

Policies of the University of North Texas Health Science Center	Chapter 10
10.102 Policy on Investments	Fiscal Management

Policy Statement.

This policy establishes rules for the investment of the University of North Texas Health Science Center (UNTHSC) funds and funds held by UNTHSC in trust for others.

AUTHORITY

UNTHSC's authority to invest funds is established in the Public Funds Investment Act (Texas Government Code, Chapter 2256) and Rule 10.100 of the Rules of the Board of Regents of the University of North Texas System (Board of Regents). This policy is promulgated in accordance with the Public Funds Investment Act, Section 51.0032 of the Texas Education Code, the Uniform Prudent Management of Institutional Funds Act (Texas Property Code, Chapter 163), and the Public Funds Collateral Act (Texas Government Code, Chapter 2257). The Public Funds Investment Act requires the governing body of UNTHSC to adopt a written investment policy and strategy, review the policy and strategy not less than annually, appoint an investment officer, and adopt internal controls to safeguard UNTHSC's funds. The Public Funds Collateral Act sets the standards for collateralization of public funds in Texas.

INVESTMENT OBJECTIVES

1. Safety of principal is the foremost objective followed by liquidity and yield. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from security defaults or erosion of market value.
2. Investment decisions should not incur unreasonable risks in order to obtain current investment income.
3. The investment portfolio shall remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated.
4. Investments will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.
5. Management of the investment portfolio will specifically avoid any purchase of investments, or any investment practices or procedures, not specifically authorized under the terms of this policy.

6. Maintain a yield equal to or greater than the yield on a Treasury Note that has a maturity approximately equal to the average maturity of UNTHSC's investments. This policy recognizes that such a yield may not always be met particularly during periods of rapidly rising interest rates.
7. Provide liquidity for UNTHSC's commercial paper program as authorized by the Board of Regents and outlined in the University of North Texas System's (System) Failed Remarketing Plan.

INVESTMENT STRATEGY

All investments by UNTHSC will be made in accordance with Rule 10.100 of the Rules of the Board of Regents of the University of North Texas System, the University of North Texas System's Investment Policy and this policy. Investments will be diversified among a variety of investment vehicles. Protection of the Portfolio's principal is of primary concern; however, it is recognized that in a rising interest rate environment unrealized losses will occur, just as unrealized gains will occur during a period of falling interest rates. Regardless, the investment portfolio should always be structured in a manner to insure that potential unrealized losses are not material relative to the interest rate environment at any time.

Market prices of securities held by UNTHSC will be obtained from an objective and verifiable source. Settlement of all transactions will take place on a delivery vs. payment basis unless a cash delivery (same day delivery) must be used to facilitate self-liquidity for payment of principal and interest under the commercial paper program.

The investment strategy for each group of funds that are invested under this policy is to group these funds into a pooled fund group. The maximum weighted average maturity of the overall portfolio may not exceed three years.

UNTHSC assumes for reporting purposes that callable investments, if any, will not be called.

Funds received from the tobacco settlement will be invested in Texas Treasury Safekeeping Trust Company or other eligible investment vehicles.

Funds are normally invested as follows and are considered suitable to the financial requirements of UNTHSC:

Short term - Investments of less than 60 days

Funds needed to meet daily or short term operating requirements will usually be held in an eligible investment pool. Given the same level of low risk of an investment pool, commercial paper and agency discount notes may be used when there is an earnings advantage. UNTHSC may also use a repurchase agreement with its depository bank for investment of its overnight funds.

The balance required to be maintained in the eligible investment pool (net of bond proceeds held in the account), combined with those held by the System and UNTHSC will always be maintained at a minimum level, the lesser of 1.2x the amount of outstanding debt or \$120mm, (equals 1.2x the \$100mm self-liquidity coverage). Annually, the UNTHSC Vice President and Chief Financial Officer shall work with the System office to determine the proportional balance UNTHSC should maintain in order to meet the required self-liquidity coverage.

Intermediate term - Investments between 60 days and less than one year

Treasuries, Agencies, Agency Discount Notes, eligible investment pools and financial institutions are the primary investment vehicles.

Long term - Investments between one and five years or longer

Treasuries, Agencies, eligible investment pools, financial institutions, and the Texas Treasury Safekeeping Trust Company are the primary investment vehicles.

Corporate and Municipal Bonds may be purchased to the extent that separately they do not constitute more than 10 percent of the book value of the portfolio.

Laddering of future investments may be utilized so that the principal is returned over a five year period in increments sufficient to meet anticipated operating and capital needs.

Bond Funds

Bond proceeds and reserves may be invested in a manner consistent with the requirements and restrictions stated in the applicable Bond Covenants.

Endowment Funds

The majority of endowment funds are invested for the long term as described above.

Other Investment Vehicles

Certificates of Deposit with a CD rating of at least 1 or the equivalent by a nationally recognized credit rating agency. Repurchase Agreements and Reverse Repurchase Agreements may also be used in any of the terms stated above if such instruments provide an earnings advantage. Any Reverse Repurchase Agreement may not exceed 90 days after the date the Reverse Repurchase Agreement is delivered.

Investment Diversification

Investments in Derivatives will be restricted to no more than 10% of the total Investment Portfolio, with the remainder of the portfolio invested consistently with the investment strategy outlined above.

Selling Investments

UNTHSC may not sell an individual investment if the sale would result in capital losses greater than 10% of its book value except in the case of liquidating funds required to pay the principal and interest due on the System's unremarketed commercial paper. The sale of any individual investment that would result in a capital loss greater than 10% of book value must be approved by the Finance Committee of the Board of Regents.

Finance Committee Approval

Deviations in the investment strategy described above require approval of the Finance Committee of the Board of Regents.

Annual Review

An independent evaluation of the portfolio will be conducted annually. The purpose of the evaluation will be to insure appropriate compliance with the Investment Policy and objectives.

AUTHORIZED INVESTMENTS

The following instruments are allowed by law; however, the use of any of these instruments must be consistent with the Investment Strategy described above.

UNTHSC may invest in the following:

1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities.
2. Direct obligations of the State of Texas or its agencies and instrumentalities.
3. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities; interest only (IO's), principal only (PO's) and inverse floaters (IF's) are specifically excluded.
4. Obligations of states, agencies, counties, cities and other political subdivisions of any state rated "A" (or its equivalent) as to investment quality by a nationally recognized investment rating firm.

5. Certificates of deposit issued by a depository institution that has its main office or a branch office in Texas that is:
 - a. Guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor
 - b. Secured by obligations that are described by Section 1 through 4 of the Authorized Investments Section of this policy, 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 mortgaged backed securities of the following nature:
 - i. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgaged-backed security collateral and pays not principal;
 - ii. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
 - iii. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
 - iv. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.
6. In addition to the authority to invest funds in certificates of deposit under Section (5) above, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment:
 - a. the funds are invested by an investing entity through a depository institution that has its main office or a branch office in this state and that is selected by the
 - b. investing entity;
 - c. the depository institution selected by the investing entity under Section (6)(a) above arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever location, for the account of the investing entity;
 - d. the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;

- e. the depository institution selected by the investing entity under Section (6)(a) above acts as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity;
 - f. and at the same time that the funds are deposited and certificates of deposit are issued for the account of the investing entity, the depository institution selected by the investing entity under Section (6)(a) receives an amount of deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the amount of the funds invested by the investing entity through the depository institution selected under Section (6)(a).
- 7. Prime domestic bankers' acceptances that have a stated maturity of 270 days or less from the date of its issuance that will be, in accordance with its terms, liquidated in full at maturity, that is eligible for collateral for borrowing from a Federal Reserve Bank and that is accepted by a financial institution organized and existing under the laws of the United States or any state, the short-term obligations of which (or of a bank holding company of which the bank is the largest subsidiary) are rated at least A-1, P-1, or the equivalent by at least one nationally recognized credit rating agency.
- 8. Commercial paper with a stated maturity of 270 days or less from the date of its issuance that either:
 - a. Is rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies; or
 - b. Is rated at least A-1, P-1, or the equivalent by at least 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 thereof.
- 9. Fully collateralized repurchase agreements having a defined termination date, secured by obligations described by Section 1 of the Authorized Investments Section of this policy, pledged to UNTHSC, held in UNTHSC's name and deposited with a third party selected and approved by UNTHSC and placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas.

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 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.

10. Cash management and fixed income funds (Common Fund) sponsored by organizations exempt from federal income taxation under Section 501 (f), Internal Revenue Code of 1986 (26 U.S.C. Section 501 (f) and its subsequent amendments.
11. Negotiable certificates of deposits 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 that 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.
12. 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 categories.
13. Investment pools conforming to Section 2256 of the Texas Government Code.
14. No-load money market mutual fund that is regulated by the federal Securities and Exchange Commission with a dollar-weighted average stated maturity of 90 days or less and whose investment objectives include seeking to maintain a stable net asset value of \$1 per share; and no-load mutual funds that conform to Section 2256.014 of the Texas Government Code. UNTHSC is not authorized to invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds, in money market mutual funds described in this section or to invest its funds or funds under its control, excluding bond proceeds and reserves and other funds held for debt service, in any one money market mutual fund in an amount that exceeds 10 percent of the total assets of the money market mutual fund.

INSURANCE OR COLLATERAL

All bank deposits of UNTHSC funds shall be secured by a pledged collateral with a market value equal to no less than 100% of the deposits plus accrued interest less an amount insured by the FDIC. Evidence of the pledged collateral shall be maintained by the Vice President for Finance and Chief Financial Officer. Repurchase agreements shall be documented by the Master Repurchase Agreement approved by The Bond Market Association (TBMA), or any other entity approved by the Finance Committee of the Board of Regents, noting the collateral pledged in each agreement. The use of a letter of credit issued to UNTHSC by the Federal Home Loan Bank may be considered by UNTHSC to meet the required bank depository collateral requirements. Collateral shall be reviewed monthly to assure the market value of the securities pledged equals or exceeds the related bank balances.

SAFEKEEPING AND CUSTODY

Assets shall be secured through independent third-party custody and safekeeping procedures. Safekeeping procedures shall be reviewed annually by the Internal Auditor. Periodic surprise audits of safekeeping and custodial systems shall be conducted annually by the Internal Auditor.

AUTHORIZED BROKERS/DEALERS

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply certification of having read and understood UNTHSC's investment policy and agreeing to comply with the policy.

The governing body must adopt and annually review a list of qualified broker/dealers authorized to engage in investment transactions with UNTHSC.

CASH FLOW AND INVESTMENT PROCEDURES

Daily Cash Flow Analysis

Each business day, the amount of cash necessary to meet the day's payment obligations shall be determined. If the General Operating Bank Account balance is not sufficient to meet these obligations, a deposit is made by on-line bank wire transfer from UNTHSC's eligible investment pool into the General Operating Bank Account.

Should the General Operating Bank Account balance be more than sufficient to meet the day's payments obligations, a deposit is made by on-line bank wire transfer from the General Operating Bank Account into UNTHSC's eligible investment pool. An approximate balance of \$200,000 will be maintained in the General Operating Bank Account to meet any unexpected daily cash demands.

On-line wire transfers above \$1,000,000 will be reported to the Vice President for Finance and Chief Financial Officer, the Controller and Chief Budget Officer, or the Director of Accounting.

ALL on-line wire transfers will be initiated by one employee and approved and released by a different employee. Routine transfers between UNTHSC's bank accounts are not subject to these procedures.

Monthly/Annual Cash Flow Analyses

A cash flow analysis is prepared on at the monthly level to identify cash balances or major expense (outflows) and revenue (inflows) to net for a monthly cash balance. This monthly analysis will provide a foundation for roll-up to an annual cash flow analysis which will reduce liquidity risk and improve budgetary planning.

Application of Policy.

The President of UNTHSC, the Vice President for Finance and Chief Operating Officer, and the UNTHSC Investment Officers.

Definitions.

1. Short term – Less than 60 days.
2. Intermediate term – 60 days to less than one year
3. Long term – Between one and five years or longer
4. Laddering - Laddering is an investment technique whereby multiple financial products are purchased with different maturity dates.
5. Funds – Public funds in the custody of UNTHSC for which are not required to be invested in the state treasury and for which UNTHSC has the authority to invest.
6. Investment Officers – The Vice President for Finance and Chief Financial Officer and his/her designee(s).
7. Prudent Person Standard - A standard that requires that a fiduciary entrusted with funds for investment may invest such funds only in securities that any reasonable individual interested in receiving a good return of income while preserving his or her capital would purchase.
8. Repurchase Agreement - A simultaneous agreement to buy, hold for a specified time and then sell back at a future date, obligations described in Section 1 of the Authorized Investments Section of this policy, the principal and interest of which are guaranteed by the United States or any of its agencies, in market value of not less than the principal amount of the funds disbursed. The term includes direct security repurchase agreements and reverse security repurchase agreements.
9. Personal Business Relationship of an Investment Officer - As defined by the Public Funds Investment Act (2256.005 (i)), an investment officer has a personal business relationship with an organization if:
 - a. the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization, or
 - b. funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or
 - c. the investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

Procedures and Responsibilities.

1. Investment Officers are responsible for investing UNTHSC funds in compliance with this policy and shall exercise the judgment and care that a prudent person would exercise in the management of their own personal affairs. With regard to donations, gifts, and trusts, UNTHSC may establish endowment funds that operate as trusts and are managed under the prudent person standard.

Responsible Party: UNTHSC President, Vice President for Finance and Chief Financial Officer, Investment Officers

2. The Internal Audit Department shall perform an annual compliance audit of management controls and adherence to this policy. The results will be reported to the Board of Regents and the State Auditor's Office.

Responsible Party: Internal Audit Department

3. Prepare and submit to the Board of Regents a quarterly investment report (which includes endowments). The report will be prepared in compliance with generally accepted accounting principles and will detail, by asset and fund type, changes in book and market values, dates of maturity, and accrued interest. The quarterly reports are to be formally reviewed by the Internal Audit Department in conjunction with the annual compliance audit and the results of the review shall be reported to the Board of Regents.

Responsible Party: UNTHSC President, Vice President for Finance and Chief Financial Officer, Internal Audit Department

4. Should any of the Investment Officers have a personal business relationship with a business organization offering to engage in an investment transaction with UNTHSC, a statement will be filed disclosing that personal business interest. This statement must be filed with the Texas Ethics Commission and the Board of Regents.

Responsible Party: Vice President for Finance and Chief Financial Officer, Investment Officers

5. Each Investment Officer shall attend at least one training session within six months after taking office or assuming duties.

Responsible Party: Vice President for Finance and Chief Financial Officer, Investment Officers

6. The Investment Officers must attend training not less than once in a two-year period, and may receive training from any independent source approved by the Board of Regents. The Texas Higher Education Coordinating Board is an approved source for training. The Investment Officers must report the status of their training

to the Board of Regents no later than the 180th day after the last day of each regular session of the legislature.

Responsible Party: Vice President for Finance and Chief Financial Officer, Investment Officers

7. On a semi-annual basis, review for changes the Rules, Acts and Codes described in the definition of UNTHSC's "AUTHORITY" section.

Responsible Party: Vice President for Finance and Chief Financial Officer, Controller and Chief Budget Officer

8. Review the existing written investment policy and strategy not less than annually, appoint an investment officer and adopt internal controls to safeguard UNTHSC's funds.

Responsible Party: Vice President for Finance and Chief Financial Officer

9. At the end of each fiscal year, UNTHSC will prepare a report of investment transactions and balances for the year.

Responsible Party: Controller and Chief Budget Officer

References and Cross-references.

Rule 10.100 of the Rules of the Board of Regents of the University of North Texas System.

[Public Funds Investment Act](#)

Uniform Prudent Management of Institutional Funds Act

[Public Funds Collateral Act](#)

Forms and Tools.

Approved: April 2008

Effective: April 2008

Revised: August 2011