

UNIVERSITY OF HOUSTON SYSTEM INVESTMENT POLICY

FOR NON-ENDOWED FUNDS

Approved by the Board of Regents

May 14, 2025

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 primarily emphasize safety of principal and liquidity and secondarily provide an investment return consistent with applicable state law regarding investment of such funds. This investment policy applies to all non-endowed financial assets of the UH System.

B. Investment Officer

The 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 ("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 follow state law and System policies concerning ethics and conflicts of interest.

C. Quality and Capability of Investment Management

The System will provide periodic training in investments for the System Investment Officers to ensure 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

Preservation and 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 marketability and 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 overconcentration 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 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 rate of return within constraints of this policy. 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. 40% 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 BofAML 91- Day T-Bill Index.
2. 60% 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 1-5 Year AAA-AA US Corporate and Government 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	40%	30% to 100%
Liquidity	60%	0% to 70%

A. Guidelines for the Cash Pool

Safety and liquidity are the primary objectives of the Cash Pool. To meet all cash flow requirements for the System, the Cash Pool shall be continuously invested in readily available, marketable funds consistent with prudent person standards considering the objectives of the Cash Pool and guidance provided by state law.

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. 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. To appropriately manage risk and return, the following guidelines will be implemented for assets held in the Liquidity Pool:

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 Committee approval except, when on the recommendation of staff and the investment consultant, the chair of the Committee and the chair of the Finance, Facilities, 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 Committee will have the Senior Vice Chancellor for Administration and Finance immediately report any such action taken to the members of the 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 fund managers will be selected that conform to the investment guidelines found in the Guidelines for the Cash Pool and Liquidity Pool.

D. Guidelines for Rebalancing

Given the difference in expected return among the Cash Pool and the Liquidity Pool, and the regular use of funds from the Cash Pool for operational purposes, these pools may need to be rebalanced occasionally to remain consistent with the allocation guidelines of this policy and enhance long term return.

The Treasurer and the System's Investment Advisor will closely monitor asset allocation and make

a recommendation to the Senior Vice Chancellor for Administration and Finance as to the appropriate rebalancing actions to take within allowable ranges set forth in this policy. By mutual agreement, those parties may then proceed to take what rebalancing actions they deem to be reasonable and practical. Any rebalancing must occur across previously approved managers held within the portfolio. 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 Treasurer, together with the Investment Advisor, may evaluate the aggregate amount of non-endowed funds to determine if there is excess, longer-term liquidity held across the non-endowed funds. In the event that such longer-term liquidity exists, the Treasurer shall make a recommendation to the Senior Vice Chancellor for Administration and Finance to invest a portion of non-endowed funds alongside the University's endowment. Such funds would only be invested in the endowment if it is determined that such excess liquidity is not needed to meet the short term or intermediate term operating needs of the System. The Liquidity Pool may invest a range of 10% to 30% of the total Non-Endowed Funds' value in the System Endowment Fund, with a long-term target of 20%. Such investment in the System Endowment Fund requires approval by the Committee.

IV. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

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

V. OTHER INVESTMENT GUIDELINES

A. Standard of Care

Each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances, not for speculation, but for investment, considering the probable safety of capital and the probable return 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 has 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 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 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.