

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

## **Charter of the Investment Risk Committee**

### **Background**

The Board of Directors (the “Board”) of The University of Texas/Texas A&M Investment Management Company (the “Corporation”) established a Liquidity Committee on November 20, 2003. The name of the Liquidity Committee was changed to the Risk Committee (the “Committee”) on May 19, 2005 to reflect the expanded responsibilities of the Committee. The Risk Committee was renamed the Investment Risk Committee at the Board’s September 16, 2021 meeting to clarify the responsibilities of the Committee. This Charter adopted by the Board on September 16, 2021, supersedes the Charter adopted by the Board on March 24, 2020.

### **Purpose**

The primary purpose of the Committee is to provide oversight and monitor

- 1) investment risk management and compliance;
- 2) the integrity of investment risk management procedures and controls;
- 3) the integrity of risk models and modeling processes;
- 4) liquidity of the Permanent University Fund (PUF), the General Endowment Fund (GEF), and the Intermediate Term Fund (ITF) (individually referred to as the “Fund” and collectively, the “Funds”);
- 5) the Derivative Investment Policy; and
- 6) certain manager concentration limits.

### **Composition**

The Committee shall be composed of at least three members of the Board appointed from time to time by a majority vote of the Board at a meeting at which a quorum is present. Individuals who are not members of the Board may be appointed to the Committee; provided however, a majority of the Committee members shall be members of the Board. A member may be removed with or without cause at any time by a majority vote of the Board.

### **Meetings; Quorum; Etc.**

The Corporation’s Bylaws state that any committee created by the Board or the Bylaws, including the Committee, shall (i) have a chairman designated by the Board, (ii) fix its own rules or procedures, (iii) meet at such times and at such place or places as may be provided by such rules or by resolution of the Committee or resolution of the Board, and (iv) keep regular minutes of its meetings and cause such minutes to be recorded in books kept for that purpose in the principal office of the Corporation, and report the same to the Board at its next regular meeting. At every meeting of the Committee, the presence of a majority of

all the members thereof shall constitute a quorum, and the affirmative vote of a majority of the members present shall be necessary for the adoption by it of any action, unless otherwise expressly provided in the Committee's rules or procedures or the Bylaws of the Corporation or by the Board. The Board may designate one or more Directors as alternate members of the Committee, who may replace any absent or disqualified member of the Committee. In the absence or disqualification of a member of the Committee, the member or members present at any meeting of the Committee and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint the designated alternate Director to act at the meeting in the place of the absent or disqualified member.

## **Duties and Responsibilities**

*Investment Risk Management and Compliance:* The Committee has the following duties and responsibilities related to the oversight and monitoring of investment and compliance risk:

- The Committee will monitor actual risk levels in the PUF, GEF, and ITF to assess whether current risk levels are within the bounds established by the Investment Policies adopted by the UT Board of Regents;
- The Committee will monitor trends and changes in actual risk levels in the PUF, GEF, and ITF and report any significant changes to the Board; and
- The Chief Compliance Officer will report compliance with the Derivative Investment Policy, risk targets, asset class targets and ranges, and investment-related restrictions in the Investment Policy statements.

*Integrity of risk management procedures and controls:* The Committee has the following duties and responsibilities related to the oversight and monitoring of the risk management procedures and controls:

- The Committee will understand and review how the information provided by the Managing Director - Risk is reported to the Chief Compliance Officer; and
- The Committee will monitor the reports provided by the Managing Director - Risk to the Chief Compliance Officer.

*Integrity of risk models and modeling processes:* The Committee has the following duties and responsibilities related to the oversight and monitoring of the risk models and modeling processes:

- The Committee will monitor the investment risk models, tools, and processes used by Corporation employees; and
- The Committee will review and understand the data used in the risk models.

*Liquidity:* The Committee has the following duties and responsibilities related to the oversight and monitoring of liquidity:

- The Committee (or the Board), after consultation with The University of Texas System Office of Business Affairs, must review and approve any new investment that would cause the allocation for illiquid investments in the PUF, GEF, or ITF to

exceed the permitted maximum specified in the Liquidity Policy for the respective Fund's total portfolio.

- The Committee (or the Board), after consultation with The University of Texas System Office of Business Affairs, must review and approve, before any such action or actions are taken, any proposed changes in allocations among existing investments that would cause the allocation for illiquid investments in the PUF, GEF, or ITF to exceed the permitted maximum specified in the Liquidity Policy for the respective Fund's total portfolio.
- The Committee (or the Board) must review and approve, before any such action or actions are taken, any proposed investment action or actions that would increase the actual investment position in illiquid investments in the PUF, GEF, or ITF by 10% or more of a respective Fund's total asset value.
- The Committee must review and approve, before any such action or actions are taken, any new commitments for the PUF or GEF, if the actual amount of such Fund's unfunded commitments, as defined in the Liquidity Policy, exceeds or, as a result of the commitment, would exceed the Maximum Permitted Amount specified in the Liquidity Policy.
- In the event that market actions cause actual investment positions in illiquid investments to exceed the permitted maximum illiquidity levels specified in the Liquidity Policy for the PUF, GEF, or ITF, the Committee (or the Board) 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.
- The Committee (or the Board) must approve the use of swaps, derivatives, or other third party arrangements to alter the liquidity status of any investment classified as illiquid.

Committee review of new investments above the permitted maximums will supplement, rather than replace, the procedures established by the Board for the approval of new investments.

*Monitoring the Derivative Investment Policy:* The Committee has the following duties and responsibilities related to monitoring the Derivative Investment Policy:

- The Committee will review the comprehensive report of all outstanding derivative investments, by type, entered into during the period being reported, for both internal managers and external managers operating under agency agreements.

*Monitoring of Certain Manager Mandates:* The Committee has the following duties and responsibilities related to the monitoring of internal and external investment mandates:

- The Chief Compliance Officer will report compliance with manager mandates (excluding passive exposure), aggregated across all Funds and Assets Classes, resulting in six percent (6%) or more exposure relative to the total Funds (excluding the ITF for Private Equity);

- The Committee will review and approve the CEO's recommendation regarding an appropriate course of action for any manager mandate resulting in six percent (6%) or more exposure relative to the total Funds (excluding the ITF for Private Equity) or determine a different appropriate level of exposure.

### **Other Duties**

In addition to its duties and responsibilities outlined above, the Committee shall perform such additional special functions, duties or responsibilities related thereto as may from time to time be designated to it by the Board Chairman. In discharging its responsibilities, the Committee may obtain advice and assistance from Board consultants, U.T. System employees, and others as it deems necessary.

The Committee will evaluate the Committee's performance on a periodic basis, periodically review the adequacy of this Charter and submit this Charter to the Board for its approval; and perform any other activities consistent with this Charter, the Corporation's Bylaws, and applicable laws as the Committee or the Board deems necessary or appropriate.

Approved by the Board of Directors on September 16, 2021.