

RESOLUTION NO. 24-11



**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 objective to provide a moderate and sustainable return on investment; and

Whereas, the Board has completed its review of the Public University Fund Investment Policy and identified amendments to provide for prudent asset management of invested funds;

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 October 25, 2024.

APPROVED by the Board of Trustees October 25, 2024.

A handwritten signature in blue ink that reads "Justice Bump".

Secretary to the Board

October 25, 2024

Date



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 seeks to provide a moderate and sustainable level of current income by investing in quality fixed income securities ~~is capital preservation with a secondary objective to maximize total return over a long term horizon within stipulated risk parameters.~~ Assets shall be invested into intermediate-term fixed income securities with the objective of maximizing total return over the long term.

~~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. | Short-Term 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 intermediate-term periods 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 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 | 25% |

- securities (ACMBS)
 - 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. **If the average credit quality of the investment portfolio falls below A3/A-, the investment manager shall have 60 days to bring the average credit quality back to A3/A- or above. However, should the average credit quality of the portfolio decline below A3/A- as a result of a downgrade of U.S. Treasury or federal government agency securities, the investment manager will contact the PUF Administrator to discuss strategies which may include a waiver of the average credit quality requirement. The PUF Administrator will determine the appropriate course of action and report this activity to the Finance & Administration Committee of the Board of Trustees.**
23. **OST Investment 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, t~~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
- Amended April 8, 2022
- Amended October 25, 2024

EXCERPT: OSU BOARD OF TRUSTEES FINANCE AND ADMINISTRATION COMMITTEE MATERIALS

Docket

October 16, 2014

Proposed Public University Fund Investment Policy

INTRODUCTION

As noted in the University Treasury Management Policies docket (pages F-18 through F-40), the Oregon University System (System) worked with key partners over the past several years to improve the treasury management practices of the System via the establishment of an Internal Bank. To implement the investment pooling concepts of the Internal Bank, the System, working with the State Treasurer and the Oregon Investment Council, established a pooled investment fund, the OUS Fund, to combine cash balances from all System universities for liquidity management and investment purposes. One of the key factors in the legislature's decision to approve the changes made by SB 270 was that some of the benefits of being a System would be retained under the new governance structure. One of those important benefits was that certain aspects of the Internal Bank would be maintained, including the pooling of cash balances for investment purposes. During the 2014 Legislative Session, HB 4018 established the Public University Fund for the purposes of pooling cash balances of the public universities. Under the provisions of HB 4018, public universities that desired to participate in the Public University Fund (P.U.F.) would select one of the participating public universities as the "Designated University" under the statute. The Designated University would have the responsibility and authority to administer the P.U.F., working with the State Treasurer and the Oregon Investment Council to establish the investment policy and manage the investments of the P.U.F. In order to ensure that the benefits of pooling the cash balances of all public universities would continue to be available, Oregon State University (University) agreed to be the Designated University. The University is also a participating public university; accordingly, Oregon State University's cash balances are invested in the P.U.F.

In order to facilitate the July 1, 2014 changeover from pooling cash balances in the OUS Fund to the Public University Fund (P.U.F.), the P.U.F. Investment Policy was developed by the System, working with Public Financial Management, Inc. (PFM), and it was subsequently approved by the Oregon State Treasurer's Office and the Oregon Investment Council. On July 1, 2014, the cash balances of the public universities that elected to participate in the P.U.F., Eastern Oregon University, Oregon Institute of Technology, Oregon State University, Portland State University, Southern Oregon University and Western Oregon University, were transferred into the P.U.F.

Because the University has agreed to take on the statutory role of Designated University, it has the responsibility and authority to administer the investment of monies in the P.U.F. At the University's request, PFM has reviewed the proposed investment policy for the P.U.F. Staff request that the Board review and approve that policy, which is in Attachment A. The University has also contracted for a portion of the time of the University Shared Services Enterprises' Director of Treasury Operations to carry out the day-to-day management activities of the P.U.F. The University Vice President for Finance and Administration has delegated to the University Associate Vice President for Finance and Administration, formerly the Associate Vice Chancellor for Finance and Administration for the System, who had responsibility to manage the activities of the OUS Fund, the oversight responsibility for the daily administration activities of the P.U.F.