



# **Investment Policy**

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**Texas State University  
System Foundation  
Investment  
Policy**

## **I. PREFACE**

This Policy is the approved Investment Policy for funds of the Texas State University System Foundation (TSUSF).

## **II. POLICY AND OBJECTIVES**

This Policy is designed to fulfill the following objectives with respect to TSUSF Funds:

- provide security of invested principal;
- provide for appreciation of principal;
- provide for planned liquidity for anticipated cash flow purposes;
- manage market risks;
- maximize overall total return within the established risk constraints; and
- provide for diversification of investment assets.

The long term objective of these funds is to preserve the intergenerational equity of the funds while providing an appropriate current spending policy. All endowment funds will be managed by the “Prudent Person Standard”.

## **III. DELEGATION OF AUTHORITY AND RESPONSIBILITY**

### **TSUSF Board of Directors**

The TSUSF Board of Directors (the “Board”) retains ultimate responsibility for investments as fiduciaries of TSUSF assets regardless of who is investing those assets. The Board is statutorily required to:

- At least annually, review and adopt this or a replacement Policy,
- At least quarterly, receive and review investment reports prepared in accordance with this Policy

### **Investment Manager(s)**

TSUSF may contract with one or more Investment Managers registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq). A contract made under authority of this subsection must contain a termination clause with a maximum 30 days’ notice provision and may not be for a term longer than two years. A renewal or extension of the contract must be approved by the Board.

The Investment Manager(s) must certify to the receipt and review of this Policy; it will act

in accordance with the Policy; and it will provide a copy of its most current Form ADV and ADV brochure as filed with the Securities and Exchange Commission.

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 TSUSF. The Investment Managers have the authority to make investment decisions for the purpose of placing orders to effect any purchase, sale, exchange, liquidation or other investment of the assets in the accounts, within their asset class, and according to this Policy, without obtaining prior approval.

TSUSF 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). All such orders must also be in compliance with this investment policy.

### **Investment Custodians**

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

- Provide timely (defined as within 6 business days of month end) and accurate reports detailing investment holdings, including, on a Trade Date accrual basis:
  - 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
- Provide all normal custodian functions, including but not limited to:
  - Security safekeeping,
  - Collection of income,
  - Settlement of trades,
  - Collection of proceeds of maturing securities, and
  - Daily investment of available cash.

## **IV. 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 and appreciation to be derived.

All investments shall be consistent with this Policy. No Director 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 this Policy, unexpected deviations were reported to the Chairman in a timely manner, and all appropriate actions were taken to control adverse

developments.

## **V. INSTITUTIONAL INVESTMENT PROCEDURES**

The Board 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.

TSUSF may pursue an active portfolio management strategy with investments diversified by asset class and style. All investment securities must be held under a custodial agreement and all Investment Managers must provide quarterly performance reviews to the Executive Director.

## **VI. INVESTMENT STRATEGIES AND OBJECTIVES**

### **A. OPERATING FUNDS FOR THE ANNUAL OPERATION OF THE FOUNDATION**

Operating funds may be commingled for investment purposes but will address the unique characteristics and needs of the Foundation's annual operating needs. Operating funds are constricted by expenditure plans and can serve a fiscal year or multiple year purposes.

The investment strategy for operating 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 while generating income.

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

### **B. ENDOWMENT FUNDS**

The Endowment funds performance objective is to grow the market value of assets net of inflation, spending, and expenses, over a full market cycle (generally defined as a three- to five-year period) without undue exposure to risk. TSUSF is particularly risk-averse to the probability of not meeting the total return goal<sup>1</sup>. Liquidity must be considered and sufficient to meet the spending needs and expenses.

The total return goal can be achieved while assuming acceptable risk levels commensurate with "market volatility." To achieve the total return goal, the endowment's assets will be invested to generate appreciation and/or dividend and interest income.

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<sup>1</sup> Total Return Goal is defined as growth in excess of inflation, spending and expenses over a full market cycle.

The Endowment funds, unless specifically stated otherwise, are expected to endure into perpetuity. Inflation is a key component in the performance objective. The long-term risk of not investing in growth securities outweighs the short-term volatility risk. As a result, the majority of assets should be invested in equity or equity-like securities. Fixed income securities lower the short-term volatility of the portfolio and provide income stability, especially during periods of weak or negative equity markets. Other asset classes are included to provide diversification and incremental total return.

The cash payout requirement for Endowment Funds is significant and continuous. The portfolio shall be diversified to diminish risks associated with particular securities, market sectors, or industries with an excessive impact on the funds.

## **VII. INVESTMENT GUIDELINES**

Refer to APPENDIX 1 for Investment Guidelines for TSUSF funds. This includes diversification parameters, approved category allocation ranges, and prohibited investments.

## **VIII. REBALANCING**

Since asset allocation is a critical component of Investment Portfolio returns, it is desirable to review the investment portfolio at least quarterly or more frequently as necessary.

In the event any individual asset class falls outside the allocation range specified in the appropriate Appendix, rebalancing should be performed in a prudent manner.

The appropriateness of category asset allocation ranges will be reviewed annually.

## **IX. SECURITIES LENDING**

Participation in securities lending programs are prohibited under this Policy.

## **X. INVESTMENT REPORTING AND MONITORING**

The Investment Manager will provide a quarterly report to the Executive Director showing portfolio performance and category asset allocation versus allowable ranges.

**XI. INVESTMENT POLICY ADOPTION AND CERTIFICATION**

This Policy shall be reviewed and adopted annually by the Board. The Policy adopted by the Board shall record any changes made to either the investment policy or investment strategies.

## **APPENDIX 1**

### **INVESTMENT GUIDELINES FOR TSUSF FUNDS**

#### **A. LIQUIDITY**

A minimum of **5%** of the portfolio must have Daily Liquidity; additionally, a minimum of **20%** of the portfolio must be accessible within Trade Date plus 3 days.

#### **B. DIVERSIFICATION REQUIREMENTS**

- i. For Mutual Funds and Exchange-Traded Funds (ETFs): Maximum of **10%** ownership of the units outstanding of a single Fund or ETF.
- ii. No more than **40%** of the Portfolio may be invested in a **single** Mutual Fund or Manager EXCEPT for cash management and Fixed Income funds.

#### **C. PROHIBITED INVESTMENTS AND ACTIVITIES**

Investments and activities that are not expressly prohibited in this Appendix are considered allowable by this Policy. The following are prohibited transactions and securities for TSUSF. Any change in this list shall require amendment of this Policy and adoption by the Board.

- i. TSUSF may not purchase or sell financial futures, options, interest rate swaps, or forward rate agreements.
- ii. TSUSF may not engage in adjusted trading or short sales.
- iii. TSUSF may not purchase residual interests in CMOs/REMICs or mortgages servicing rights.
- iv. TSUSF may not purchase 144-A or other private placement securities not registered with the SEC.
- v. Non-U.S. Dollar denominated securities are prohibited in Operating Short-Intermediate Fund portfolios. Foreign securities issued and priced in U.S. Dollars are allowed.
- vi. Non-U.S. Dollar denominated bonds are prohibited.
- vii. The direct or indirect use of derivatives, short sales, futures, options, private placements, limited partnerships, and otherwise illiquid investments is prohibited.
- viii. The use of Margin or leverage is prohibited.



#### D. ADDITIONAL LIMITATIONS

- i. No more than **20%** of the portfolio's fixed income may be rated below Investment Grade.
- ii. No more than **10%** of the total portfolio may be invested in Emerging/Frontier Markets, a sub-set of International.

Below is the Category Asset Allocation Range:

<b>Category</b>	<b>Minimum</b>	<b>Maximum</b>
<b>Cash &amp; Equivalents</b>	<b>5%</b>	<b>20%</b>
<b>Fixed Income</b>	<b>20%</b>	<b>35%</b>
<b>Total Equity</b>	<b>45%</b>	<b>75%</b>
of which		
U.S. Equity	35%	55%
Int'l Equity	10%	28%