

Public University Fund Investment Policy Amendment

BACKGROUND

The Public University Fund (PUF) is an investment pool that is administered by Oregon State University on behalf of all Oregon public university participants, pursuant to legislation adopted by the 2014 Legislature. It allows for the state's public universities, including Oregon State University, to have access to a professionally managed investment product that efficiently provides daily liquidity and exposure to intermediate-term fixed income investments. The following Oregon public universities participate in the PUF: Eastern Oregon University, Oregon Institute of Technology, Oregon State University, Portland State University, Southern Oregon University, and Western Oregon University.

As the Designated University for administration, OSU's Board of Trustees has a [Public University Fund Investment Policy](#). The Oregon State Treasury (OST) serves as the investment manager for the PUF. OST is recommending changes to the investment policy that include a broader definition of rating agencies. Additionally, Oregon State University staff are recommending a new section addressing communication expectations between OST investment managers and Oregon State University staff.

PROPOSED CHANGES

The recommended changes were reviewed by the vice president for finance and administration, in consultation with OSU's associate vice president for finance and controller, director of treasury and the University Shared Services Enterprise's director of treasury management services. Proposed amendments are shown as strikethrough and red text in Exhibit A of Attachment 1 and described as follows:

Permitted Holdings: In Section V, proposed changes to the definition of credit rating agencies expands the universe of credit rating agencies to more than the three traditional credit rating agencies of Moody's, Standard & Poor's and Fitch. The benefit of defining rating agencies as Nationally Recognized Statistical Rating Organizations (NRSROs) includes certification by the Securities and Exchange Commission (SEC) and compliance with the SEC's standards. By expanding the available rating agency options, it provides diversity of rating agency opinions and sector expertise.

Performance Expectations and Reviews: In Section XII, a proposed addition of communication expectations by Oregon State University when OST is considering material strategy or organizational changes.

RECOMMENDATION

Staff propose that the Finance & Administration Committee recommend to the Board approval of the amendments to the Public University Fund Investment Policy as provided in Attachment 1.

RESOLUTION NO. 22-01



**Public University Fund
Investment Policy Amendment**

BACKGROUND

Whereas, Oregon State University serves as the Designated University under the Agreement Regarding Administration of the Public University Fund (PUF); and

Whereas, the Board adopted a Public University Fund Investment Policy to guide the prudent investment of participant’s funds with the primary objectives of safety, liquidity, and return on investment; and

Whereas, amendments were developed in collaboration with the Oregon State Treasury to update the Public University Fund Investment Policy rating agency definition and portfolio manager communication expectations, now, therefore

Be it resolved, that the Board of Trustees hereby approves the amendments to the Investment Policy, attached hereto as Exhibit A.

RESOLUTION

Now, therefore, be it resolved by the Board of Trustees that the amendments to the Investment Policy as provided in Exhibit A are approved.

This Resolution is effective _____.

APPROVED by the Board of Trustees _____.

Secretary to the Board

Date



Oregon State University Public University Fund Investment Policy

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 funds 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 Common University (OIC) 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.

Portfolio	Objective	Allocation
Liquidity	Capital preservation to assure adequate cash for liquidity requirements.	<u>Short-Term</u> 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.
Core	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.	<u>Intermediate</u> Investments with a maturity or weighted average life from three years and above.

V. Permitted Holdings

The term “Rating Agencies” is defined as any of the Securities and Exchange Commission (SEC) approved Nationally Recognized Statistical Rating Organizations (NRSROs). Each such Nationally Recognized Statistical Rating Organization (NRSRO) individually a “Rating Agency”.

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 **Rating Agencies 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. Asset-backed securities with minimum investment grade ratings by one or more of the Rating Agencies (Baa3/BBB-/BBB-). For avoidance of doubt, no rating from any of the Rating Agencies may be non-investment grade at the time of purchase.
8. Commercial mortgage-backed securities (CMBS) with minimum investment grade ratings by one or more of the Rating Agencies (Baa3/BBB-/BBB-). For avoidance of doubt, no rating from any of the Rating Agencies may be non-investment grade at the time of purchase.
9. U.S. agency residential mortgage-backed securities (MBS), U.S. agency commercial mortgage-backed securities (ACMBS) and U.S. agency commercial mortgage-backed obligations (CMO).
10. Collateralized loan obligations (CLO) rated AAA (or equivalent rating by one or more of the Rating Agencies) at the time of purchase.

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 except for 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 except for 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)	25%
• Mortgage-backed Securities (MBS)	25%
• U.S agency commercial mortgage-backed securities (ACMBS)	25%

April 7 and 8, 2022 Board of Trustees Meetings

- Commercial Mortgage-backed Securities (CMBS) 25%
- Collateralized loan obligations (CLOs) 15%
- Structured Securities (Combined ABS, MBS, ACMBS, CMBS, and CLOs) 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 a minimum-weighted, average long-term portfolio credit quality no less than A3/A-.
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) 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, CMBS, ACMBS and CLOs 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 defined 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:
 - Bloomberg Barclays Intermediate Government/Credit Total Return 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.
4. **OST will provide the Designated University with timely notification of material changes in the fund and/or firm operations under consideration or about to be implemented, including organizational or strategy changes that may impact asset management.**

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
- Amended January 29, 2021