

POLICY MANUAL
OPERATING POLICIES AND PROCEDURES

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UTAH STATE UNIVERSITY
INVESTMENT POLICIES

517.1 PURPOSE

To establish University policies and procedures related to the investment of public funds and gifts and the reporting of such investments in accordance with applicable statutes or rules.

517.2 REFERENCES

- A. Utah State Board of Regents Investment Policy R-541.
- B. State Money Management Act, Section 51, Chapter 7.
- C. Rules of the State Money Management Council.
- D. Uniform Prudent Management of Institutional Funds Act (UPMIFA), Section 51, Chapter 08.
- E. Utah State University Conflicts of Interest Policy (Policy 307).
- F. Utah State University Investment Guidelines and Investment Groupings.

517.3 DEFINITIONS

3.1 State Money

Monies from legislative appropriations for the support and operation of the University.

3.2 Public Funds

State money and all other funds, regardless of source, which are owned, held, or administered by the University.

3.3 Donated Funds

Funds acquired by the University by gift, devise or bequest.

3.4 Public Treasurer

A Utah State University employee who has been designated by the Board of Trustees as the University's Public Treasurer as defined in the State Money Management Act and who has the responsibility for the safekeeping and investment of public funds.

3.5 Investments

As used in this policy, "investments" refers to all funds held by the University under provisions of the State Money Management Act or UPMIFA.

517.4 GENERAL PROVISIONS

The investment of public funds by the University shall comply with applicable statutory provisions, including the State Money Management Act, the rules of the State Money Management Council, the Uniform Prudent Management of Institutional Funds Act, and with policies of the State Board of Regents and the Board of Trustees.

The President of the University shall recommend for appointment by the Board of Trustees, an employee of the University to serve as the University's Public Treasurer and employees to serve as the Treasurer's designees. These nominees shall possess demonstrated skills and capabilities in the management of institutional cash and investments.

All gifts of securities shall be sold as soon as is prudent and proceeds of the sale shall be deposited into the University account for which the gift is intended unless otherwise directed by donors.

4.1 Investment Objectives

The University shall manage its cash flow in a manner that will maximize cash available for investment. Available funds shall be invested in accordance with the following objectives:

- (1) Protection and safety of the principal.
- (2) Liquidity and term of investment which will provide funds for anticipated expenditures in a timely manner.
- (3) Investment of funds recognizing the needs of both operating accounts and endowed funds.

- (4) Conform to state law, pertinent bond resolutions or indentures, or other pertinent legal restrictions.
- (5) Maximize the rate of return consistent with the foregoing objectives.

4.2 Investments Administered on an Individual Basis

- (1) The following types of funds and investments shall be administered on an individual basis in accordance with their terms, restrictions, and/or governing policies.
 - (a) Funds held in trust by others, the income of which alone accrues to the University.
 - (b) Investments of the State Land Board and any other state agencies administered on behalf of the University.
 - (c) Investments of funds restricted by donor agreements.
 - (d) Bond reserve investments in compliance with bond agreements.
 - (e) Funds approved for individual investment by the Investment Advisory Committee.

4.3 Delegation of Responsibility

- (1) Board of Trustees
 - (a) The State Board of Regents has delegated to each institutional Board of Trustees, full responsibility to manage and report institutional investments in compliance with Regents Policy R-541.
 - (b) The Board of Trustees shall adopt institutional policy and procedure regarding investments, designate a Public Treasurer, and approve the format of reports submitted for its review.
 - (c) The Board of Trustees shall review and approve monthly reports of portfolio activity and quarterly performance reports of the institution's portfolio.
 - (d) The Board of Trustees shall require institutional compliance with the State Money Management Act, Rules of the Money Management Council, and UPMIFA.
 - (e) The Board of Trustees shall approve external professional investment advisor(s) and or manager(s) for the University.
- (2) President of the University
 - (a) Recommend University investment policies, including changes or modifications, to the Board of Trustees for approval.

- (b) Review and evaluate the University's investment performance.
- (c) Make recommendations to the Board of Trustees regarding external professional investment advisor(s) and or manager(s) for the University.
- (d) Recommend to the Board of Trustees an employee to serve as Public Treasurer and other employees to serve as designees.
- (e) Appoint three individuals to serve on the Investment Advisory Committee.

(3) Public Treasurer (Vice President for Business and Finance)

(a) The Public Treasurer shall be bonded in accordance with Rule Four of the Utah State Money Management Council and shall perform the following supervisory responsibilities:

1. Chair the Investment Advisory Committee.
2. Develop and submit investment policies, operating procedures, and asset allocation changes to the Investment Advisory Committee for review and recommend investment policies, including changes or modifications, to the President for approval.
3. Review and evaluate the University's investment performance.
4. Approve the distribution of investment earnings.
5. Make recommendations to the President regarding external professional investment advisor(s) and or manager(s) for the University.
6. Approve and/or ratify University investment actions.
7. Sign Public Treasurer assertion on reports.
8. Supervise the daily investment program operation.
9. Approve University investments except as delegated to external investment managers.
10. Prepare an annual presentation of Investment Performance for the Board of Trustees
11. Meet quarterly with the President's Council to review investment performance.
12. Supervise the preparation of the transmittal letter for the President's signature transmitting applicable reports to the State Board of Regents.
13. Approve quasi-endowment account requests to the Public Treasurer.

(4) Investment Advisory Committee

(a) The Public Treasurer shall be assisted by an Investment Advisory Committee which shall include:

1. Vice President for University Advancement.
2. Two Board of Trustees member appointees.
3. Three Presidential Appointees, at least two of whom must be independent investment management professionals.

(b) The Investment Advisory Committee shall:

1. Monitor performance of internal and external investment managers.
2. Review the University's current investment portfolio and investment results.
3. Review the University's current investment strategy and recommend investment strategy to be employed for the future.
4. Recommend appropriate revisions to investment policies and guidelines.
5. Recommend to the Public Treasurer the engagement, termination or continuation of external managers and investment advisors.
6. Forward committee recommendations for investment actions to the Public Treasurer for approval or disapproval.
7. Consider all other items referred to the committee by the Public Treasurer.
8. Meet at least quarterly or as often as may be necessary to fulfill its function.

517.5 POLICY

5.1 Authority to Manage Public Funds

The authority to manage the University's public funds, subject to investment transaction approvals required by section 517.4, is delegated to the University's Public Treasurer. If specifically approved by the Board of Trustees, the authority to invest public funds may also be delegated to independent investment manager(s).

5.2 Approval of Investment Decisions

Entering into repurchase agreements, the purchase of money market funds, redemption of securities, and the sale of securities donated to the university, in accordance with section 517.4, must be approved by one of the following University officials:

President

Public Treasurer or designee

All other investment purchases must be approved by two of the above listed University officials.

No person may engage in an investment transaction on behalf of Utah State University except as provided under the terms of this policy.

5.3 Investment Pools

Ordinarily, funds will be pooled for investment purposes.

(a) Specific investment pools or portfolios may be established to:

1. Ensure compliance with specific provisions of the State Money Management Act and rules of the State Money Management Council or UPMIFA.
2. Ensure compliance with any legal restrictions, such as bond covenants or trust agreements.
3. Ensure compliance with donor instruments relating to gifts or bequests.
4. Meet investment objectives of groups of similar accounts.
5. Provide liquidity to meet operating needs of the University.

(b) Investment pools may be established only upon approval of the President or the Public Treasurer after consultation with the Investment Advisory Committee and the Chair of the Board of Trustees.

(c) Guidelines for the operation and management of each investment pool will be periodically reviewed by the Investment Advisory Committee see section 517.4.3.4.b.

5.4 Distribution of Pooled Investment Income

Investment income will be distributed to all eligible accounts that provide funds for investment. Income distribution rates will be recommended by the Investment Advisory Committee and approved by the Public Treasurer. Eligible accounts include endowment, quasi-endowment, or reserve accounts as approved by the President or Public Treasurer. Investment income attributable to other types of accounts shall be credited to the President's discretionary earnings account.

5.4 Reporting Requirements

- (1) The Public Treasurer shall submit investments reports of the Cash Management Investment Pool, funds managed by external managers, funds separately invested, endowment trusts, and bond reserve funds monthly to the Board of Trustees.
- (2) All reports shall include the Public Treasurer's assertion that, to the best of the Treasurer's knowledge, the institution is in compliance with the Utah State Money Management Act and the rules of the Money Management Council and UPMIFA.
- (3) The Public Treasurer shall submit monthly reports to the Secretary of the Board of Trustees within 45 days of the end of the month for inclusion in the agenda of the next Board of Trustees' meeting.
- (4) The Public Treasurer shall submit quarterly reports of investment portfolios to the Secretary of the Board of Trustees within 60 days of the end of the quarter for inclusion in the agenda of the next Board of Trustees meeting.
- (5) The Secretary will place the reports on the agenda of the next regular Board of Trustees meeting.
- (6) The University shall submit to the Board of Regents a copy of the reports submitted to its Board of Trustees within 60 days of submission to the Board of Trustees. Reports submitted to the Board of Regents shall be accompanied by a transmittal letter to the Commissioner of the Utah System of Higher Education indicating that the President has reviewed the reports.
- (7) Annually, the University shall submit, in the format determined by the Office of the Commissioner of Higher Education, a summary report of its money management activities for the prior fiscal year. The report shall include the University internal auditor's opinion regarding: (1) the fairness of the report in accordance with generally accepted accounting principles; and (2) compliance with applicable state statutes, in particular; the State Money Management Act, rules of the Money Management Council, the Uniform Prudent Management of Institutional Funds Act, or policies of the Board of Trustees and the State Board of Regents.

5.5 Internal Controls

The University shall establish a system of internal controls which shall be evaluated by University internal auditors and independent external auditors annually. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by University employees and officers.

517.6 INDEPENDENT INVESTMENT ADVISORS

The University shall use the services of a qualified investment advisor for investment consultation and performance review. The qualified advisor will be required to submit quarterly performance review reports to the Public Treasurer and Investment Advisory Committee. The qualified advisor

must possess knowledge of the Utah State Money Management Act, the Rules of the Money Management Council, and the Uniform Prudent Management of Institutional Funds Act.

517.7 INDEPENDENT INVESTMENT MANAGERS

External qualified investment managers may be retained by the University to manage one or more investment pools. Investment managers will be chosen on the basis of investment performance and investment reputation in the financial community as well as cost of services. Such appointments shall be subject to annual review.

517.8 RELATIONSHIPS WITH FINANCIAL INSTITUTIONS

Qualified depositories as defined by the State Money Management Act shall be selected and retained in accordance with Regents Policy R-543.

517.9 ETHICS AND CONFLICTS OF INTEREST

The Public Treasurer, University officials, and Investment Advisory Committee members involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which might impair their ability to make impartial investment decisions. Investment officials shall disclose confidentially to the University President and to the University Counsel, any material financial interests in financial institutions that conduct business with the University, and any large personal financial/investment positions that may affect performance of investment duties or the performance of the University's portfolio.

Utah State University

Investment Guidelines and Investment Groupings

517.10 PURPOSE

To establish University guidelines and groupings related to the investment of all funds within the control of the University.

517.11 REFERENCES

- A. Utah State Board of Regents Investment Policy R-541.
- B. State Money Management Act, Section 51, Chapter 7.
- C. Rules of the State Money Management Council.
- D. Uniform Prudent Management of Institutional Funds Act (UPMIFA), Section 51, Chapter 08.

517.12 DEFINITIONS

12.1 Cash funds

All available cash from all University and agency funds.

12.2 Reserve funds

Cash in excess of funds needed for operations and in excess of \$5,000 that is not needed for at least one year and that the Public Treasurer has authorized to be invested and earn a return on investment.

12.3 Endowment funds

As used in these guidelines, “endowment funds” include true endowment funds, term endowment funds, and quasi-endowment funds.

12.4 True endowment funds

As used in these guidelines, “true endowment funds” are institutional funds with respect to which a donor has stipulated, as a condition of the gift, that the gift is to be maintained inviolate and in perpetuity. True endowment funds are to be invested for the purpose of producing present or future income that may, also by donor stipulation, be expended or reinvested with the original gift. The principal, or corpus of the true endowment, must be maintained intact. Income that may be expended according to the donor’s stipulation may be restricted or unrestricted as to the purpose for which it is expended, the time it may be expended, or both. Income that may not be expended, but rather added to the principal or corpus in accordance with the donor’s stipulation, assumes or takes on the same restrictions as the original gift.

12.5 Term endowment funds

Term endowment funds are similar to true endowments, except that, upon passage of a stated period (or time) or the occurrence of a particular event, all or part of the donation may be expended. True and term endowments are commonly referred to as donor restricted endowments.

12.6 Quasi-endowment funds

Quasi-endowment funds are gifts or bequests that are retained and managed like an endowment. Principal and interest of these funds may be utilized in accordance with the terms of the quasi-endowment agreement.

517.13 INVESTMENT GROUPINGS AND INVESTMENT POOL PROCEDURES

13.1 Cash Management Investment Pool

- (1) Consists of available cash in excess of estimated daily operating requirements from all University and agency funds.
- (2) Funds in this pool may only be invested in investments that meet the criteria of Section 51-7-11 and 51-7-17 of the Utah State Money Management Act.
- (3) This pool will not be managed on a unit (market value) method.
- (4) Net earnings (realized gains/losses, dividends, and interest [net of expenses]) will be distributed to the fund groups, sub-fund groups, and to specific restricted fund accounts (when required by contractual agreement) that participate in the pool. The method of allocation will be based on the average daily cash balance. Net earnings distributed to the Endowment and Loan groups will be distributed annually to the individual funds participating in the pool.
- (5) A management fee may be assessed up to 2% using the average daily cash balance method of allocation on all quasi-endowment and reserve funds invested in the pool.
- (6) This pool will be managed by University personnel.

13.2 Endowment Pool

- (1) The Endowment Pool consists of endowment funds that are not restricted by donors as to the type of investment.
- (2) Investments of these funds are invested under the total return concept of the Uniform Prudent Management of Institutional Funds Act, whereby “net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund” may be appropriated for expenditure. UPMIFA was adopted into state law under Utah Code 13-29 and is governing regulation for the University’s endowment funds.

- (3) This pool will be operated on a unit (market value) method.
- (4) The investment return objective of this pool will be to achieve a total rate of return, over a ten-year period, which exceeds the spending allocation rate plus the advancement/management fee by 2% per year on average.
- (5) The risk objective of this pool will be to construct an investment program that offers a high probability of achieving the stated investment return objective while keeping the frequency and magnitude of temporary declines at acceptable levels. A strategic asset allocation program will facilitate controlling downside volatility within acceptable ranges over a period of time.
- (6) The following asset allocation targets will guide the long-term investment activities for this pool:

<u>Asset Class</u>	<u>Strategic Allocation</u>	<u>Allocation Range</u>
Equities	50%	25% - 70%
Fixed Income	25%	20% - 45%
Alternatives	25%	0% - 30%

The Public Treasurer, with the advice of the Investment Advisory Committee, will manage the asset allocation mix within the above Strategic Allocation targets and Allocation Ranges. It is expected that the asset allocation mix will be diversified among asset classes and designed to meet the rate return and risk objectives.

(7) Rebalancing:

- (a) Asset allocation ranges will be reviewed on a semi-annual basis.
- (b) The actual percentage allocations may vary as much as +/- 5% before rebalancing to the Allocation Ranges is required.
- (c) The Public Treasurer, with the advice of the Investment Advisory Committee, shall determine initial weighting and rebalancing parameters for allocation to the asset classes and within the asset class. The Public Treasurer may also accept advice from the University’s investment advisor regarding asset allocation strategies.
- (d) The funds in this pool will be managed and invested by:
 - 1. Qualified external managers.
 - 2. Professional managers of commingled investment funds or mutual funds.
 - 3. University personnel managing the Cash Management Investment Pool.
- (e) In order to ensure a stable and predictable level of spending from year to year, fluctuations in annual investments will be “smoothed” by using a 12-quarter moving average of an

endowment's market unit value for the three preceding fiscal years. More specifically, each endowment will be allocated an amount of spending up to 5 percent of the average of endowment account balances over the most recent three year period. In the case of new endowments, the most recent one, two, or three year periods will be used. It is possible, particularly in the case of new endowment accounts, for the annual return to be less than the spending allocation in the short-term. Should any endowment account market value fall below its corpus value, spending on said endowment may be suspended and/or reduced to the amount of actual earnings.

Taking actual investment returns, inflation, and the advancement/management fee into consideration, the actual spending rate will be determined one year prior to the start of the fiscal year in which funds are to be expended. Portfolio returns in excess of the annual spending allocation (including realized/unrealized gains or losses, interest and dividends) shall be retained by the endowment in order to protect its value in real terms vs. inflation, and to grow the endowment's historical value over time.

The spending allocation amount will be distributed to the individual accounts using the unit method.

- (f) The University may withdraw an advancement/management fee from the endowment pool. This fee will be determined based upon a budget approved by the President and will not exceed 2 percent of the 12-quarter moving average of the portfolio fair market unit value for the three preceding fiscal years, with a budget lead time of one year.
- (g) Cash inflows and outflows will be allocated in accordance with the Asset Allocation Guidelines.
- (h) Special investment opportunities may necessitate an amendment to the Investment Guidelines and Investment Groupings.

13.3 Separately Invested Funds

These are separate investments (non-pooled) generally consisting of donor restricted investments, investments under annuity agreements with donors, investments of agency funds, endowment and other trusts, or other separate investments recommended by the Investment Advisory Committee and approved by the Public Treasurer. Dividends, interest, gains or losses, and any associated expenses are recorded directly upon receipt or payment to the individual fund.

13.4 Bond Trust Funds

These funds are separate investments consisting of monies managed by an external trustee as part of a bond funding agreement. Investments are made pursuant to the bond funding agreement.

Investment of Bond Trust Funds are reviewed and discussed by the external trustee and the Public Treasurer to assure that the maximum possible earnings are attained.

517.14 ELIGIBLE ENDOWMENT POOL INVESTMENTS

The following guidelines shall define eligible Endowment Pool investments and their parameters. These guidelines shall be subject to review on an ongoing basis.

14.1 Equities

- (1) The equity segment may be diversified across a spectrum of market capitalizations by allowing investments in small, medium, and large-capitalization stocks.
- (2) The equity segment may be diversified across multiple regions, including the United States, developed foreign markets, and emerging markets.
- (3) Equity holdings should be readily marketable and diversified by issue, industry, and sector.
- (4) Equity managers may invest in short-term commercial paper, money-market mutual funds, other money market investments, and short-term bond investments as a surrogate for cash reserves on occasion. The intent is to have the investment manager remain fully invested.

14.2 Fixed Income

- (1) Bond holdings should be diversified by country, issue, sector, coupon and quality and should be readily marketable.
- (2) Core bond portfolios must have a minimum quality of A or better.
- (3) Non-core fixed income may include returns derived from high yield funds and other non-investment grade securities. Non-core fixed income shall be limited to 20% of the portfolio.
- (4) Foreign securities shall be limited to 15% of a manager's portfolio, unless otherwise stated in the Investment Manager's guidelines.
- (5) Average portfolio duration should not exceed +/- 35% of the stated benchmark index, unless otherwise stated in the Investment Manager's guidelines.

14.3 Alternative Investments

- (1) In addition to the aforementioned investments, the University may invest in alternative investment funds that derive returns primarily from distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, commodities, private real estate assets or absolute return and long/short hedge funds (each an "Alternative Investment Fund").
- (2) The University may invest up to 30% of available Endowment Pool funds in Alternative Investments.

(3) The alternative investment segment of the portfolio should be diversified among types of investments. The following shall govern the investment of Alternative Investment Funds:

<u>Investment</u>	<u>Range</u>
Distressed Debt	0% - 10%
Private Capital, Natural Resources, Commodities and Private Real Estate	0% - 10%
Absolute Return and Long/Short Hedge Funds	0% - 20%

The above percentages are subject to prudent rebalancing practices.

14.4 Unique Situations

The Public Treasurer and the Investment Advisory Committee may execute alternative investment strategies to take advantage of one-time or unique situations.

517.15 RISK TOLERANCE

The following guiding principles and measures shall be followed to control undue portfolio volatility in any Investment Grouping:

- (1) The University recognizes that the primary fiduciary obligation regarding the Investment Groupings is to prudently invest the portfolio to meet the investment objectives that will fulfill the purpose of the Investment Grouping.
- (2) The University fully recognizes the likelihood of periodic market declines and is willing to accept the possibility of some short-term declines in market value in order to achieve potentially higher long-term investment returns.
- (3) Assets of each Investment Grouping are to be diversified to protect against large investment losses and to reduce the probability of excessive performance volatility.
- (4) Diversification of assets is to be achieved by:
 - (a) Allocating monies to various asset classes and investment styles within asset classes, and
 - (b) Retaining investment management firm(s) with complementary investment philosophies, styles, and approaches.
- (5) Efforts should be made to preserve the principal value of Investment Groupings, but preservation shall not be imposed as a condition on each investment transaction.

517.16 PERFORMANCE EVALUATION AND REVIEW PROCESS

The Public Treasurer and the Investment Advisory Committee will evaluate the investment performance on a periodic basis, including but not limited to the following:

- (1) The overall performance of each Investment Grouping.
- (2) The overall performance of each investment manager's performance to the objectives of the Investment Grouping.
- (3) The Investment Groupings asset allocation mix to its Investment Guidelines and capital markets outlook.
- (4) The extent to how each investment manager has managed his or her portfolio consistent within that manager's stated investment philosophy and style.
- (5) The extent to how the investment manager adhered to these guidelines.
- (6) The risk and return profiles of each investment grouping and each investment manager to determine whether the Investment Grouping's goals and objectives are being met.
- (7) A reasonable time horizon for evaluating the Investment Grouping's investment performance relative to the selected benchmark on a long-term basis (five to ten years).

517.17 REVIEW OF INVESTMENT GUIDELINES AND INVESTMENT GROUPINGS

The Public Treasurer and the Investment Advisory Committee will review the Investment Guidelines and Investment Groupings periodically to determine that it continues to serve the investment needs of the University and is appropriate in view of changes with State and Federal regulations, the University, the Investment Groupings, and the capital markets.