

## Investment Policy Review and Amendments

### BACKGROUND

The vice president for finance and administration and the associate vice president for finance and controller, in consultation with the director of treasury and the university's investment advisors, have reviewed the current Investment Policy and determined that changes to the established guidelines should be considered at this time.

### PROPOSED CHANGES

Several recommended changes have been incorporated into the Investment Policy that will provide for strategic flexibility of asset management by aligning the intent for allocation limitations to Tier 3 investments and provide edits for clarity and housekeeping. These proposed amendments are shown in red text and strikethrough in Attachment 1.

**Definitions:** Section III includes a proposed update to the Bond Repayment Investment term by removing the reference to reserve, as the funds are not intended to be a debt service reserve and are not pledged to bondholders. Additionally, the definition of Unspent Bond Proceeds is updated to refer to board "directed" funds, reflecting these assets are not intended to function like a quasi-endowment; and the term Nationally Recognized Statistical Rating Organization is added to the list.

**Permitted Investments:** The proposed changes in Section VIII include the removal of the Oregon Intermediate Term Pool due to non-compliance with OSU's Investment Policy.

**Investment Restrictions:** Section IX has proposed updates to explicitly describe the amount of operating assets available for investments in equities and contains housekeeping edits related to the recommended changes in Section III.

**Maximum Maturity:** Section XI has a proposed housekeeping amendment to align with the Tier 2 duration timeframe.

**Reporting Requirements:** Section XIII has a proposed housekeeping amendment to align with the recommendations in Section III.

**Appendix:** A proposed addition of an appendix containing asset allocation tables including maximum permitted asset class and sector allocations is recommended to add clarity about the differing investment portfolio strategies.

### RECOMMENDATION

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

RESOLUTION NO. \_\_\_\_



**Oregon State University  
Investment Policy Amendments**

**BACKGROUND**

Whereas, the Board of Trustees of Oregon State University (the “Board”) is vested by law with the power and authority to govern the University; and

Whereas, the bylaws of the Board specify that the Board’s governance responsibilities include ensuring the University’s fiscal integrity, overseeing the University’s financial resources and other assets, and preserving and protecting the University’s assets for posterity; and

Whereas, the Board adopted an Investment Policy to guide the prudent investment of University funds; and

Whereas, the Board has completed its review of the Investment Policy and identified amendments to address the investment objectives of long term equity investments, strategic flexibility of asset management and additional clarity; now, therefore,

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

This Resolution is effective \_\_\_\_\_.

**APPROVED by the Board of Trustees** \_\_\_\_\_.

\_\_\_\_\_  
Secretary to the Board

\_\_\_\_\_  
Date



## Oregon State University Investment Policy

### I. Purpose of the Investment Policy

The purpose of this document is to identify the policies for prudent investment of Oregon State University (“University”) funds by providing guidelines for suitable investments while maximizing the efficiency of the University’s cash management program.

The investment policies and practices of the University are based on state law and prudent money management. All funds will be deposited and invested in accordance with this Policy and all statutes, ordinances and policies governing the University.

### II. Scope

It is intended that this policy cover operating funds, board designated funds, ~~bond proceeds board directed funds, and~~ agency funds, ~~(except retirement funds and funds managed by the Oregon State University Foundation including quasi-endowment and endowment funds)~~ and investment activities under the direction of the Oregon State University Board of Trustees (Board). ~~This policy (except excludes~~ retirement funds and funds managed by the Oregon State University Foundation ~~which includes some~~ quasi-endowment and endowment funds).

### III. Definitions

For the purposes of the policy, the following definitions apply:

- A. **Prudent money management** refers to the use of financial assets that are suitable for an investor’s goals and objectives considering the risk/return profile and the time horizon. A prudent investor is required to follow a reasonable process in reaching their investment decisions regardless of whether their investment decisions were successful.
- B. **Board designated fund** is a fund that functions like an endowment, but without any legal restriction to hold the fund permanently. The funds are earmarked by the Board to be invested to provide income for a long but unspecified period. The Board has the right to decide at any time to expend the funds.
- C. **Bond repayment investment reserve** is a specific type of board designated fund in which the funds are earmarked by the Board to be invested to provide for repayment of outstanding taxable general revenue bonds in an approved time period.
- D. **Unspent bond proceeds fund** is a specific type of board ~~directed designated~~ fund to be invested utilizing a portfolio duration informed by the expected use of funds to provide liquidity for Board approved uses. Tax-exempt bond proceeds are prohibited from investment in equities.
- E. **Agency funds** account for resources held by the University as a custodian or fiscal

## FAC Agenda Item 6a – Attachment 1, Exhibit A

agent for an external party or organization that has a close or affiliated relationship with the University, such as a student or faculty organization.

**F. Nationally Recognized Statistical Rating Organization (NRSRO)** is a credit rating agency registered and approved by the Securities and Exchange Commission.

**F. G. Liquid investments** refers to cash and cash equivalent assets.

**G. H. Tier 1 - Short-term** includes investments intended to be held for less than one year.

**H. I. Tier 2 - Intermediate-term** includes investments intended to be held between one to ten years.

**I. J. Tier 3 - Long-term** includes investments intended to be held longer than ten years.

### IV. Objectives

The primary investment objective(s) by tier are:

- Tier 1 – Safety and liquidity;
- Tier 2 – Safety, liquidity, and return on investment with an expectation of higher return than Tier 1; and
- Tier 3 – Return on investment with the ability to assume more risk and volatility than Tier 1 or 2.

The objectives are applied as follows:

- A. *Safety* — Investments of the University shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio. The University shall seek to mitigate credit and interest rate risk, especially with regard to liquidity and short- to intermediate investments.
- a. Credit Risk. The University will minimize credit risk, the risk of loss due to the financial failure of the security issuer or backer, by:
- Pre-qualifying the financial institutions, broker/dealers, and advisers with which the University conducts business.
  - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
  - Actively monitoring the investment portfolio holdings.
- b. Interest Rate Risk. The University will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:
- Structuring the investment portfolio to provide enough liquidity to meet cash flow needs.
  - Maintaining a conservative duration target.
  - Structuring the portfolio to consist largely of securities with active secondary or resale market.
- B. *Liquidity* — The investment portfolio of the University will remain sufficiently liquid to enable the University to meet its cash flow requirements including but

not limited to payroll, payroll related liabilities, accounts payable, and debt service.

- C. *Return on Investment* — The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the safety and liquidity needs of the portfolio. Expected higher returns are available through intermediate- and longer-term investment strategies.

## **V. Delegation of Authority**

The management responsibility for the investment program is hereby delegated by the University vice president for finance and administration to the University associate vice president for finance and controller, with oversight by the University provost and executive vice president and the University vice president for finance and administration. The associate vice president will monitor and review all investments for consistency with this investment policy. The associate vice president may delegate investment decision-making and execution authority to an investment advisor. The advisor shall follow the policy and such other written instructions as are provided.

## **VI. Prudence**

The vice president for finance and administration, associate vice president for finance and controller, director of treasury and the Board are fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a fiduciary shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the University, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the University.

## **VII. Ethics and Conflict of Interest**

Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the prudent execution and management of the investment program, or that could impair their ability to make impartial decisions. Officers and employees are prohibited from using or attempting to use their positions to gain financial benefit or to avoid a financial cost for themselves, a relative, a member of their household or their business. Officers and employees should not engage directly or indirectly in a personal financial transaction, including any personal financial or investment position, that relies upon confidential information obtained through University employment. Employees and officers shall refrain from undertaking personal investment transactions with the same broker or relationship manager with whom business is conducted on behalf of the University.

## VIII. Permitted Investment Instruments

Where this section specifies a percentage limitation for a particular security type, that percentage is applicable only on the date of purchase. Credit criteria listed in this section refers to the credit rating at the time the security is purchased. If an investment’s credit rating falls below the minimum rating required at the time of purchase, the associate vice president for finance and controller will perform a timely review and decide whether to sell or hold the investment.

The University will limit investments in any one non-government issuer, except investment pools, to no more than 5% regardless of security type.

### *Investment Pools*

1. The **Public University Fund** established by Oregon Revised Statutes 352.450.
2. The **Oregon Short-Term Fund** (OSTF) as managed by the Oregon State Treasury in accordance with the terms approved by the Oregon Investment Council.
- ~~3. The **Oregon Intermediate Term Pool** (OITP) as managed by the Oregon State Treasury in accordance with the terms approved by the Oregon Investment Council.~~
3. 4. Any ~~other~~ investment pools managed by the Oregon State Treasury in accordance with terms approved by the Oregon Investment Council.
4. 5. Any investment pool managed by a third-party manager ~~in accordance with this policy.~~

Prior to investing in any investment pool, the University will review the pool’s governing document, prospectus (if available), permitted investments, fees, and management ~~for compliance to this policy and other due diligence purposes.~~

### *Securities and Registered Funds*

1. **U.S. Treasuries.** United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.
2. **U.S. Agency Obligations.** Federal agency, instrumentalities of the United States, or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies, instrumentalities, or United States government-sponsored enterprises.
3. ~~**Time Deposits.** Certificates of deposit or time deposits of domestic banks and domestic branches of foreign banks with a short-term debt rating of at least “A-1” or the equivalent from two NRSROs.~~
4. ~~**Money Market Mutual Funds.** Shares in an open-end, no-load investment funds provided such fund:~~
  - a) ~~Is registered under the Federal Investment Company Act of 1940,~~
  - b) ~~Is rated “AAAm” or “AAAm-G” or the equivalent by a NRSRO, and~~
  - c) ~~Complies with the requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission.~~

~~Before investing in any mutual fund, the University will obtain a copy of the fund’s~~

- prospectus and review permitted investments, fees, and management.
5. **Corporate Bonds.** Corporate and depository institution debt securities issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state, and operating within the U.S. The overall corporate bonds portfolio must have a long-term rating of at least 'A-1' or the equivalent from two NRSROs.
  6. **Structured/Securitized Securities.** Mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond which is rated at least "A" or the equivalent from two NRSROs.
  - ~~3-7.~~ **Municipal Obligations.** Lawfully issued debt obligations of the agencies and instrumentalities of any State or their political subdivisions in the United States with a long-term rating of at least 'A' or the equivalent from two ~~Nationally Recognized Statistical Rating Organizations (NRSRO)s~~ or with the highest rating for short-term municipal debt. ~~The maximum percent of the portfolio that may be allocated to this sector is 30%.~~
  - ~~4-8.~~ **Bankers' Acceptances.** Issued by domestic banks or domestic offices of foreign banks, which are eligible for purchase by the Federal Reserve System with a maturity of 180 days or less. The issuing corporation, or its guarantor, must have a short-term debt rating of at least "A-1" or the equivalent from two NRSROs. ~~The maximum percent of the portfolio that may be allocated to this sector is 25%.~~
  - ~~5.~~ ~~**Time Deposits.** Certificates of deposit or time deposits of domestic banks and domestic branches of foreign banks with a short-term debt rating of at least "A-1" or the equivalent from two NRSROs.~~
  - ~~6-9.~~ **Negotiable Certificates of Deposit.** Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a state or federally-licensed branch of a foreign bank. ~~The maximum percent of the portfolio that may be allocated to this sector is 25%.~~
  - ~~7-10.~~ **Commercial Paper.** "Prime quality" commercial paper, with a maturity of 270 days or less, issued by domestic corporations (corporations organized and operating under the laws of the United States or any state thereof) provided that the issuing corporation, or its guarantor, has a short-term debt rating of at least "A-1" or the equivalent from two NRSROs. ~~The maximum percent of the portfolio that may be allocated to this sector is 25%.~~
  - ~~8.~~ ~~**Corporate Bonds.** Corporate and depository institution debt securities issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state, and operating within the U.S. The overall corporate bonds portfolio must have a long-term rating of at least 'A-1' or the equivalent from two NRSROs. The maximum percent of the portfolio that may be allocated to this sector is 40%.~~
  - ~~9.~~ ~~**Structured/Securitized Securities.** Mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond which is rated at least "A" or the equivalent from two NRSROs. The maximum percent of the portfolio that may be allocated to this sector is 35%.~~

~~10. **Money Market Mutual Funds.** Shares in an open end, no load investment funds provided such fund:~~

- ~~a) Is registered under the Federal Investment Company Act of 1940,~~
- ~~b) Is rated “AAAm” or “AAAm-G” or the equivalent by a NRSRO, and~~
- ~~c) Complies with the requirements of Rule 2(a) 7, or any successor rule, of the United States Securities and Exchange Commission.~~

~~Before investing in any mutual fund, the University will obtain a copy of the fund’s prospectus and review permitted investments, fees, and management.~~

11. **Equities.** Shares of common stock of U.S. and international companies purchased in the anticipation of income from dividends and capital gains. Investment in restricted stock is prohibited. To mitigate market volatility, equities are to be used as a long- term investment strategy only.

Maximum Asset Allocation for Securities and Registered Funds are provided in Table 1 and Table 2 in the Investment Policy Appendix.

## IX. Investment Restrictions

- Board designated funds ~~excluding bond repayment investments~~, shall not exceed investments in equities, of 15% of the total ~~operating assets less unspent bond proceeds fund portfolio~~ balances, applicable only on the date of purchase.
- Board ~~directed designated~~ funds of ~~unspent~~ bond proceeds or capital funds are not eligible for investment in equities unless ~~approved to be~~ part of the bond repayment investment ~~reserve~~.
- Collateralized debt obligations (CDO), Collateralized Loan obligations (CLO) and Z-tranche investments are not permitted.
- Investments in Alt-A, sub-prime, limited documentation or other “sub-prime” residential mortgage pools are not permitted. There shall be no use of leverage in any investments (excluding use of securities in a securities lending program). Structured securities such as ABS, MBS and CMBS shall not be considered as using leverage.
- For newly issued securities with unassigned ratings, “expected ratings” may be used as a proxy for assigned ratings up to 30 business days after settlement date.
- Investments in issuers identified by the Carbon Underground 200 published by the Fossil Free Indexes LLC (or successor entity) are not permitted.
  - 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.
  - Underlying pool policy exceptions may exist but are to be restricted when possible.

## X. Arbitrage Management

Tax-Exempt bond proceeds will be invested subject to the applicable arbitrage considerations

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included in the Federal Tax Certificate. Calculated arbitrage rebate resulting from the investment income earned on the revenue bond proceeds resulting in positive arbitrage will be reported.

## **XI. Maximum Maturity**

Maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled to permit the University to meet all projected obligations.

Unless otherwise noted within this investment policy, the University may not invest in a security with a final maturity that exceeds ten years from the date of purchase, unless the security is a University issued taxable general revenue bond. The maximum duration of the University's portfolio (which incorporates a bond's yield, coupon, final maturity and call features into one number, expressed in years, that indicates how price-sensitive a bond or portfolio is to changes in interest rates) may not exceed ~~ten~~ **five** years.

## **XII. Safekeeping and Custody**

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

## **XIII. Reporting Requirements**

Manager(s) Responsibilities:

The investment manager(s) is responsible for strict compliance with the provisions of their investment management agreement with the University. The investment manager(s) will report investment results to the University vice president for finance and administration, or his/her delegate, no less frequently than quarterly. Investment reports will include, but are not limited to:

### ***Investment Pools and Registered Funds***

- Cost basis
- Market value
- Dividend income
- Dividend yield
- Quarterly performance

### ***Securities***

- Description of investment instrument
- Interest rate or yield to maturity
- Purchase date
- Maturity date
- Purchase price

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- Par value
- Current market value as of the date of the report and the source of this valuation
- Overall portfolio yield based on cost

### University Staff Responsibilities:

The University vice president for finance and administration, or his/her delegate, will present to the Finance & Administration Committee quarterly investment reports, which will include quarterly performance, yield, investment income and market value information.

Reporting of unspent bond proceeds **fund** reflecting board **directed designated** funds will identify committed amounts and unallocated funds.

Annually, the cumulative average returns for the bond repayment investment **reserve** will be reported for each outstanding taxable series compared to the long-term average earnings target to determine whether to add funds or to provide for distribution of excess funds as recommended by the University vice president for finance and administration, or his/her delegate.

### **XIV. Biennial Review of Investment Policy**

The University Vice President for Finance and Administration, or his/her delegate, will present the Investment Policy to the Board for review **no less than** on a biennial basis.

**Investment Policy Appendix**

Table 1.

<b>Operating &amp; Long-Term Equity Asset Allocation</b>	
<b>Asset Class</b>	<b>Maximum Allocation</b>
<b>Fixed Income</b>	<b>100%</b>
U.S. Treasuries	100%
U.S. Agency Obligations	100%
Time Deposits	100%
Money Market Mutual Funds	100%
Corporate Bonds	40%
Structured/Securitized Securities	35%
Municipal Obligations	30%
Bankers' Acceptances	25%
Negotiable Certificates of Deposit	25%
Commercial Paper	25%
<b>Equity</b>	<b>15%</b>
US Equity	15%
Large-Cap	15%
Small-/Mid-Cap	5% <sup>1</sup>
Non-US Equity	7%
Developed Markets <sup>2</sup>	7%
Emerging Markets <sup>2</sup>	2% <sup>1</sup>

<sup>1</sup> Under Review

<sup>2</sup> As defined by MSCI

**Investment Policy Appendix**

Table 2.

<b>Bond Repayment Investment Asset Allocation</b>	
<b>Asset Class</b>	<b>Maximum Allocation</b>
<b>Equity</b>	<b>100%</b>
US Equity	100%
Large -Cap	100%
Small-/Mid -Cap	13% <sup>1</sup>
Non-US Equity	35%
Developed Markets <sup>2</sup>	35%
Emerging Markets <sup>2</sup>	7% <sup>1</sup>
<b>Alternatives</b>	<b>TBD <sup>1</sup></b>

<sup>1</sup> Under Review

<sup>2</sup> As defined by MSCI