BOARD OF TRUSTEES
STATEMENT OF INVESTMENT POLICY

I. SCOPE

This Statement of Investment Policy is intended to cover all University funds subject to long-term investment as provided herein. A separate Statement of Treasury Policy (BT0024) has been articulated for short-term investment of University operating funds.

There are three categories of funds that are subject to long-term investment, namely: (i) Endowment Funds; (ii) Quasi-Endowment Funds; and (iii) Life Income Funds. The definition and sources of such funds are as follows:

A. Endowment Funds

Endowment Funds are funds received by the University from gifts, grants, and bequests for which the donor(s) have stipulated, as a condition of the gift, that the principal of the fund be maintained and invested for the purpose of producing income to be applied to uses as specified in the gift instrument.

B. Quasi-Endowment Funds

Quasi-Endowment Funds are funds which the University, rather than donor(s), has determined are to be retained and invested. Since these funds are internally restricted, the University retains the right to alter or amend such designation. Such funds primarily represent gifts or bequests to the University for which the donor(s) have not designated a specific use, or has specified optional uses, and which the University has determined should be administered in the same manner as Endowment Funds.

C. Life Income Funds

Life Income Funds represent funds held in trust by the University under agreements with donor(s) whereby designated beneficiaries receive specified interests in the annual income of such trusts. Upon the death of the beneficiaries or other termination of the trust, such trust assets then become available to the University for use as set forth in each agreement. These agreements usually take the form of charitable remainder unitrusts or charitable remainder annuity trusts.

II. BACKGROUND AND PURPOSE

The Finance and Administration Committee of the Board of Trustees is responsible for formulating and recommending action or necessary policies in all matters relating to finance, business, and administration, including the investment of University funds.

Endowment and Quasi-Endowment Funds over which the University has full investment discretion (on which the donor, the governing gift instrument, or other considerations do not require or warrant separate investments) are in the Consolidated Investment Pool (CIP). This pooling of investments affords closer supervision of the investment portfolio and makes available to all eligible Endowment and Quasi-Endowment Funds, regardless of size, the advantages of participation in a diversified portfolio of investments.

The University has adopted the "total return" approach to investment management for the CIP, which calls for the allocation of a prudent portion of realized endowment return to meet designated current year expenditures. A "total return" approach allows the investment portfolio to be structured for maximum return within accepted risk parameters, but without current yield constraints.

University of Tennessee Foundation endowment accounts, established after July 1, 2002 and invested as part of the CIP, are administered consistent with this policy.

III. INVESTMENT PHILOSOPY AND OBJECTIVES

While investment objectives for funds subject to long-term investment vary widely depending upon the type of fund, in most instances, objectives are based upon an extended time horizon and set over a full market cycle or rolling ten-year period.

Intergenerational equity is the term most often used to articulate the investment objective of perpetual funds, meaning that the real value of the funds is not diminished with the passage of time or generations.

The investment objective of each fund category is summarized below.

- ***Consolidated Investment Pool (CIP)***. The basic investment objectives of the University's CIP are to: (i) preserve the principal of the funds; (ii) achieve a moderate growth in the principal of funds to offset to some extent the effects of inflation; and (iii) produce a reasonable current income return.

Within these objectives, the investment performance goals for management of the CIP, as measured by a rolling ten-year time period, are to: (i) earn a compound annual return equal to or greater than spending + inflation + administrative fees (CPI+5.5%); (ii) have component asset classes outperform comparable indices; and (iii) outperform similar funds average nominal returns.

Moderate volatility in the principal value of the portfolio will not significantly impact the current income distributions, and, therefore, the portfolio should be designed to emphasize the total return of the fund. It is recognized that returns are cyclical and will vary by assets depending on economic, political, and monetary conditions. To capture the highest level of return with an acceptable level of risk, the investment portfolio shall be balanced to include a wide range of qualified assets.

- ***Life Income Funds***. Each Life Income Agreement is a separately invested entity requiring detailed accounting to reflect specific compliance with terms of the trust and applicable federal regulations. The investment objectives as reflected in such agreements vary widely since they are affected by the age, income levels, and needs of the beneficiaries as well as the motives and objectives of the donor. Trusts that require a periodic payment of an annuity, set dollar amount or percentage of market value at defined measurement dates, are invested for total return. Total return consists of two elements: current yield and capital appreciation. For these trusts, asset allocation and portfolio risk are determined after considering the investment time horizon, required payout, and ability to preserve and enhance the real value of trust corpus. Other trusts, usually "net income trusts", are invested to maximize current yield so as to satisfy, to the extent possible, trust income requirements.

- ***Separately Invested Endowments***. The University is obligated to observe any investment requirements or limitations imposed by donor(s) of a fund, to the extent it is legal to do so. In such instances, the Treasurer has limited investment discretion and to meet the specified obligations, handles each such fund as a separately invested account with unique investment objectives. Further, some endowments or quasi-endowments are funded with illiquid assets that cannot be pooled. The practice in those instances is to treat them as separately invested until such time as the asset can be sold and the proceeds pooled.

IV. ADMINISTRATIVE RESPONSIBILITIES FOR THE CONSOLIDATED INVESTMENT POOL

The Board has delegated the administration of the responsibilities associated with the administration of the investment program to the University Treasurer, with support from an advisory group.

- Treasurer. Day-to-day investment authority has been delegated to the Treasurer, who is charged with, among other things, oversight of investment managers, security settlements, and security safekeeping.

    - Advisory Group. An Investment Advisory Council (IAC) shall be established to provide advice and recommendations to the University President, CFO, Treasurer, and other University investment staff in connection with the investment strategy for the CIP, including asset allocation and risk tolerance. The IAC shall consist of no more than eight (8) members, including four (4) ex-officio members. The ex-officio members shall be as follows:

(1) The Chair of the Finance and Administration Committee (F&A Committee) of the Board (or his/her designee, who shall be another member of the F&A Committee);

(2) The University Treasurer;

(3) The Senior Vice President and Chief Financial Officer (CFO); and

(4) The Chair of the Board of Directors of the UT Foundation or his/her designee.

A maximum of four (4) additional members may be appointed by the Chair of the Committee. Such members shall serve an initial term of three (3) years and are eligible to serve up to two (2) consecutive terms. A member who serves two (2) consecutive terms may be reappointed after three (3) years have elapsed since the individual's last date of service on the IAC. The appointed members of the IAC should have a sound understanding of the financial concepts, familiarity with the challenges facing institutional investment portfolios, and experience guiding long-term investment policies and strategy in public and private markets.

The Chair of the F&A Committee or his/her designee serving on the IAC shall serve as, or appoint, the Chair of the IAC.

The IAC will adopt a charter that establishes a clear understanding of the philosophy and the investment objectives of the CIP. This document will further describe the duties and the standards that will be utilized by the IAC in developing, maintaining, and monitoring investment performance criteria consistent with the provisions of this policy.

V. OPERATION OF THE CONSOLIDATED INVESTMENT POOL (CIP)

A. Contributions to the CIP and Per Share Calculation

The University maintains the CIP in which each contributing endowment or quasi-endowment participates in the income and capital appreciation of the pool on a per-share basis commensurate with its contribution. In general, new funds available for investment are admitted to the pool at the end of each month. The assets of the pool are valued at current market prices as of month-end. New endowments/quasi-endowments or additions thereto are added to the pool based on the number of shares represented by the transaction amount divided by the current per-share value. This number of shares increases the total number of shares of the CIP.

B. Spending Distributions

Spending plan distributions are paid quarterly from interest income, dividends, and capital gains in the pool. Portfolio investment management fees, consulting fees, custodial and safekeeping fees, and a University administrative fee are considered costs of the pool and accordingly covered by monthly transfers from the pool. The administrative fee charged to the pool equals one percent (1%) of the CIP's three-year rolling average market value at calendar year-end.

C. Eligible Investments

The following types of securities will be eligible investments for inclusion as part of the CIP:

1. Global common and preferred stocks and convertible securities, including pooled investments in these securities;

2. Stock and bond options and futures contracts that are used exclusively as hedging tools or to facilitate effective cash management;
3. Private capital partnerships (international or domestic), hedge fund partnerships, or other similarly focused private capital funds;
4. Global fixed-income or other debt securities; and
5. Real estate investments (pooled and direct).

Not more than five percent of the portfolio (at cost) should be invested in the securities of any one issuer with the exception of the U.S. treasury and government agencies.

VI. CUSTODY AND TRANSFER OF SECURITIES

The Treasurer is charged with the responsibilities of receipt, custody and proper handling of securities and other University funds in accordance with policies established by the Board. In order to provide efficient handling of security transactions, the Board has authorized the appointment of custodian bank(s) by the Treasurer of the University for keeping safely all University securities entrusted to its care and said bank(s) have been appointed to serve as attorney-in-fact in order to render certain service functions in connection with said securities.

It is standard practice for custodians of securities owned by institutional investors to utilize the services of securities depositories. Such practice simplifies the settlement process for securities transactions, improves the timeliness of income collection, and provides other efficiencies to the securities custodian function. The contractual arrangements for custodial services permit custodians of University securities to utilize such depository services.

Securities held by custodian banks may be transferred upon instructions of the University Treasurer's Office in compliance with transfer specifications approved by the Treasurer. Direct transfer of ownership of securities standing in the name of the University shall be accomplished by delivery of such securities accompanied by a stock power or bond power assignment form executed by the Treasurer or General Counsel of the University. Such assignment form shall bear the corporate seal of the University (if required) and to which must be attached a certification of corporate authorization to transfer executed by the Secretary of the University bearing the same date as the assignment form.

VII. INVESTMENT RECORDS AND REPORTS

The Treasurer shall be responsible for maintaining or causing to be maintained the following investment records of all University investments.

A. Detailed Investment Records

The Treasurer's Office shall maintain or cause to be maintained for the current fiscal year and six prior years, detailed records of all University investments and investment transactions. Monthly records will be maintained reflecting detailed fiscal year-to-date transactions and ending book and market value balances on each investment by asset and fund classification including separately invested funds.

B. Annual Financial Report

The annual financial report of the University shall contain detailed information regarding the University's investments and be prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

C. Periodic Reports

The Treasurer shall be responsible for preparing periodic reports pertaining to the performance of the CIP and other long-term investments as deemed appropriate by the Finance and Administration Committee of the Board.

RELATED POLICIES

Board Policy (BT0024) – Statement of Treasury Policy

History:

Adopted	11/03/2017
Revised	11/02/2018
Amended and Restated	10/13/2023