
</tr>
<tr>
<td>Rated A-1 / P-1</td>
<td></td>
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<tr>
<td>25 % limit per economic sector</td>
<td></td>
</tr>
</tbody>
</table>

B. Maturity Restrictions

<table>
<thead>
<tr>
<th>Final Maturity</th>
<th>Percentage of Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>0% to 100%</td>
</tr>
<tr>
<td>1 to 2 years</td>
<td>0% to 100%</td>
</tr>
<tr>
<td>2 to 5 years</td>
<td>0% to 75%</td>
</tr>
</tbody>
</table>

V. Prohibited Investment Instruments

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CONSENT DOCKET – EM-K61
The System Investment Officer or appointed investment management company has no authority to use any of the following investment instruments:

A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal

B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;

D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and

E. Any other security prohibited by the laws of the State of Texas. The Treasurer will inform investment managers of any such prohibitions on an ongoing basis.

VI. INVESTMENT RESPONSIBILITY AND CONTROL

A. Investment Institutions Defined

The System Investment Officer shall invest System funds with any or all of the following institutions or groups consistent with federal and state law and the current Depository Bank contract:

1. Depository bank;
2. Other state or national banks, or their subsidiaries, domiciled in Texas that are insured by the FDIC;
3. Public funds investment pools;
4. Government securities brokers and dealers; or
5. Investment management firms registered under the Investment Advisers Act of 1940.

B. Standards of Operation

The System Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this investment policy.

C. Delivery vs. Payment

All Treasury Bills, Notes and Bonds and Government Agencies' securities shall be purchased using the "Delivery vs. Payment" (DVP) method through the Federal Reserve System. By doing so, System funds are not released until the System has received, through the Federal Reserve wire, the securities purchased.

D. Standard of Care
Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal; liquidity; and yield. In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

1. The investment of all funds, or funds under the System's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
2. Whether the investment decision was consistent with the written investment policy of the System.

VII. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

Not less than quarterly, the System shall submit to the Endowment Management Committee a written report of the System's investment transactions for the preceding reporting period. The report shall contain:

A. A summary statement of each pooled fund group that states the beginning market value for the reporting period, additions and changes to the market value during the period, and the ending market value for the period.

B. The book value and market value for each separately invested asset at the beginning and end of the reporting period by type of asset and fund type invested.

For purpose of this section, "pooled fund group" means an internally created fund in which one or more institutional accounts are invested, and "separately invested asset" means an account that is not invested in a pooled fund group.

VIII. INVESTMENT COLLATERAL AND SAFEKEEPING

A. Collateral or Insurance

The System Investment Officer shall ensure that all System funds are fully collateralized or insured consistent with federal and state law and the current Bank Depository Contract in one or more of the following manners:

1. FDIC insurance coverage; or
2. Obligations of the United States or its agencies and instrumentalities.

B. Safekeeping

All purchased securities shall be held in safekeeping by the System, or a System account in a third party financial institution, or with the Federal Reserve Bank. All pledged securities by

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the Depository Bank shall be held in safekeeping by the System, or a System account in a third party financial institution, or with a Federal Reserve Bank.

C. Securities Lending

Securities owned by the System and held in custody by the System’s custodian may only be lent to other parties through a contract between the System and the custodian pursuant to a written agreement approved by the Board of Regents. Neither custodians nor investment managers may enter into securities lending agreements without the consent of the Board of Regents. The System recognizes, however, that, for those investments placed in mutual funds, the Board cannot dictate whether or not the fund will engage in securities lending. Therefore, the System and its investment consultant (if any) shall make every effort either to avoid mutual funds that participate in securities lending, or to otherwise limit investment to those managers who will not engage in securities lending.

IX. Review and Modification of Policy

The Endowment Management Committee shall review this Policy at least once a year to determine if modifications are necessary or desirable. If substantive modifications are made, they shall be promptly communicated to responsible parties.
UNIVERSITY OF HOUSTON SYSTEM
INVESTMENT POLICY FOR NON-ENDEOYED FUNDS
Approved by the Board of Regents February 16, 2011
Reaffirmed by the Endowment Management Committee – February 14, 2012

I. INVESTMENT AUTHORITY AND SCOPE OF POLICY

A. General Statement
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B. Diversification
The System will diversify its portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments.

C. Yield
The System seeks to earn the maximum rate of return allowed on its investments within constraints imposed by its safety and liquidity objectives, and state and federal law governing investment of public funds.

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CONSENT DOCKET – EM-K65
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CONSENT DOCKET – EM-K66
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1. Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor;

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CONSENT DOCKET – EM-K67
principal amount of the certificates, but excluding those mortgage backed securities of the nature described as Prohibited Investment Instruments in this policy; or

3. Secured in any other manner and amount provided by law for deposits of the System.

G. A fully collateralized repurchase agreement or reverse repurchase agreement, as defined in the Public Funds Investment Act, if it:

1. Has a defined termination date;
2. Is secured by obligations described by Section 2256.009(a)(1) of the Public Funds Investment Act;
3. Requires the securities being purchased by the System to be pledged to the System, held in the System's name, and deposited at the time the investment is made with the System or with a third party selected and approved by the System; and
4. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

Notwithstanding any law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received by the System under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

H. A banker's acceptance if it:

1. has a stated maturity of 270 days or fewer from the date of its issuance;
2. will be, in accordance with its terms, liquidated in full at maturity;
3. is eligible for collateral for borrowing from a Federal Reserve Bank; and
4. 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, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

I. Commercial paper if it:

1. has a stated maturity of 270 days or fewer from the date of its issuance; and
2. is rated not less than A-1 or P-1 or an equivalent rating by at least:
   a. two nationally recognized credit rating agencies; or
   b. 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.

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CONSENT DOCKET – EM-K68
J. Mutual Funds and money market mutual funds with limitations described below:

1. A no-load money market mutual fund is authorized if it:
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L. Cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501 (f), Internal Revenue Code of 1986.

M. Negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency.

N. Corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradation within those categories.

O. Any other investment types, other than prohibited investment instruments, not listed above as approved by the Endowment Management Committee.
IV. RISK CONTROL AND INVESTMENT LIMITS

In the interest of risk control and diversification, the following limits will be placed on allocation among allowable investments within the liquidity pool:

A. Types of issues permitted

<table>
<thead>
<tr>
<th>(1) U.S. Government</th>
<th>Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Limit</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(2) Federal Agencies</th>
<th>Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>20% per Agency</td>
<td></td>
</tr>
<tr>
<td>(GNMA collateralized mortgages issued by FNMA or FHLMC count under U.S. Government limit)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(3) Municipal Obligations</th>
<th>Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% per issuer</td>
<td></td>
</tr>
<tr>
<td>30% aggregate limit</td>
<td></td>
</tr>
<tr>
<td>Rated A/A and above by S &amp; P and Moody’s</td>
<td></td>
</tr>
<tr>
<td>(There is a 50% aggregate limit for corporate bonds and taxable municipal obligations.)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(4) Corporate Bonds</th>
<th>Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% per issuer</td>
<td></td>
</tr>
<tr>
<td>Rated AA and above by S&amp;P or Moody’s</td>
<td></td>
</tr>
<tr>
<td>25% per economic sector</td>
<td></td>
</tr>
<tr>
<td>(There is a 50% aggregate limit for corporate bonds and taxable municipal obligations.)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(5) Mortgage Securities</th>
<th>Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>30% aggregate limit</td>
<td></td>
</tr>
<tr>
<td>Final maturity 10 years or less</td>
<td></td>
</tr>
<tr>
<td>Average life less than 5 years</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(6) SEC Registered Money Market Funds</th>
<th>Restrictions</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>(7) Commercial Paper (under 270 day maturities)</th>
<th>Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% per issuer</td>
<td></td>
</tr>
<tr>
<td>Rated A-1 / P-1</td>
<td></td>
</tr>
<tr>
<td>25% limit per economic sector</td>
<td></td>
</tr>
</tbody>
</table>

B. Maturity Restrictions

<table>
<thead>
<tr>
<th>Final Maturity</th>
<th>Percentage of Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>0% to 100%</td>
</tr>
<tr>
<td>1 to 2 years</td>
<td>0% to 100%</td>
</tr>
<tr>
<td>2 to 5 years</td>
<td>0% to 75%</td>
</tr>
</tbody>
</table>

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V. Prohibited Investment Instruments

The System Investment Officer or appointed investment management company has no authority to use any of the following investment instruments:

A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal

B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;

D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and

E. Any other security prohibited by the laws of the State of Texas. The Treasurer will inform investment managers of any such prohibitions on an ongoing basis.

VI. INVESTMENT RESPONSIBILITY AND CONTROL

A. Investment Institutions Defined

The System Investment Officer shall invest System funds with any or all of the following institutions or groups consistent with federal and state law and the current Depository Bank contract:

1. Depository bank;

2. Other state or national banks, or their subsidiaries, domiciled in Texas that are insured by the FDIC;

3. Public funds investment pools;

4. Government securities brokers and dealers; or

5. Investment management firms registered under the Investment Advisers Act of 1940.

B. Standards of Operation

The System Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this investment policy.

C. Delivery vs. Payment

All Treasury Bills, Notes and Bonds and Government Agencies' securities shall be purchased using the "Delivery vs. Payment" (DVP) method through the Federal Reserve System. By doing so, System funds are not released until the System has received, through the Federal Reserve wire, the securities purchased.
D. Standard of Care

Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal; liquidity; and yield. In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

1. The investment of all funds, or funds under the System's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
2. Whether the investment decision was consistent with the written investment policy of the System.

VII. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

Not less than quarterly, the System shall submit to the Endowment Management Committee a written report of the System's investment transactions for the preceding reporting period. The report shall contain:

A. A summary statement of each pooled fund group that states the beginning market value for the reporting period, additions and changes to the market value during the period, and the ending market value for the period.

B. The book value and market value for each separately invested asset at the beginning and end of the reporting period by type of asset and fund type invested.

For purpose of this section, "pooled fund group" means an internally created fund in which one or more institutional accounts are invested, and "separately invested asset" means an account that is not invested in a pooled fund group.

VIII. INVESTMENT COLLATERAL AND SAFEKEEPING

A. Collateral or Insurance

The System Investment Officer shall ensure that all System funds are fully collateralized or insured consistent with federal and state law and the current Bank Depository Contract in one or more of the following manners:

1. FDIC insurance coverage; or
2. Obligations of the United States or its agencies and instrumentalities.
B. Safekeeping

All purchased securities shall be held in safekeeping by the System, or a System account in a third party financial institution, or with the Federal Reserve Bank. All pledged securities by the Depository Bank shall be held in safekeeping by the System, or a System account in a third party financial institution, or with a Federal Reserve Bank.

C. Securities Lending

Securities owned by the System and held in custody by the System’s custodian may only be lent to other parties through a contract between the System and the custodian pursuant to a written agreement approved by the Board of Regents. Neither custodians nor investment managers may enter into securities lending agreements without the consent of the Board of Regents. The System recognizes, however, that, for those investments placed in mutual funds, the Board cannot dictate whether or not the fund will engage in securities lending. Therefore, the System and its investment consultant (if any) shall make every effort either to avoid mutual funds that participate in securities lending, or to otherwise limit investment to those managers who will not engage in securities lending.

IX. Review and Modification of Policy

The Endowment Management Committee shall review this Policy at least once a year to determine if modifications are necessary or desirable. If substantive modifications are made, they shall be promptly communicated to responsible parties.