

The University of Texas/Texas A&M Investment Management Company

Liquidity Policy

Effective Date of Policy: August 22, 2024

Date Approved by U. T. System Board of Regents: August 22, 2024

Date Approved by UTIMCO Board: June 20, 2024

Supersedes: Liquidity Policy effective August 24, 2023

Purpose:

The purpose of this Liquidity Policy is to establish limits on the overall liquidity profile of investments in (1) the Permanent University Fund (PUF) and the General Endowment Fund (GEF), hereinafter collectively referred to as the Endowment Funds and, (2) the Intermediate Term Fund (ITF). For the purposes of this policy, “liquidity” is defined as a measure of the ability of an investment position to be converted into Cash. The established liquidity profile limits will act in conjunction with, but do not supersede, the Investment Policies adopted by the U. T. System Board of Regents.

Objective:

The objective of this Liquidity Policy is to control the element of total risk exposure of the Endowment Funds and the ITF stemming from the uncertainties associated with the ability to convert longer term investments to Cash to meet immediate needs or to change investment strategy, and the potential cost of that conversion.

Scope:

This Liquidity Policy applies to all PUF, GEF, and ITF investments made by The University of Texas/Texas A&M Investment Management Company (UTIMCO), both by internal and by external managers. Policy implementation will be managed at the aggregate UTIMCO level and will not be a responsibility of individual internal or external managers managing a portion of the aggregate assets.

Definition of Liquidity Risk:

“Liquidity risk” is defined as that element of total risk resulting from the uncertainty associated with both the cost and time period necessary to convert existing investment positions to Cash. Liquidity risk also entails obligations relating to the unfunded portions of capital commitments. Liquidity risk can result in lower-than-expected returns and reduced opportunity to make changes in investment positions to respond to changes in capital market conditions.

Definition of Cash:

In addition to currencies, cash is defined as short term (generally securities with time to maturity or mandatory purchase or redemption of three months or less), highly liquid investments that are readily convertible to known amounts and which are subject to a relatively small risk of changes in value. Holdings may include:

- SEC Rule 2a-7 money market funds rated AAAM by Standard & Poor’s or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO),
- securities of the U.S. Treasury and U.S. Agencies and their instrumentalities with maturities of 397 days or less,

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- separately managed accounts with investment guidelines equivalent to, or more stringent than, unaffiliated liquid investment funds rated AAAM by Standard & Poor's Corporation or the equivalent by a NRSRO,
- the Custodian's late deposit interest bearing liquid investment fund,
- municipal short-term securities,
- commercial paper rated in the two highest quality classes by Moody's Investor Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2 or the equivalent),
- negotiable certificates of deposit with a bank that is associated with a holding company whose short-term rating meets the commercial paper rating criteria specified above or that has a certificate of deposit rating of 1 or better, and
- repurchase agreements and reverse repurchase agreements transacted with: (a) a dealer that is approved by UTIMCO and selected by the Federal Reserve as a Primary Dealer in U.S. Treasury securities and rated A-1 or P-1 or the equivalent or (b) another entity or agency of the State of Texas.

Liquidity Risk Measurement:

For the purposes of this Liquidity Policy, potential liquidity risk will be monitored by measuring the aggregate liquidity profile of the Endowment Funds and ITF. All individual investments within the Endowment Funds and ITF will be segregated into two categories:

- **Liquid:** Investments that could be converted to Cash within a period of 120 days or less in an orderly market at a discount of 10% or less.
- **Illiquid:** Investments that could be converted to Cash in an orderly market over a period of more than 120 days or in a shorter period of time by accepting a discount of more than 10%.

The measurements necessary to segregate all existing investments into one of the two categories assume normally functioning capital markets and cash market transactions.

The result of this liquidity risk measurement process will be a liquidity profile for the Endowment Funds and the ITF which indicates the percentage of the total portfolio assets within each liquidity category. This Liquidity Policy defines the acceptable range of percentage of total assets within each liquidity category, specifies when special review or action is required by UTIMCO management, when special action is required by the UTIMCO Board or the Investment Risk Committee, and specifies the method of monitoring and presenting actual versus policy liquidity profiles.

Liquidity Policy Profile:

The permitted maximum for **illiquid** investments for each of the Endowment Funds is 75% of the total portfolio for the Endowment Funds. If the S&P 500 declines by 25% or more within a rolling one-year period, the permitted maximum for illiquid investments will temporarily increase to 80%. The permitted maximum will revert to 75% no later than 18 months after the 75% illiquidity threshold was first breached.

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The permitted maximum for **illiquid** investments for the ITF is 60% of the total portfolio for the ITF.

Unfunded Commitments:

As used herein, “unfunded commitments” refers to capital that has been legally committed from an Endowment Fund and has not yet been called but may still be called by the general partner or investment manager. The Maximum Permitted Amount of unfunded commitments for each Endowment Fund is:

Beg September 1, 2023

Unfunded Commitment as a percent of the highest total NAV of the Endowment Funds over a trailing 24-month period:	35.0%
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Documentation and Controls:

Senior Managing Directors responsible for each asset class are responsible for determining the liquidity category for each investment in that asset class as well as the amount of unfunded commitments. The determination of liquidity will include consideration of contract terms, underlying security trading volumes, notice periods, redemption dates, lock-up periods, and “soft” and “hard” gates. Classifications and weights within each liquidity category will be updated and periodically reviewed by the Managing Director – Risk Management and the Chief Compliance Officer.

Any illiquid investment or new commitment that would cause illiquidity in either the Endowment Funds or the ITF to exceed the illiquidity thresholds or the Maximum Permitted Amount established by this Policy requires prior approval by the Investment Risk Committee after consultation with The University of Texas System Office of Business Affairs. In the event that market actions cause illiquidity in either the Endowment Funds or the ITF to exceed the illiquidity thresholds or the Maximum Permitted Amount established by this Policy, the Investment Risk Committee must review and approve the Chief Investment Officer’s proposed remedy or strategy for eliminating the exception or deviating from the Liquidity Policy before any such actions are taken. Investment Risk Committee review of new investments above the permitted maximums will supplement, rather than replace, the procedures established by the UTIMCO Board for the approval of new investments.

In addition, any proposed investment actions which would increase the actual investment position in illiquid investments in any of the PUF, the GEF, or the ITF by 10% or more of the total asset value of such fund would also require review and action by the Investment Risk Committee prior to the change.

Any actual positions outside the policy ranges will be communicated to the Chief Investment Officer immediately. The Chief Investment Officer will then determine the

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process to be used to eliminate the exception and report promptly to the UTIMCO Investment Risk Committee the circumstances of the deviation from Policy and the remedy to the situation.

Reporting:

The actual liquidity profiles of the Endowment Funds and the ITF and the status of unfunded commitments for each Endowment Fund, and compliance with this Liquidity Policy will be reported to the UTIMCO Investment Risk Committee on at least a quarterly basis. Any exception to this Liquidity Policy and actions taken to remedy the exception will be reported promptly.

UTIMCO staff will report individual investments within the Endowment Funds and ITF to U.T. System categorized as follows:

- **Cash:** Short term (generally securities with time to maturity or mandatory purchase or redemption of three months or less), highly liquid investments that are readily convertible to known amounts and which are subject to a relatively small risk of changes in value.
- **Liquid (Weekly):** Investments that could be converted to Cash within a period of one day to less than 7 days in an orderly market at a discount of 5% or less.
- **Liquid (Annual):** Investments that could be converted to Cash within a period of one day to less than 365 days in an orderly market at a discount of 10% or less.