The University of Texas System Allocation Policy for Non-Endowment Funds

Purpose

The University of Texas System Allocation Policy for Non-Endowment Funds ("Allocation Policy") is intended to ensure that sufficient liquidity is available at all times to meet the needs of the institutions and System Administration, while ensuring that all funds not needed for short-term liquidity purposes are invested with an appropriate time horizon to enhance the total return of the Non-Endowment Funds. Eligible Institutions with at least $5 million of Non-Endowment Funds on the last day of a calendar month and a current financial condition rating from the System Administration Office of the Controller of "Watch" or better will invest in the Intermediate Term Fund ("ITF") pursuant to this policy. Exceptions for funds that would otherwise be invested pursuant to this policy may be made only with the approval of an Authorized Representative.

Allocation and Rebalancing

At the beginning of each month, each institution shall have a minimum of $5 million invested in the Short Term Fund ("STF"). The target allocation for Non-Endowment Funds held by Eligible Institutions shall be 10% in the STF and 90% in the ITF. Institutions that are ineligible to invest in the ITF shall be 100% invested in the STF. If an institution ceases being an Eligible Institution as measured on the last day of any month, then it must rebalance such that 100% of its Non-Endowment Funds are in the STF, unless approval is obtained from an Authorized Representative.

Eligible Institutions are required to rebalance when the projected allocation to the STF at month-end is less than 5% or greater than 15% of the institution's Non-Endowment Funds, or when a cash inflow or outflow is scheduled to occur during the next calendar month that is likely to result in the institution having less than 5% or more than 15% of its Non-Endowment Funds in the STF at the end of the next calendar month. Each Chief Business Officer is responsible for rebalancing to ensure the institution's Non-Endowment Funds are within this target range, which will be reviewed on a monthly basis by the System Administration Office of Finance. At least five days prior to the end of each month, each institution should check its balance in the STF and the ITF to determine if rebalancing will be necessary. If necessary, ITF transactions should be initiated on or before the last business day of the month. ITF transactions will be effective on the first business day of the following month; however, proceeds from ITF redemptions may take up to five business days depending upon the liquidity available in the ITF. For ITF transactions greater than $25 million, the institution should provide notice to The University of Texas Investment Management Company (UTIMCO) at least three business days in advance to facilitate UTIMCO's ability to transact efficiently.

STF Investment Allocation

The STF will invest in a combination of unaffiliated liquid investment funds, subject to Rule 2a-7 of the Investment Company Act of 1940 as amended from time to time, including prime, government and Treasury money market funds. All Institution and System Administration STF transactions will be processed using a constant $1.00 net asset value. Additionally, UT System Administration will work with UTIMCO to manage the allocation of the STF across the different liquid investment funds and absorb any transactional gains or losses in funds having a floating net asset value.

Interest Allocations

Institutions' STF balances will earn the rate earned by a constant net asset value fund (i.e. the government money market fund) each month. The difference, if any, between the amount of interest earned across all of the liquid investment funds and the amount allocated to the Institutions' accounts will be allocated to System Administration and will be used, in part, to offset any transactional gains or losses in funds having a floating net asset value.

Sharing of Investment Returns

If the total investment return on the ITF in a fiscal year is in excess of the national Consumer Price Index ("CPI-U") published by the Bureau of Labor Statistics plus 3.0%, then the amount in excess of the CPI-U plus 3.0% will be split, with 90% of the excess return being retained by the institutions and 10% being distributed to System Administration. Any funds distributed to System Administration will be used exclusively for strategic initiatives that benefit the institutions, and all expenditures of the funds by System Administration will require approval of the Board of Regents.

No excess returns will be distributed to System Administration unless the cumulative total investment return of the ITF, measured from the inception date of the ITF through the most recent fiscal year end, is also in excess of the cumulative total return of the CPI-U plus 3.0% (per year) for the same period.

Definitions

Authorized Representative – The Executive Vice Chancellor for Business Affairs at System Administration or the Associate Vice Chancellor for Finance at System Administration.

Eligible Institutions – Institutions with at least $5 million of Non-Endowment Funds on the last day of a month and a current financial condition rating from the System Administration Office of the Controller of "Watch" or better.

Government and Treasury Money Market Funds – Investment funds subject to Rule 2a-7 of the Investment Company Act of 1940 that invest at least 99.5% or more of their total assets in cash, government securities or repurchase agreements collateralized by such securities, use the amortized cost method to value portfolio holdings and are offered at a constant $1.00 net asset value. Currently no liquidity fees and/or redemption gates are anticipated for Government and Treasury funds.

Prime Money Market Funds – An investment fund subject to Rule 2a-7 of the Investment Company Act of 1940 that invests primarily in high-quality, short-term money market instruments, including certificates of deposit, banker's acceptances, commercial paper, Eurodollar and Yankee obligations, and other money market securities. Institutional prime funds value portfolio holdings using market-based factors and sell and redeem their shares based on a floating net asset value rounded to the 4th decimal place (i.e. $1.0000). Institutional funds also adopt policies and procedures that permit the imposition of liquidity fees or redemption gates.

Intermediate Term Fund (ITF) – The ITF is a pooled fund for the collective investment of operating funds and other intermediate and long-term funds held by U. T. System institutions and U. T. System Administration. Refer to the ITF Investment Policy for more information.

Non-Endowment Funds – Non-Endowment Funds include all non-endowment monies owned by the Board of Regents or under the control of the Board of Regents. Funds that are legally required to be invested elsewhere, such as funds held at the State Treasury and certain trust funds, are excluded from this policy. Due to Internal Revenue Service restrictions governing tax-exempt debt such as yield restriction and spend-out requirements, debt-related funds are also specifically excluded from this policy. Exceptions for Non-Endowment Funds that would otherwise be invested pursuant to this policy may be made only with the approval of an Authorized Representative.

Short Term Fund (STF) – The STF is a pooled fund for the collective investment of operating funds and other short and intermediate term funds held by U. T. System institutions and System Administration with an investment horizon of less than one year. The STF provides daily liquidity and safety of principal by investing in short-term money market obligations. Refer to the STF Investment Policy for more information.