# THE UNIVERSITY OF TEXAS/TEXAS A&M INVESTMENT MANAGEMENT COMPANY SECURITIES LENDING POLICY

Securities lending can be the source of modest additional revenue for The University of Texas System investment funds but it is not riskless. The careful structuring of a Securities Lending agreement with UTIMCO's primary custodian or an affiliate of UTIMCO's primary custodian ("Lending Agent") can reduce risks to an acceptable level given the amount of revenue generated. To that end the following policies have been adopted:

**Lending Agent**

Unless specifically authorized by the Investment Risk Committee, the Lending Agent for securities lending program shall be UTIMCO's primary custodian or an affiliate of UTIMCO's primary custodian. The Lending Agent shall have the responsibility for negotiating the terms of each loan and for collecting all required collateral. Collateral provided by a borrower of UTIMCO's securities shall be (a) U.S. Dollar cash, or (b) securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities, or (c) irrevocable letters of credit issued by banks rated Aa3 or better by Moody's Investors Service, Inc. or AA- or better by Standard & Poor's Corporation, or (d) such other forms as may be agreed upon by the Lending Agent and UTIMCO from time to time (such collateral, including investments made by the Lending Agent from cash collateral provided by borrowers, being the "Collateral").

**Approved Borrowers**

Since the first level of protection for The University of Texas System investment funds is the credit-worthiness of the entity to which it loans securities, the list of approved borrowers (as maintained by the Lending Agent) should be composed of high quality financial institutions, both domestic and foreign.

The Lending Agent shall provide to UTIMCO the list of approved borrowers at the time UTIMCO executes its securities lending contract with the Lending Agent. Thereafter, any changes to that list by the Lending Agent shall be communicated to UTIMCO staff.

**Collateral Marking to Market**

When securities are loaned from The University of Texas System investment funds, Collateral shall be posted by the borrower in an amount equal to at least 102% of the value of the loan (with respect to U.S. Securities) or 105% of the value of the loan (with respect to non-U.S. securities). If at the close of any day, the mark to market value of the Collateral falls below 100% of the value of the loan, the Lending Agent shall require the borrower to deliver additional Collateral such that the value of the Collateral returns to at least 102% of loan value (105% for non- U.S. Securities). The market value of cash Collateral provided by borrower is valued at its cash value as of the time of receipt by the Lending Agent, unadjusted for subsequent increases or decreases in value as a result of any investment thereof by the Lending Agents.

**Cash Collateral Investments**

The Lending Agent is authorized to invest and reinvest, on behalf of the various accounts which UTIMCO, as agent for the Board of Regents, has established with UTIMCO's primary custodian ("Accounts"), any and all cash Collateral in accordance with the provisions hereof.

The key objectives of the management of cash Collateral supporting securities loans are to:

- Safeguard principal,
- Assure that all cash Collateral is invested in a timely manner,
- Maintain adequate liquidity to meet the needs of client and/or the client investment advisors and,
- Consistent with these objectives, to optimize the spread between the Collateral earnings and the rebate rate paid to the borrowers of the securities.

Cash collateral received by the Lending Agent on behalf of each Account shall be held and maintained by the Lending Agent in a segregated cash collateral account established for the Accounts and shall be invested and reinvested in accordance with the guidelines set forth below. Investments made from such cash Collateral shall be held in a segregated custodial account established by the Lending Agent for the Accounts.

**Investment Guidelines; Allowable Instruments and Credit Quality**

All investments must be payable as to principal and interest in U.S. currency and have a final maturity not to exceed 365 days from date of purchase and shall consist of:

A. Obligations issued or fully guaranteed by the U.S. Government or agencies or sponsored agencies or sponsored corporations.

B. Obligations of domestic banks, including Certificates of Deposit, Time Deposits, Bankers Acceptances, Notes and other Debt Instruments, provided such banks are rated Aa3 or better by Moody's Investors Service or AA- or better by Standard & Poor's Corporation.

C. Instruments issued by sovereigns, sovereign supported credits, and instruments of foreign banks and corporations. U.S. banks offshore are subject to the quality restriction of their parent company outlined in "B" above. The foreign banks or corporations must be rated Aa3 or better by Moody's Investors Service or AA- or better by Standard & Poor's Corporation.

D. Commercial paper of U.S. corporations or other eligible issues described above provided such commercial paper is rated P1 by Moody's Investors Service or A1 by Standard & Poor's Corporation.

E. Corporate note and bonds rated Aa3 or better by Moody's Investors Service or AA- or better by Standard & Poor's Corporation at time of purchase.

F. The following types of Euro issues: Euro C.D's, B.A.'s, T.D's, and bonds. A minimum rating from Moody's Investors Service of Aa3 or a minimum rating from Standard & Poor's Corporation of AA- is required..

G. Yankee Securities subject to quality constraints outlined in "E" above.

H. SEC registered domestic money market funds rated Aaa by Moody's Investors Service or AAA by Standard & Poor's Corporation, as defined under SEC Rule 2a-7, including money market mutual funds of an affiliate of the Lending Agent, and approved in writing by the Chief Investment Officer of UTIMCO.

I. Repurchase agreements with a domestic dealer selected by the Federal Reserve to be a primary dealer in U.S. Government Securities, or a bank that is associated with a holding company whose commercial paper is rated A1 or better by Standard & Poor's Corporation, or equivalent rating by a nationally recognized rating agency, at the time of purchase. The maximum length of any repurchase agreement shall be three months. Such repurchase agreements must be secured by securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities, or government sponsored enterprises. The market value of such securities must be no less than 102% of the amount invested by the buyer in the repurchase transaction. The security for repurchase agreements (excluding overnight repurchase transactions) must be marked to market every business day and the market value of the security must be maintained at a value not less than 102% of the amount invested by the buyer of the repurchase transaction.

J. Asset backed securities must have a minimum rating of AAA by Standard & Poor's Corporation or an equivalent nationally recognized bond rating agency.

K. Floating rate notes must be repriced at least quarterly and use a standard repricing index such as SOFR, Federal Funds, Treasury Bills or commercial paper.

L. All credit ratings set forth herein shall be applicable at time of purchase.

The dollar weighed average maturity shall not exceed 60 days without prior written consent of the Chief Investment Officer of UTIMCO. This average maturity limitation is imposed so as to preserve principal.

**Review of Securities Lending Contract**

The securities lending program will be evaluated from time to time as deemed necessary by the UTIMCO Board. Monthly reports issued by the Lending Agent shall be reviewed by UTIMCO staff to insure compliance with contract provisions.