Texas State University System

Operating Funds Investment Policy

I. POLICY AND OBJECTIVES

It is the policy of Texas State University System (TSUS) to invest public funds in a manner which is in compliance with the Public Funds Investment Act (Texas Government Code Chapter 2256, the “Act”), and the Public Funds Collateral Act (Texas Government Code 2257). The investment policy of TSUS is designed to fulfill the following objectives:

· provide maximum safety of invested principal;
· ensure liquidity for all operating requirements which may be reasonably anticipated;
· manage interest-rate risk;
· maximize overall return within the established risk constraints; and
· provide for diversification of investment assets.

To meet these objectives TSUS will base investment decisions on long-term, intermediate-term, and short-term needs based on cash flow analyses of present and anticipated financial requirements. The rate of return will be secondary to the overall safety of the funds and general economic conditions.

This *Operating Fund Investment Policy* applies to all operating funds held by TSUS. These funds are defined as Current Funds (Unrestricted and Restricted), Loan Funds, Bond Funds, Plant Funds, Board Designated Reserves held as Quasi-Endowment Funds (principal of these funds may be utilized at the discretion of the governing board) and Agency Funds which apply to the ongoing operations of TSUS and its components. The funds may be held in investments authorized by this Policy, based on liquidity needs or bond covenants, or in authorized depositories which would be needed for day-to-day operations within any fund group. Funds held in banking institutions are also covered by the TSUS *Depository Funds Policy*. This Policy is not applicable to Endowment or Foundation Funds.

This Policy and the amended Public Funds Investment Act does not apply to investments donated to the System or its components for a particular purpose or donated according to terms specified by a donor if those donated investments are outside the authorized investments.

Funds covered under this policy are classified as:
Short Term Funds: Those funds currently budgeted in the annual operating budget or anticipated to be spent within the next twelve (12) months.
Long Term Funds: These funds not currently budgeted and not expected to be spent within the next twelve (12) months.

Bond Proceed Funds – Bond proceeds and reserves may be invested in a manner consistent with the requirements and restrictions stated in the applicable Bond Covenants, but not longer than three years.

II. DELEGATION OF AUTHORITY AND RESPONSIBILITY

**Board of Regents**
The TSUS Board of Regents retains ultimate responsibility for investments as fiduciaries of TSUS assets regardless of who is investing those assets. The Board is statutorily required to:
- designate Investment Officers,
- at least annually, review and adopt the Operating Investment Policy of TSUS,
- at least annually, review and adopt a list of qualified broker/dealers authorized to engage in investment transactions with TSUS,
- at least quarterly, receive and review investment reports prepared in accordance with this Policy,
- attend at least one training session as regards to Board responsibilities under the Act within six (6) months of assuming office as provided by the Higher Education Coordinating Board, and
- approve and provide for training for Investment Officers as required by the Act and this Policy.

**Investment Officers**
The Chief Financial Officer (CFO) for System Administration and the Chief Financial Officer of each Texas State University System component are to be designated as Investment Officers by resolution of the Board of Regents of TSUS (the “Board”). Additional Investment Officers may be designated for operational management.

Investment Officers are responsible for investment management decisions and activities of their respective component. The Investment Officer(s) retain the designation until rescinded by the Board or at termination of employment. Any personnel changes must be filed with the Board Office as they occur to accommodate necessary Board actions.

The Investment Officers shall be responsible for all transactions undertaken and shall establish internal controls in support of this Policy to regulate the activities of subordinate officials and staff.

The Investment Officers shall develop and maintain written administrative procedures and guidelines in support of this Policy for their respective component. Procedures will include duties of staff, safekeeping, Master Repurchase Agreements, wire transfer agreements, documentation of transactions, reporting, trading authorizations, and other
investment related activities.

Each Investment Officer must attend ten hours of investment training session within twelve months of assuming the position and within each succeeding two-year period. The System Office shall prepare a report to the Board of any changes made to the Act impacting TSUS not later than the 180th day after the last day of each regular session of the Texas Legislature [2256.007(d)].

Every Investment Officer shall disclose any personal business relationship with a business organization that engages in an investment transaction with TSUS and/or a component. An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to a TSUS component shall file a statement disclosing that relationship. The disclosure shall be filed with the Board and the Texas Ethics Commission.

No officer or designee may engage in an investment transaction except as provided under terms of this Policy. No Investment Officer or employee of TSUS may accept anything of value from counter-parties or others in connection with investment transactions.

**Investment Adviser**
The Board, or individual components, may contract with an investment management firm registered under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) to provide for management of the operating funds or other funds under its control. The initial contract may not be for a term exceeding two years and renewals or extensions of the contract must be made by action of the TSUS Board or component chief executive officer. The Adviser must certify to the receipt and review of the TSUS Investment Policy in accordance with this Policy and will act in accordance with the Policy and provide annual copies of their ADV Parts I and II to the system office and the component schools that it advises.

The Investment Adviser’s responsibilities are to the TSUS component school for which it advises:

- Assisting in the development and implementation of investment policies, objectives, and guidelines to submit to the Board of Regents for approval each November;
- Reviewing Investment Managers, including search, selection, and recommendation to the Investment Officer,
- Preparing and presenting performance evaluation reports in accordance to established investment standards,
- Reviewing of contracts and fees for both current and proposed Investment Managers; and
- Communicating investment policies and objectives to managers, monitoring those strategies, and notifying the Investment Officer of any significant changes in portfolio managers, litigation, or violation of securities regulations.
Investment Manager(s)
TSUS component schools may employ external investment managers. Each investment manager must be provided the TSUS Investment Policy. All investment managers have a fiduciary responsibility to make a good faith determination that commissions paid to a broker are reasonable and competitive. All investment managers shall treat the Accounts’ they manage as discretionary accounts and have authority to act for TSUS Investment Officers. The managers have the authority to make investment decisions for the purpose of placing orders to affect any purchase, sale, exchange, liquidation or other investment of the assets in the accounts, within their asset class, and according to TSUS Investment Policy guidelines, without obtaining prior approval.

TSUS requests that all orders for transactions of Account assets be placed in such markets and through such brokers as shall offer the most favorable price, execution and commission cost of each order (best execution).

TSUS acknowledges that investment managers may from time to time and in accordance with applicable law pay commissions to brokers that are higher than those that might be obtainable elsewhere in order to obtain research and other services provided by such brokers in the expectation to enhance the long-term value of the Account. The Investment Officer shall try to negotiate the contract without the use of these soft dollar arrangements. In the event that the soft dollar arrangements remain as part of the contract, the Investment Advisor shall review, at least annually, the investment managers’ soft dollar practices and any soft dollar purchases. The soft dollar purchases shall be aggregated and a report provided to the Investment Officer on an annual basis.

Investment Custodians
The Investment Custodians are responsible for the safekeeping of the Operating assets. Their responsibilities are:

- Providing timely and accurate reports detailing investment holdings, including:
  - statement of all securities and other assets held,
  - statement of all receipts, sales, redemptions, and principal payments,
  - statement of all distributions, expenses paid, purchases, and
  - statement of all income, and;
- establishing and maintaining separate accounts for each Investment Manager

Providing all normal custodian functions includes but is not limited to: security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, and daily investment of available cash.

III. STANDARD OF CARE
The ‘prudent person standard’ shall be the standard used in all investment functions and shall be applied in the context of individual transactions as well as management of the overall portfolio. Accordingly, all investments shall be made with judgment and care,
under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, emphasizing the probable safety of their capital as well as the expected income to be derived.

All investments shall be consistent with the Board’s approved Investment Policy. The Investment Officer shall not be held personally liable for a specific security's credit risk or market value change as long as actions were in accordance with the Operating Investment Policy and procedures, unexpected deviations were reported to the Vice Chancellor for Finance in a timely manner, and all appropriate actions were taken to control adverse developments.

IV. INTERNAL CONTROLS

The Investment Officer(s) of each component shall establish written procedures supporting this Policy and promoting internal control. The procedures shall be directed towards preventing loss of funds due to fraud, employee error, misrepresentation, or imprudent actions. These procedures shall be reviewed annually and a copy of the procedures sent to the Vice Chancellor for Finance on an annual basis.

All components shall incorporate the following specific controls, as further defined by this Policy, into their operating procedures.

- all securities will be settled delivery versus payment (DVP) into the component’s depository or custodian bank,
- no securities will be safe-kept with a broker/dealer,
- Operating funds cash flow will be reviewed at a high level at least annually to determine investment strategy impact and projections,
- every transaction will be documented for accounting information, and security description,
- all transaction documentation will be completed within five business days of receipt,
- an investment ledger will be maintained for reconciliation with the general ledger, bank reports, and trade confirmations on a monthly basis, at a minimum,
- a monthly reconciliation of transactions and income will be made,
- a review of the portfolio will be made by all Investment Officers at least quarterly,
- designated levels of signatory approval will be set
- investment reporting will be completed monthly, and
- all transactions will have dual control and/or oversight and separation of responsibilities.

Each component’s Internal Auditor will, at a minimum, biennially review operations and internal controls for adequacy and shall test them for effectiveness. If the component school invests in other than money market mutual funds, investment pools, or accounts offered by its depository bank in the form of certificates of deposit or money market
accounts or similar accounts, the reports prepared by the investment officers shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

V. INVESTMENT STRATEGIES

Component operating funds may be commingled for investment purposes but will address the unique characteristics and needs of each fund group and classification of funds represented in the portfolio. Operating funds are constricted by expenditure plans and can serve a fiscal year or multiple year purposes.

The investment strategy for current operating, loan, plant and agency funds has as its primary objective assurance that anticipated liabilities are matched and adequate investment liquidity provided. The secondary objective is to create a portfolio structure which will experience minimal volatility.

Funds are normally invested as follows:

**Short Term Funds**
Funds needed to meet daily or short term operating requirements will usually be held in an approved local government investment pool.

Short Term Investments- Investments of less than 180 days.

Intermediate Term Investments- Up to twelve (12) months maturities of Treasuries and Agencies, Agency Discount Notes, and Commercial Paper.

**Long Term Funds**
Operating funds that have not been needed in the past, and are not anticipated to be needed for a minimum of 12 months or more.

Intermediate Term Investments – Investments between 12 months and 18 months of Treasuries and Agencies, Agency Discount Notes, and Commercial Paper.

Long Term Investments – Investments between 18 months and 5 years. Treasuries and Agencies are the primary investment vehicles. Corporate and Municipal Bonds may be purchased to the extent that separately they do not constitute more than 25% of the book value of the portfolio.

A. The investment strategy for debt service funds shall have as its primary objective the assurance of available funds adequate to fund the debt service obligations on a timely basis. Two successive debt service dates will be fully funded before any can be invested as long term funds. The investment strategy for reserve funds shall have as its primary
objective the ability to generate a revenue stream from high quality securities with a low degree of volatility. The potential for loss shall be further controlled through the purchase of securities within the specified maturity range dependent on use. Bond proceeds and reserves may be invested in a manner consistent with the requirements and restrictions stated in the applicable Bond Covenants.

B. The investment strategy for capital projects or capital project funds will have as its primary objective assurance that anticipated cash flows are matched and provide adequate investment liquidity. At least 10% total liquidity is planned to provide flexibility and for unanticipated project outlays. The stated final maturity dates of securities held shall be based on the project completion date, but may not exceed three years.

The intention is to match investments with projected cash flow and liquidity needs.

The System and its components shall pursue an active versus a passive portfolio management strategy. That is, securities may be sold before they mature if market conditions present an opportunity for a net positive horizon fiscal benefit from the trade, or to manage a market downturn. The Investment Officer and/or investment adviser will continuously monitor the contents of the portfolio, the available markets, and the relative value of all authorized, competing instruments to adjust the portfolio in response to market conditions.

VI. AUTHORIZED INVESTMENTS

Investments made by TSUS and its components are restricted to the list reflected in this section. No change modifying or expanding this list will be authorized until the Policy is reviewed and adopted by formal action of the Board of Regents. All investments must comply with all applicable federal and state statutes, rules, regulations or policies. Investment of bond proceeds must be in accordance with the bond covenants.

Policy rating and diversification requirements must be met at time of purchase. Investments that were authorized at the time of acquisition but that are not currently authorized, including those no longer meeting the minimum rating requirements by at least one rating agency, are not required to be immediately liquidated. However, evaluation of the situation and prudent measures will be taken, consistent with the Investment Policy, to manage or sell these investments.

A. Obligations of the US Government, or its agencies and instrumentalities, direct obligations of this state or its agencies and instrumentalities, 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 an instrumentality of the United States, 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, obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality or nationally recognized investment rating firm not less than A or its equivalent, and bonds issued, assumed, or guaranteed by the State of Israel. This includes mortgage backed securities and excludes letters of credit with a maximum stated final maturity of five (5) years. Mortgage backed securities may have a stated final of ten years but an expected life of no more than five (5) years. The aggregate investment in all types of mortgage-backed securities shall not exceed 25% of the total portfolio.

B. A certificate of deposit must be issued by a state or national bank, a savings bank, or a state or federal credit union domiciled in this state, and is guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor. The Certificate of Deposit must be secured by obligations that are consistent with section VI (a), including mortgage backed securities directly issued by a federal agency or instruments that have a market value of not less than the principal amount of the certificates, but excluding the mortgage backed securities listed in section VIII (f), or secured in any other manner and amount provided by law for deposits of the investing entity. Federally insured or collateralized certificates of deposit with banks doing business in Texas, under the terms of an executed collateral agreement in accordance with FIRREA, collateralized in compliance with this Policy, to include the CDARS program through a Texas bank and not to exceed eighteen (18) months to stated maturity.

C. Commercial paper rated A1/P1 or equivalent by two nationally recognized rating agencies and with a stated final maturity not to exceed 270 days from the date of issuance.

D. Prime bankers acceptances must have a stated maturity of 270 days or fewer from the date of issuance, will be liquidated in full at maturity, and is eligible as collateral from a Federal Reserve Bank. Bank or bank holding company short-term obligations must be rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

E. Taxable or non-taxable governmental and municipal securities rated not less than A or equivalent by two nationally recognized rating organizations with a stated final maturity not to exceed five (5) years.
F. 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 gradations within those debt securities rated A or equivalent by two nationally recognized rating organizations with a maximum stated final maturity of five (5) years.

G. Constant dollar, Texas local government investment pools continuously rated AAA and as defined further by the Act (2256.019) with a weighted average maturity no greater than 90 days and approved by resolution of the Board.

H. SEC-registered, money market mutual funds which have as an investment objective the maintenance of a stable net asset value (NAV) of $1 for each share, and has a dollar-weighted average stated maturity of 90 days or fewer. The investing entity must be provided a prospectus and other documentation as required by the SEC.

I. No load money market mutual funds must be registered with and regulated by the SEC, dollar-weighted average stated maturity of less than two years, and is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and conforms to the requirements of this policy.

J. Fully collateralized repurchase agreements with a defined termination date, secured by obligations of the United States or its agencies and instrumentalities in accordance with this Policy, with securities purchased by the component school to be pledged to the investing entity, held in the investment entity’s name, and deposited at the time the investment is made with the entity or with a third party selected and approved by TSUS, under the terms of a SIFMA Bond Market Master Repurchase Agreement, and placed through a primary government securities dealer, or a financial institution doing business in the state. A flex repurchase agreement may be used for bond funds with a stated maturity not to exceed the anticipated expenditure plan of the funds.

K. Interest bearing accounts in banks doing business in Texas held for investment purposes only.

L. May invest in funds under control in cash management and fixed income funds sponsored by organizations exempt from federal income taxation under section 501(f), Internal Revenue Code of 1986 (26 U.S. C. Section 501(f))
Securities Lending
A fully collateralized securities lending program may be utilized to fully maximize the value of assets held. As defined by the Act, the contract would be restricted to primary dealers or banks doing business in Texas. Collateral margins must be set at 102%, including accrued income, and ownership clearly established under the loan. A loan made under the program must allow for termination at any time, and pledged irrevocable letters of credit issued by a bank that is organized and existing under the laws of the United States or other state, and is continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent, and the agreement to lend securities must have a term of one year or less. The securities being held as collateral must be pledged to the investing entity, held in the investing entity’s name, and deposited at the time the investment is made with the entity or with a third party selected by or approved by TSUS. Contracts must be competitively bid and analyzed and the program established by written agreement. The entire portfolio may be lent under the program.

VII. DIVERSIFICATION

Investment Officers shall diversify the portfolio(s) by maturity and market sector to minimize market risks and align with the liquidity needs of their institution.

Annually, all investment officers shall review the projected cash flow to determine the short, intermediate, and long term cash needs of the institution. The Investment Officer(s) are required to review current levels and projections on a rolling quarterly basis and submit these to the component’s President each fiscal year end. The CFO shall consider extension risk when diversifying the portfolio.

The System recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification. The maximum limits for diversification of the total portfolio will be:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Max. % of Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Treasuries</td>
<td>100%</td>
</tr>
<tr>
<td>US Agencies and Instrumentalities</td>
<td>100%</td>
</tr>
<tr>
<td>Mortgage backed securities</td>
<td>25%</td>
</tr>
<tr>
<td>Certificates of Deposit</td>
<td>35%</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>50%</td>
</tr>
<tr>
<td>Flex per bond issue</td>
<td>100%</td>
</tr>
<tr>
<td>Local Government Investment Pools</td>
<td>100%</td>
</tr>
<tr>
<td>Ownership of the pool</td>
<td>5%</td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>100%</td>
</tr>
<tr>
<td>Ownership of the fund</td>
<td>5%</td>
</tr>
</tbody>
</table>
Commercial Paper       20%
   Any one issuer                    5%
Bankers acceptances       20%
   Any one bank                     5%
Municipal debt       20%
   Any one issuer                    5%
Corporate debt       25%
   Any one issuer                    5%
Bond mutual funds       25%
   Ownership of one fund            5%
No load mutual funds       15%
   Ownership of the fund            5%

VIII. PROHIBITED INVESTMENTS AND ACTIVITIES

The following are unauthorized transactions and securities for TSUS and its components. Any change in this list shall require amendment of this Policy and adoption by the Board.

A. TSUS may not purchase or sell financial futures, options, interest rate swaps, or forward rate agreements.

B. TSUS may not engage in adjusted trading or short sales.

C. TSUS may not purchase residual interests in CMOs/REMICs, mortgages serving rights, commercial mortgage backed securities, or small business related securities (excluding Small Business Administration debentures). Specific securities that may not be purchased are:
   1. inverse MBS floaters
   2. principal only MBS
   3. interest only MBS

D. TSUS may not purchase adjustable rate securities if tied to international (non-US) interest rates

E. TSUS may not purchase 144-A or other private placement securities not registered with the SEC

F. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal, obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no
interest, collateralized mortgage obligations that have a stated final maturity date of greater than 10 years, and collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

IX. SAFEKEEPING

TSUS Owned Securities
All securities, including collateral bought under a repurchase agreement, but excluding investment pool funds, certificates of deposit, and mutual funds, shall be settled on a delivery versus payment (DVP) basis. All securities shall be held by the component’s depository bank or an independent third party custodian approved by the State of Texas. All securities will be held in the name of the TSUS component. No broker/dealer shall be used for safekeeping purposes.

The third party custodian of TSUS component owned assets shall be required to issue an original safekeeping trust statement to the TSUS component on a timely basis describing the specific instrument, coupon, maturity, par, CUSIP, and other pertinent information.

X. COLLATERALIZATION

All time and demand deposits in financial institutions shall be fully collateralized on balances in excess of federal insurance in accordance with the TSUS Depository Funds Policy. Depository agreements shall be executed in accordance with the Financial Institutions Resource, Recovery and Enforcement Act (FIRREA) which requires a written agreement and a resolution from the Bank Board or Bank Loan Committee.

In order to anticipate market price changes and provide additional security for all funds, the collateralization level will be maintained and monitored, at a minimum, at 102% of the value of principal and accrued interest. The pledging institution shall be contractually liable for monitoring and maintaining this margin daily.

Collateral pledged to secure deposits shall be held in the name of the TSUS component by an independent financial institution outside the holding company of the depository in accordance with a safekeeping agreement signed by authorized representatives of TSUS, the depository, and the custodian. A collateral safekeeping trust statement must be issued to the component school no less than monthly. All collateral shall be subject to inspection and audit by TSUS or its independent auditors.

Authorized Collateral
The following securities are the only authorized collateral for time and demand deposits:
A. FDIC insurance coverage.

B. Obligations of the United States, its agencies or instrumentalities, or other evidence of indebtedness of the United States guaranteed as to principal and interest, including MBS which pass the bank (volatility) test and are eligible as collateral with the Federal Reserve.

C. Obligations, the principal and interest on which, are guaranteed or insured by the State of Texas or Texas political subdivisions having been rated no less than “A” or its equivalent) by two nationally recognized rating agencies. (see Appendix B for comparative ratings for the other rating agencies)

D. Obligations of any state or of a county, city or other political subdivision of a state having been rated no less than “A” or its equivalent) by two nationally recognized rating agencies.

In accordance with the Depository Funds Policy, if a depository offers ‘pooled collateral’ as a collateral alternative, the Investment Officer shall evaluate the risk and cost of the program and provide that information to the Vice Chancellor for Finance for possible approval by the Board.

XI. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

A. If the component school is not utilizing a business organization (includes investment pools and an investment management firm under contract with an entity to invest or manage the entity’s investment portfolio) the transaction requires competitive bidding by at least three Board authorized broker/dealers who have fulfilled all compliance requirements of the Board.

B. An "Authorized Broker/Dealer List" of financial institutions and broker/dealers authorized to do business with TSUS shall be compiled and maintained by the System Office and made part of this Policy as Addendum A. All investment officers who invest directly will utilize the authorized list. At least annually, the Board shall review, revise and adopt a current qualified list of approved broker/dealers and banks with recommendations from Investment Officers based on performance and competitiveness of the firms.

The Board shall adopt the broker/dealer list with the Investment Policy but no transaction shall be undertaken until all documentation is received and reviewed by the System Office. System will provide a final list to all components.
C. Authorized broker/dealers will be required to conform with compliance requirements and procedures established by TSUS to include the following:

- brokers/dealers must complete a TSUS questionnaire supplying basic firm and broker contact and delivery information,
- brokers/dealers may be affiliated with a Texas bank, designated by the New York Federal Reserve Bank as "primary dealers" or qualify as regional dealers under the Securities and Exchange Commission's "Uniform Net Capital Rule",
- brokers/dealers must be FINRA (Financial Institutions Regulatory Authority),
  – brokers/dealers must be registered with the Texas Securities Commission, and;
- brokers/dealers must provide the written certification detailed below.

D. Certification: A written copy of the Operating Investment Policy shall be presented to any firm or person seeking to engage in an Operating investment transaction with TSUS or its components. This includes business organizations, brokers/dealers, and banks.

Nothing in this section relieves the investing entity of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy.

E. The Qualified Representative of the business organization or the broker offering to engage in an investment transaction shall certify in writing substantially to the effect that the registered principal or broker has:

1. received and reviewed the applicable investment policy of TSUS; and

2. acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between TSUS and/or component and the organization that are not authorized by the applicable investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entire portfolio or requires an interpretation of subjective portfolio standards.

TSUS or component Investment Officer may not acquire or otherwise obtain any investment from a person who has not delivered to TSUS this certification as confirmed by the System Office.

F. Banks providing certificates of deposit or demand deposits shall provide to TSUS their most recent audited annual financial statement as soon as legally available.

Institutions providing safekeeping services for the collateral (for repurchase agreements) or securities of the TSUS components shall provide financial statements annually and
information on the institution shall be maintained as part of the compliance files by the System Office.

XII. INVESTMENT REPORTING AND MONITORING

A. The Investment Officers for each component shall cause to be prepared and review a written report of investment transactions for all funds covered under the Public Funds Investment Act not less than quarterly. The report is to be submitted to the Vice Chancellor for Finance and the President of each component within a reasonable time after the end of the period. This is generally by the end of the next month following the end of each quarter; however, the fourth quarter report is due upon issuance of the Annual Financial Report along with applicable GASB investment reports.

This report will be consolidated into a system-wide summary report to be submitted to the Board of Regents through the Finance and Audit Committee of the Board in the format prescribed by the Act and Committee, the General Appropriations Act and requirements promulgated by other oversight agencies.

The reports must:

1. describe in detail the investment position of the component on the date of the report;
2. be prepared jointly by all investment officer(s) of the component;
3. be signed by each investment officer(s) of the component;
4. contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the:
   (a) beginning market value for the reporting period;
   (b) additions and changes to the market value during the period;
   (c) ending market value for the period; and
   (d) fully accrued interest for the reporting period;
5. state the book value and market value of each separately invested asset at the beginning and end of the reporting period categorized by the type of asset and fund type invested;
6. state the maturity date of each separately invested asset that has a maturity date (liquid positions will carry next day end dates);
7. state the account, fund or portfolio for which the investment was acquired; and
8. state the compliance of the investment portfolio of the TSUS component as it relates to:
   (a) the investment strategy expressed in the TSUS investment policy; and
(b) relevant provisions of the Act.

9. state the weighted average yield and maturity of each portfolio,

10. state the performance investment return in comparison to the established benchmarks as established by the Policy.

Market prices are to be obtained from an independent, published source such as the Wall Street Journal, a custodian bank, and/or through a contractual arrangement with a pricing service. MBS prices are not to be obtained from broker/dealers having sold TSUS the MBS.

B. Benchmarks designed to measure performance and risk on the portfolios are established by Policy based on the objectives and limits of cash flow and spending. For short term funds, the portfolio of each component is restricted to a maximum stated maturity of three (3) years and a maximum weighted average maturity (WAM) of one (1) year. For long term funds, the portfolio of each component is restricted to a maximum stated maturity of ten (10) years and a maximum weighted average maturity (WAM) of two (2) years.

C. The benchmarks used for reporting purposes will be the 182 day T-Bill rate for short term funds, and the Merrill Lynch 1-3 year Treasury for long term funds.

XIII. AUDITS

A. Each TSUS component shall have a compliance audit of management controls on investments and adherence to statutory requirements to the System’s Investment Policy at least once every two years. The audit shall be performed by the component’s internal auditor or by a private auditor and the results of the audit shall be reported to the Board and the State Auditor not later than January 1 of each even-numbered year.

B. If a component invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit or money market accounts, the reports prepared by the investment(s) officers shall be reviewed at least annually by the internal auditor, and the results reported to the Board.

C. Notwithstanding any other law, TSUS may employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the Board.

XIV. INVESTMENT POLICY ADOPTION AND CERTIFICATION

The TSUS Investment Policy for Operating Funds, together with its appendices, shall be
reviewed and adopted on an annual basis by the Board of Regents. Modifications made to the Policy must be detailed in the resolution adopting the Policy.
ADDENDUM A

AUTHORIZED BROKER/DEALER AND COUNTER-PARTY LIST

TEXAS STATE UNIVERSITY SYSTEM

The authorized broker/dealer list for TSUS is shown below. Each of these firms, and the individual covering the account, are sent the current Investment Policy. In accordance with the Public Funds Investment Act [Texas Government Code 2256.005(k)] before any broker/dealer transacts business with TSUS it will have had to certify in writing to a review of the Policy and have certified that procedures are in place to assure compliance with that Policy. An effort is made to diversify brokerage coverage between primary and regional providers.

The Policy establishes specific criteria for the broker/dealers and requires that the list of broker/dealers be approved annually by the Board. A certification form used for this purpose is maintained by the System Office.

When any material changes are made to the Investment Policy the new Policy is sent out for recertification.

Primary Dealers
   Bank of America/Merrill Lynch
   Barclays Securities
   Cantor Fitzgerald
   Citigroup
   Chase Securities
   Goldman Sachs
   Mizuho Securities
   UBS Financial Services, Inc.
   Wells Fargo

Regional Broker/Dealers and Bank Capital Market Firms
   APS Financial Corporation
   Coastal Securities
   RBC Financial Northeastern Securities, Inc.
   First Tennessee Capital Markets
   Institutional Capital Management
   Morgan Keegan
   Mutual Securities
   Stifel Nicolaus
   Vining Sparks
Local Government Investment Pools
Logic (Local Government Investment Cooperative)
TexPool
## ADDENDUM B

### LONG TERM BOND RATINGS

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<thead>
<tr>
<th>Moody's</th>
<th>S&amp;P</th>
<th>Fitch</th>
<th>Definitions</th>
</tr>
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<td>AAA</td>
<td>AAA</td>
<td>Prime. Maximum Safety</td>
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<td>AA+</td>
<td>AA+</td>
<td>High Grade High Quality</td>
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Moody’s   Moody’s Investor Service  1-212-553-1658
S&P     Standard & Poor’s Corporation  1-212-438-7307
Fitch   Fitch Ratings  1-212-908-0500

**Important Note:**

Information herein is believed to be reliable but Bondsonline Group, Inc. doesn’t warrant its completeness or accuracy.