

SUBPART 4-8
INVESTMENT POLICY FOR OPERATING PORTFOLIO

Sec. 4-801. Responsibility and Authority for Investment Activity. Investment activity for the University's short-term, intermediate-term and long-term investment pools shall be the responsibility of the President and/or his/her designee, and is to be implemented in accordance with this subpart. The President or his/her designee may delegate to other officers and/or employees of the University, the authority to act in the place of the President or his/her designee in the investment and reinvestment of University funds. In the administration of the powers to make and retain investments, and to delegate investment authority, the President or his/her designee shall exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the action or decision. In exercising said ordinary business care and prudence, the President or his/her designee shall consider the long-term and short-term needs of the University in carrying out its educational purposes. Other factors, such as expected total return on its investments, price-level trends, general economic conditions, and the safety of principal values and investment return, shall be considered in the investment decision process.

The placement of investments may be accomplished through either direct ownership, participation in pools such as mutual funds, funds managed by external managers or a combination of these methods. The President or his designee shall have the authority to approve the retention of a new manager, fund or other investment and/or the replacement of an existing manager, fund, or other investment as long as they are within this policy.

Although the University cannot dictate policy to pooled/mutual fund investment managers, the University's intent is to select and retain pooled/mutual funds with policies that are similar to this policy statement.

Prior Board Action:

November 5, 2010.

October 8, 2015.

October 7, 2016.

Sec. 4-802. Investment Objectives for Short-Term Investment Pool Accounts. Funds needed for expenditures in less than one year shall be considered short-term. The average weighted maturity for each short-term investment manager shall be between one day and one year. The primary investment objective for the short-term investment pool accounts shall be to provide for the preservation of capital, with a secondary emphasis upon the maximization of investment income without undue exposure to risk. Types of investments that may be made include interest-bearing banking deposits such as certificates of deposits, high yield savings accounts, short-term cash funds, money market funds that maintain net asset value, commercial paper, bankers acceptances, repurchase agreements, U.S. Government obligations, U.S. agency obligations and/or short term corporate bonds with maturities under one year.

Prior Board Action:

November 5, 2010.

October 7, 2016.

Sec. 4-803. Investment Objectives for Intermediate-Term Investment Pool Accounts.

Funds needed for expenditures within one to five years shall be considered intermediate-term and may be placed through direct investments, the use of mutual funds, money managers or a combination. The intermediate investment pool will maintain an average weighted maturity between one year and five years, except for Treasury Inflation Protected Securities (TIPS) managers. The primary investment objectives for the intermediate-term investment pool accounts shall be the preservation of capital and the maximization of income without undue exposure to risk within the parameters specified in this subpart. Direct investments in certificates of deposits, U.S. government obligations, U.S. agency obligations, commercial paper and corporate bonds with maturities less than five years are authorized.

Although TIPS maturities may be longer than 5 years, these investments are included in the intermediate-term pool based on their risk profile.

Prior Board Action:

March 21, 2008.

November 5, 2010.

October 8, 2015.

October 7, 2016.

Sec. 4-804. Investment Objectives and Asset Allocation for Long-Term Investment Pool Accounts.

Funds not needed for expenditures within five years shall be considered long-term. The primary investment objective for the long-term investment pool accounts shall be to provide for the long-term growth of principal and income without undue exposure to risk. The University's general policy toward the long-term investment pool shall be to diversify investments within both equity and fixed income securities so as to provide a balance that will enhance total return, while avoiding undue risk concentrations in any single asset class. Asset allocation guidelines shall be made on a long-term basis, with consideration to current and projected investment outlooks. Asset allocation, as a percent of the total market value of the total long-term portfolio, will be set with the following target percentage and within the following ranges:

Type of Securities	Target	Range
Equity	48%	30-60%
<i>U.S.</i>	<i>30%</i>	<i>20-55%</i>
Domestic Large Cap	16%	10-30%
Domestic Mid Cap	7%	5-15%
Domestic Small Cap	7%	5-15%
<i>International</i>	<i>18%</i>	<i>10-30%</i>
Core	11%	10-20%
Emerging Markets	7%	5-15%
Real Estate Investment Trusts	7%	5-15%
Fixed Income	45%	30-70%
Core Bonds	28%	20-40%
Bank Loans	3%	0-5%
Global Bonds	14%	10-20%
Cash	-	0-5%

University representatives will monitor the asset allocation structure of the long-term investment pool. If the portfolio becomes overweighed in an asset class, University representatives will develop a plan of action to rebalance the portfolio.

Prior Board Action:

March 21, 2008.

November 5, 2010.

October 8, 2015.

October 7, 2016.

Sec. 4-805. Other Investment Parameters. No more than 10% of the portfolio, at cost, can be invested in any single issue, except U.S. Government Securities. Portfolio holdings must be sufficiently liquid to meet the ongoing cash flow needs of the University. University personnel will consider factors such as the overall level of deposits and investments maintained with primary banks and anticipated cash flow needs when placing investments. The use of additional banks for investment purposes will be considered in providing diversification. University personnel will review capital ratios of all banks utilized for investment purposes and select banks whose capital ratios reflect well capitalized ratios by FDIC. The use of bank products that provide additional protection such as collateral, or segregation of assets in trust departments may be used. The maximum amount of deposits and investments held with each primary bank will be \$20 million. The maximum amount of investments held with any other one bank will be the lesser of 25% of the short term portfolio or .5% of the banks total assets.

The duration for each long-term fixed income investment manager shall not vary more than +/- 20% than that of the appropriate benchmark for each manager with the exception of global bond managers who do not manage the portfolio to any preset average duration. For diversification purposes, each long term equity manager should have 20 or more positions.

Prior Board Action:

March 21, 2008.

November 5, 2010.

October 7, 2016.

Sec. 4-806. Credit Quality Parameters. Commercial paper at the time of purchase must be rated “A-1+” or the highest category by not less than two national rating services. The weighted average credit quality is to be no less than “A+” for the intermediate term investment pool and “A-” for the long-term investment pool. In addition, the minimum acceptable credit quality at the time of purchase for individual investments shall be “AA” for the short-term pool, “BBB” for the intermediate pool and “B” for the long-term investment pool.

Prior Board Action:

November 5, 2010.

October 7, 2016.

Sec. 4-807. Performance Objectives and Benchmarks.

(1) Short-term market fluctuations may cause variations in investment performance. Therefore, performance will ordinarily be measured over a moving five-year period, net of investment management fees and transaction costs; and the criteria set forth in this section will ordinarily be applied in evaluating investment performance. The University reserves the right to evaluate and make necessary changes regarding investment managers and/or funds over a shorter term using the same criteria or other criteria.

(2) Market Benchmark:

(a) The total return target for the short-term investment pool and for each short-term investment manager will meet or exceed the rate of return on 3-month U.S. Treasury Bills.

(b) The total return target for the intermediate-term investment pool and for each intermediate-term investment manager will meet or exceed the Merrill Lynch 1-3 Year Government Bond Index. The total return for each intermediate-term investment manager shall rank in the top half of the intermediate-term fixed income universe.

(c) The total return target for the long-term investment pool will meet or exceed the total return of a target Balanced Index composed of: 16% of the Russell 1000 Index, 7% of the Russell 2000 Index, 7% of the Russell Mid Cap Index, 7% of the MSCI AC World Index ex.-US, and 28% of the Barclays Capital Aggregate Bond Index 3% of either the S&P/LSTA Loan or Credit Suisse Leveraged Loan Index and 14% of the JP Morgan Non-US GBI Index. The total return target for each active long-term investment manager shall exceed the total return of the relevant benchmarks which include the MSCI Large Cap Value Index, Russell Mid Cap Growth Index, Russell Mid Cap Value Index, MSCI Small Cap 1750 Index, Russell 2000 Value Index, MSCI AC World ex-US Index, MSCI Emerging Markets Index, Barclays Aggregate Bond Index, JP Morgan Non-US GBI Index and the appropriate bank loan benchmark for the manager in the portfolio. The total return target for each passive long-term investment manager shall approximate the total return of the relevant benchmark. Furthermore, the total return for each active long-term investment manager shall rank in the top half of the appropriate universe.

(3) Variability:

(a) The standard deviation for each short-term investment manager shall not exceed 1.2 times the standard deviation of 3 month U.S. Treasury Bills.

(b) The standard deviation for each intermediate-term investment manager shall not exceed 1.2 times the standard deviation of the Merrill Lynch 1-3 Year Government Bond Index.

(c) The beta (volatility) for each active long-term equity investment manager and real estate investment trust (REIT) shall not exceed 1.2 times that of the relevant equity benchmark. Furthermore, each active investment manager is expected to achieve a positive alpha (risk-adjusted return). The standard deviation for each long-term fixed income investment manager shall not exceed 1.2 times the standard deviation of the appropriate index.

Prior Board Action:

March 21, 2008.

November 5, 2010.

October 7, 2016.

Sec. 4-808. Evaluation of Investment Managers. Investment managers shall be reviewed and evaluated on the following:

- (1) Ability to exceed the performance objectives stated in this subpart.
- (2) Adherence to the philosophy and style articulated to the University at, or subsequent to, the time the investment manager was retained.

- (3) Ability to exceed the performance of other investment managers who adhere to the same or similar style.
- (4) Continuity of personnel and practices at the firm.
- (5) Additional criteria established by the University.

Investment managers shall immediately notify the University in writing of any material changes in its investment outlook, strategy, portfolio structure, ownership or senior personnel.

Prior Board Action:

November 5, 2010.

Sec. 4-809. Signature Authority in Sales of Securities. The following officers are hereby authorized to sell, assign, and endorse for transfer, certificates representing stocks, bonds, or other securities registered in the name of the University: the President, the Vice President for Administration and Finance, the Assistant Vice President for Finance, and the Investment Officer. The signatures of any two of these officers in combination are required for such transactions.

Prior Board Action:

October 8, 2015.

October 7, 2016.

Sec. 4-810. Quarterly Review and Report. The administration will review investment performance on a quarterly basis. A report on the status of the investment program shall be provided annually to the Board. This report shall include a comparison of performance against the benchmarks.

Cross-Reference:

Business Policy, *Investment Policy*

Prior Board Action:

October 9, 1998

July 9, 2008.

October 7, 2016.