

UNIVERSITY OF HOUSTON SYSTEM
INVESTMENT POLICY FOR NON-ENDOWED FUNDS

Approved by the Board of Regents

February 24, 2022

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 hire an Investment Advisor to assist with the managing and monitoring of non-endowed assets, as well as, 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.

C. 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.

II. INVESTMENT OBJECTIVES

There are several key objectives which govern the investment philosophy and management of the System's non-endowed funds:

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.

III. ASSET ALLOCATION AND IMPLEMENTATION

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 an average one-year time horizon; designed to meet the annual operating needs of the system. The benchmark for this pool will be the Merrill Lynch 91-Day T-Bill Index.
2. 50% allocated to a Liquidity Pool with an average 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 benchmark for this pool will be the ICE BofA AAA-A US Govt/Corp Index.

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:

| | Target Allocation | Allowable Range |
|-----------|-------------------|-----------------|
| Cash Pool | 50% | 30%% to 100% |
| Liquidity | 50% | 0% to 70% |

A. Guidelines for the Cash Pool

In order to meet all cash flow requirements for the System, the Cash Pool shall be continuously invested in readily available funds such as money market mutual funds, bank deposits, overnight repurchase agreements or securities with an original maturity not greater than 90 days, to ensure that appropriate liquidity is maintained to meet the University's obligations. Safety and liquidity are the primary objectives of the Cash Pool. The following investments are permitted:

- a. Commercial bank accounts (FDIC insured or in institutions with a long-term rating no lower than A).
- b. Money market mutual funds rated AAA and meeting diversification, quality and maturity requirements of Rule 2a-7 of the Investment Company Act of 1940, or any successor rule. Funds shall be open-ended, no-load funds.
- c. Certificate of deposit issued in the U.S. by a U.S. financial institution rated with a short-term rating no lower than A-1, F-1 or P-1.
- d. U.S. Treasury securities and U.S. Federal Agency securities.
- e. Repurchase and reverse repurchase agreements with a term to maturity of one day, with counterparties having a short-term or counterparty rating of A-1, F-1 or P-1 provided the contract is fully secured by deliverable U.S. Treasury or federal agency obligations, having a market value at all times of at least 102 percent of the amount of the contract, with securities free and clear of any lien and held by an independent third-party custodian acting solely as agent for the University, provided such third party is not the seller under the repurchase agreement. The contract will include a perfected first security interest under the Uniform Commercial Code.

B. Guidelines for the Liquidity Pool

The Liquidity Pool represents non-endowed funds that do not need to be readily available to meet the System's operating needs. Recognizing that this pool will not be accessed on a regular basis and instead serves as a margin of safety in the unlikely event that the cash pool is insufficient to meet spending needs, safety and return are the objectives of this pool. Funds in this pool will be invested in marketable, publicly traded fixed income securities and mutual funds with an average duration of one to five years. In order to achieve the dual goal of protection of principal as well as yield, the Liquidity Pool will be invested with managers who pursue investments across government bonds and corporate credit as well as with managers who pursue absolute return oriented fixed income mandates. In order to appropriately manage risk and return, the following guidelines will be implemented.

| Liquidity Pool | Target Allocation | Allowable Range |
|----------------------------------|--------------------------|------------------------|
| Short-Duration Government Credit | 50% | 40-100% |
| Short-Duration Credit | 20% | 0-30% |
| Core Fixed Income Plus | 15% | 0-25% |
| Absolute Return | 15% | 0-25% |

C. Guidelines for 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.

Should the University engage an investment manager to manage a separately managed account for the System, detailed investment management guidelines will be agreed upon and should conform to the guidelines set forth in this document. Although the System cannot dictate investment policy to pooled funds or mutual funds, it is expected that pooled or mutual managers that conform to the investment guidelines found in the Guidelines for the Cash Pool and Liquidity Pool will be selected.

D. Guidelines for Rebalancing

Given the 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 Advisor and make a recommendation to the Senior Vice Chancellor for Administration and Finance 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 Senior Vice Chancellor for Administration and Finance in a timely matter but in any case, no later than the next Committee meeting.

In addition to rebalancing between the Cash and Liquidity Pools, from time to time the System Treasurer, together with the Investment Advisor, may evaluate the aggregate amount of non-endowed funds to determine if there is excess liquidity held across non endowed funds. In the

event that the Treasurer determines excess liquidity exists, some portion of non-endowed funds may be invested alongside the University's endowment or Long-Term Investment Pool (LTIP). Such funds would only be invested in the LTIP if it is determined that such excess liquidity is not needed to meet the short term or intermediate term operating needs of the System. Such investment in the LTIP requires approval by the Endowment Management Committee.

IV. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

Not less than quarterly, the System shall provide to the Endowment Management Committee a written report of the System's investment activity for the preceding reporting period.

V. OTHER INVESTMENT GUIDELINES

A. A 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.

B. Collateral or Insurance

The System Investment Officer shall ensure that all System funds held as bank deposits are fully collateralized or insured consistent with federal and state law. Acceptable forms of insurance or collateral, as shall be stipulated in the System's Bank Depository Contract, are as follows:

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

C. 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 as collateral 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.

D. 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 Advisor 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.

VI. 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.