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## Oregon State University Public University Fund Investment Policy

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### **I. PURPOSE**

The purpose of this document is to identify the policies for prudent investment of the Public University Fund assets by providing guidelines for suitable investments consistent with the objectives identified in Section III.

The investment policies and practices are based on state law and prudent money management. All Public University Fund assets will be deposited and invested in accordance with this Policy and all statutes and policies governing the Designated University, Public University Fund, Oregon State Treasury and the Oregon Investment Council.

### **II. SCOPE**

These rules apply to the investment of funds from all eligible and approved Public University Fund (PUF) participants, and are established under the authority of, and shall not supersede, the requirements established under ORS Chapter 293, ORS 352.450 and the Oregon Investment Council (OIC) Common University Policy INV 407.

### **III. OBJECTIVE**

The primary objective of the PUF is capital preservation with a secondary objective to maximize total return over a long-term horizon within stipulated risk parameters.

The PUF should provide adequate liquidity for PUF participants' cash flow requirements based upon participant's annual cash flow forecast submissions for assets on deposit in the PUF. Cash balances in excess of forecast liquidity needs shall be invested into longer dated fixed income securities with the objective to maximize total return over the long term.

### **IV. PORTFOLIO ALLOCATION**

Portfolio allocation parameters listed in the following table are intended as general guidelines and subject to review by the Designated University staff and their delegates including investment consultants and investment managers.

	<b>Objective</b>	<b>Allocation</b>
<b>Liquidity</b>	<b>Capital preservation to assure adequate cash for liquidity requirements.</b>	<b><u>Short-Term</u></b> <b>Funds invested in the Oregon Short Term Fund (OSTF). Target allocation of funds based upon aggregated university participant annual cash flow forecasts. Absent cash flow forecasts, the target allocation will be based upon a minimum of six months' estimated operating expenses.</b>
<b>Core</b>	<b>Actively managed to achieve a diversified portfolio of investment grade bonds invested over longer horizons than permitted in OSTF. Based on historical market performance, total returns generated over extended periods are anticipated to be greater than returns realized in shorter-maturity strategies.</b>	<b><u>Intermediate</u></b> <b>Investments with a maturity or weighted average life from three years and above.</b>

## **V. PERMITTED HOLDINGS**

1. Securities included in the designated performance benchmark(s) unless explicitly restricted in this policy.
2. The Oregon Short-Term Fund (OSTF). Underlying investments of the OSTF are excluded from restrictions in this policy. The OSTF is governed by the OIC and OST-adopted policies and guidelines as documented in OIC Policy INV 303.
3. Obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities, including inflation-indexed obligations.
4. Non-U.S. government securities and Instrumentalities with a minimum long-term rating of Aa2/AA/AA as rated by two or more of the following rating agencies: Moody's Investors Services, Standard & Poor's DBRS or Fitch Ratings (each a "Rating Agency", collectively "Rating Agencies"), at the time of purchase.

5. Municipal debt with a minimum rating of A3/A-/A- as rated by one or more of the Rating Agencies, at the time of purchase.
6. Corporate indebtedness with minimum investment grade ratings by one or more of the Rating Agencies. For avoidance of doubt, no rating from any of the Rating Agencies may be non-investment grade at the time of purchase.
7. Senior tranches of asset-backed securities rated AAA (or equivalent rated by one or more of the Rating Agencies) at the time of purchase.
8. Senior tranches of commercial mortgage-backed securities (CMBS) rated AAA (or equivalent rated by one or more of the Rating Agencies) at the time of purchase.
9. U.S. agency residential mortgage-backed securities (MBS) and U.S. agency commercial mortgage-backed obligations (CMO).

## **VI. DIVERSIFICATION**

The portfolio should be adequately diversified consistent with the following parameters:

1. No more than 3% of portfolio par value may be invested in a single security with the exception of obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities; and
2. No more than 5% of portfolio par value may be invested in the securities of a single issuer with the exception of obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities.

Maximum market value exposures shall be limited as follows:

- U.S. Agency Obligations 50%
- U.S. Corporate Indebtedness 50%
- Municipal Indebtedness 30%
- Asset-backed Securities (ABS) 20%
- Mortgage-backed Securities (MBS) 40%
- Commercial Mortgage-backed Securities (CMBS) 10%
- Structured Securities (Combined ABS, MBS and CMBS) 50%

3. Issuer, security, and sector-level restrictions shall not apply to OSTF holdings.

## **VII. COUNTERPARTIES**

A list of all broker/dealer and custodian counterparties shall be provided upon request.

## **VIII. RISK**

1. Maintain an average (measured by market value) credit rating in the Core allocation of no lower than one grade below the designated benchmark. For example, if the Benchmark's average credit quality is Aa2, the minimum-weighted, average credit quality of the portfolio should be no lower than A2.
2. Maintain an average modified duration level of +/-10% of the custom benchmark.

## **IX. INVESTMENT RESTRICTIONS**

1. All investments will be in U.S. dollar denominated securities.
2. All investments will be non-convertible to equity.
3. Collateralized debt obligations (CDO), Collateralized Loan obligations (CLO) and Z-tranche investments are not permitted.
4. Investments in Alt-A, non-agency, sub-prime, limited documentation or other "sub-prime" residential mortgage pools are not permitted. No derivative securities are allowed. Structured securities such as ABS, MBS and CMBS shall not be considered as using leverage.
5. Investments in issuers identified by the Carbon Underground 200 published by the Fossil Free Indexes LLC (FFI).
  - This restricted security list will be updated annually at calendar year-end and enforced for all new security purchases.
  - Exposures to issuers added to the Carbon Underground 200 subsequent to purchase may be held to maturity.

## **X. POLICY COMPLIANCE**

1. OST Investment Staff will submit a written action plan to the Designated University (as described in ORS 352.450(3)(a)) regarding any investment downgraded by at least one rating agency to below investment grade within 10 business days of the downgrade. The plan may indicate why the investment should continue to be held and/or outline an exit strategy.

2. OST Staff will consult with the Designated University, on a pre-trade basis, if an investment trade or trades will result in a cumulative net loss greater than 1% over 3 months prior to trade settlement date.

#### **XI. SAFEKEEPING AND CUSTODY**

The assets held in the PUF shall be secured through third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions.

#### **XII. PERFORMANCE EXPECTATIONS AND REVIEWS**

1. Excluding the short-term allocation, the Core allocation is expected to perform in-line with the following custom benchmark:
  - 75% Bloomberg Barclays U.S. Aggregate 3-5 Year Index; and
  - 25% Bloomberg Barclays U.S. Aggregate 5-7 Year Index.
2. OST will provide the Designated University with a monthly report of all non-passive compliance violations of this policy's guidelines.
3. Investment reviews between OST investment staff and the Designated University will occur quarterly and focus on the following elements:
  - Performance relative to objectives;
  - Adherence to this policy; and
  - Trading activity.

#### **XIII. EXCEPTIONS**

None.

#### **XIV. FAILURE TO COMPLY**

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

#### **Document History**

- Adopted by the Board of Trustees, October 17, 2014
- Amended October 16, 2015
- Amended January 20, 2017
- Amended October 18, 2019