

## Public University Fund Investment Policy Amendment

### BACKGROUND

The Oregon State Treasury (OST) serves as the investment manager for the Public University Fund (PUF). On March 27, 2019, the University Shared Service Enterprise received an initial request from the Treasury to update the Public University Fund Policy to clarify terms related to permitted holdings, diversification, risk and other items.

### PROPOSED CHANGES

The changes requested by OST were reviewed by the Vice President for Finance & Administration, in consultation with OSU's Controller, Director of Treasury and the University Shared Services Enterprise. Proposed amendments to implement the requested changes are shown in red text and strikethrough in Exhibit A of Attachment 1 and described as follows:

**General Housekeeping:** The policy has been reformatted to include the policy's purpose and scope in Sections I and II, removal of duplicative compliance procedures covered in sections X and XII, as well as minor language changes throughout the policy.

**Objective:** The objective in Section III has been expanded to clarify the primary objective of capital preservation with a secondary investment objective to maximize total return over a long-term horizon.

**Permitted Holdings:** In Section V, proposed changes provide clarity to the permitted security descriptions and parameters.

**Diversification:** In Section VI, the 100% maximum allocation to U.S. Treasuries has been removed from the listing to focus on the sectors that are limited to exposures of less than 100%.

**Risk:** Section VIII has been revised to peg the portfolio credit quality to the designated benchmark, allowing one credit grade lower than the designated benchmark. There are no recommended changes to the current custom benchmark.

**Safekeeping and Custody:** Section XI has been added to define the custody and safekeeping requirements.

### RECOMMENDATION

Staff recommend 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. \_\_\_\_\_



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**Oregon State University  
Public University Fund  
Investment Policy Amendment**

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**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, the following amendments were developed in response to a request from the Oregon State Treasury to update the Public University Fund Policy to clarify terms related to permitted holdings, diversification, risk and other items;

**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



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## Oregon State University Public University Fund Investment Policy

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OFFICE OF THE STATE TREASURER

Investment Manual

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<b>POLICY PROVISIONS</b>
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### Definitions

None.

### A. Policy Statements

- ~~1. Funds meeting OST requirements are eligible for segregated investment management by the OST Investment Division and its investment officers according to and within the guidelines established and approved by the OIC. Investments shall be authorized by an OST investment officer and documented in accordance with OST policies and procedures.~~
- ~~2. Funds shall be invested in accordance with the policies and procedures outlined in this policy and in accordance with statute established by HB 4018, section 7.~~

### B. Compliance Application and Procedures

- ~~1. OST shall provide an investment compliance program to accomplish the following objectives: a) monitor and evaluate portfolios, asset classes, and other investment funds to determine compliance with OST policies and contractual obligations; b) identify instances of non-compliance and develop appropriate resolution strategies; c) provide relevant compliance information and reports to OST management and the OIC, as appropriate; and d) verify resolution by the appropriate individual or manager within the appropriate time frame.~~
- ~~2. **Resolution of Non-Compliance.** If PUF investments are found to be a) out of compliance with one or more adopted investment guidelines or b) managed inconsistently with governing policy and objectives, OST investment staff shall bring the investments into compliance as soon as is prudently feasible. Actions to bring the portfolio back into compliance and justification for such actions, including documentation of proposed and actual resolution strategies, shall be coordinated~~

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October 17-18, 2019 Board of Trustees Meetings

~~with the OST investment compliance program and communicated with the Designated University.~~

## ~~C. Portfolio Rules for the Public University Fund~~

### ~~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~~

~~1. 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 and 352.450 and HB 4018 of Oregon Laws 2014, 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.~~

~~2. Objective: 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. Manage the portfolio to maximize total return over a long-term horizon within stipulated risk parameters. 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~~

3. Portfolio allocation ~~and Risk Profile: Allocation~~ parameters listed in the following table below are intended as general guidelines, and subject to review by the Designated University staff and their delegates including investment consultants and investment managers. ~~not hard limits subject to OST Compliance monitoring.~~

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

**V. PERMITTED HOLDINGS**

~~4. Permitted Holdings~~

1. Securities ~~eligible for inclusion or~~ 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.

- ~~• Securities eligible for purchase by the OSTF unless explicitly excluded by this policy.~~
- 3. Obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities, including inflation-indexed obligations. ~~with stated maturities less than 15.25 years.~~
- 4. Non-U.S. government securities and Instrumentalities with a minimum long-term rating of ~~one or more 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, respectively, ~~and with a stated maturity less than 15.25 years at the time of purchase~~ (each a "Rating Agency", collectively "Rating Agencies"), at the time of purchase.
- 5. Municipal debt with a minimum rating of ~~one or more of~~ A3/A-/A- as rated by one or more of the ~~Moody's Investors Services, Standard & Poor's or Fitch, respectively, and with a final maturity less than 15.25 years at the time of purchase~~ Rating Agencies, at the time of purchase.
- 6. Corporate indebtedness with minimum investment grade ratings by one or more of the Rating Agencies. ~~Moody's Investors Services, Standard & Poor's or Fitch, respectively, and with a stated maturity less than 15.25 years at the time of purchase.~~ 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 Aasset-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**

### ~~5. 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:

<del>•</del>	<del>U.S. Treasury Obligations</del>	<del>100%</del>
•	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**

### ~~6. Counterparties~~

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

## **VIII. RISK**

### ~~7. Strategy~~

1. Maintain an average (measured by market value) credit rating in the Core allocation of ~~A- or better~~ no lower than one grade below the designated benchmark. ~~If a security is rated by more than one rating agency, the lowest rating is used to determine the average rating.~~ 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**

### ~~8. 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. ~~There shall be no use of leverage in any investments (excluding use of securities in a securities lending program).~~ No derivative securities are allowed. 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.~~
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**

### ~~9. 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**

### **10. Performance Expectations/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.