

Information

Operating Funds Investment

Effective

December 16 2021

Applicability

This policy applies to the investment of operating funds and the minimum cash reserve of the University of Louisville and its affiliated corporations

Administrative Authority

Executive Vice President for Finance Chief Financial Officer

Responsible Unit

Controller's Office

Service Complex, Louisville, KY 40292

502-852-6164

controll@louisville.edu

History

This policy was approved by the UofL Board of Trustees on December 16, 2021 and replaces the Short-Term Investment policy.

Revision Date(s):

Reviewed Date(s):

Categories

Statement:

Maintenance of adequate liquidity to meet the cash flow needs of the University is essential. Accordingly, to the extent possible, the University's funds will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Whenever practical, selection of investment maturities will be consistent with the known cash requirements of the University in order to minimize the forced sale of securities prior to maturity.

As indicated in the table below, Tier 1 will serve to meet the daily liquidity needs. The total of Tier 1 shall have a minimum of 45 days cash for day-to-day operating liquidity. When calculating the days cash on hand, expenses shall be based on the consolidated prior fiscal year average operating expense per day.

For purposes of the policy, the fund's assets shall be segregated into four categories based on expected liquidity needs and purposes: Tiers 1 through 4.

Tier 1 Portfolio

Assets categorized as Tier 1 shall be invested in permitted investments maturing in twelve (12) months or less. Because of the difficulties inherent in accurately forecasting cash flow requirements, a portion of the portfolio shall be continuously invested in readily available funds such as money market mutual funds, bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations. Also included in the Tier 1 Portfolio are investments managed by the Office of Financial Management at the Commonwealth of Kentucky and shall comply with Kentucky Revised Statute 42.500 and Kentucky Administrative Regulations (200 KAR 14:011 and KAR 14:091). The investment/return objective is principal preservation and liquidity.

Tier 2 Portfolio

The Tier 2 Portfolio shall be invested in permitted investments with a stated maturity of not more than five (5) years from the settlement date of purchase. The investment/return objective is principal preservation and enhanced return on investment.

Tier 3 Portfolio

The Tier 3 Portfolio shall be invested in permitted investments with a stated maturity of not more than ten (10) years from the settlement date of purchase. The investment/return objective is principal preservation and enhanced return on investment.

Tier 4 Portfolio

The Tier 4 Portfolio shall be invested in the external investment pools at the University of Louisville Foundation, Inc. The long-term investment/return objective is capital appreciation and principal preservation.

Related Information:

Repurchase Agreements: collateralized at 102% by U.S. Treasuries

Allowed

Allowed

Compensating balance arrangements with depository banks

Allowed

n/a

Shares of money market funds governed by SEC Rule 2a-7, each of which shall have the following characteristics:

- The mutual fund shall be an open-end diversified investment company registered under Federal Investment Company Act of 1940, as amended;
- The management company of the investment company shall have been in operation for at least five (5) years; and
- The mutual fund shall be rated in the highest category by a NRSRO

Allowed

Allowed

Shares of funds not governed by SEC Rule 2a-7

- Investment in the fund must be approved by the IAC

Not Allowed

Allowed

Obligations and contracts for future delivery of obligations backed by the full faith and credit of the U.S. or a U.S. government agency, including but not limited to:

- U.S. Treasury;
- Export-Import Bank (EXIM) of the U.S.;
- Farmers Home Administration (FmHA);
- Government National Mortgage Corporation (GNMA); and
- Merchant Marine bonds

Allowed, duration should be appropriate for Tier

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Collateralized or uncollateralized certificates of deposit (CD), issued by banks rated in one (1) of the three (3) highest categories by a nationally recognized statistical rating organization (NRSRO) or other interest-bearing accounts in depository institutions chartered by this state or by the U.S., except for shares in mutual savings banks

Collateralized only allowed, duration should be appropriate for Tier

Allowed, duration should be appropriate for Tier

Bankers acceptances (BA) for banks rated in the highest short-term category by a NRSRO

Allowed, limited to the lessor of \$25 million per name or 10% of the total Tier investments and have a maturity of less than 120 days

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duration should be appropriate for Tier

Commercial paper (CP) rated in the highest short-term category by a NRSRO

Allowed, amount limited to the lesser of \$25 million per name or 10% of the total Tier investments and must have a maturity of less than 120 days

Allowed, limited to the lessor of \$25 million per name or 10% of the total Tier investments and duration should be appropriate for Tier

Securities issued by a state or local government, or any instrumentality or agency thereof, in the U.S., and rated in one (1) of the three (3) highest long-term categories by a NRSRO. The maturity and credit restriction shall be waived for obligations issued by the Commonwealth of Kentucky or any entity within the Common-wealth of Kentucky

Allowed, amount limited to the lessor of \$25 million per name or 10% of the total Tier investments; must have a maturity of less than 120 days; and be rated in the highest long-term category by a NRSRO

Allowed, duration should be appropriate for Tier

U.S. denominated corporate, Yankee, and Eurodollar securities, excluding corporate stocks, issued by foreign and domestic issuers, including sovereign and supranational governments, rated in one (1) of the three (3) highest long-term categories by a NRSRO

Allowed, amount limited to the lessor of \$25 million per name or 10% of the total Tier investments; must have a maturity of less than 120 days; and be rated in the highest long-term category by a NRSRO

Allowed, duration should be appropriate for Tier

Asset-backed securities (ABS) rated in the highest category by a NRSRO

Not allowed

Allowed, duration should be appropriate for Tier

Obligations of any corporation of the U.S. government or government-sponsored enterprise (GSE), including but not limited to:

- Federal Home Loan Mortgage Corporation (FHLMC);
- Federal Farm Credit Banks;
- Bank for Cooperatives;
- Federal Intermediate Credit Banks; and
- Federal Land Banks;
- Federal Home Loan Banks (FHLB);
- Federal National Mortgage Association (FNMA); and
- Tennessee Valley Authority (TVA) obligations

Allowed, duration should be appropriate for Tier

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Note Tier 4 investments shall be managed in accordance with Foundation Investment Policy.

Reasoning:

The purpose of this Investment Policy is to set general guidelines to provide a clear understanding of the investment objectives for the University's operating funds. The policy outlines a philosophy that guides the management of the operating cash and investments toward the desired returns. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

This investment policy is set forth in order to:

- Define and assign responsibilities.
- Establish a clear understanding of the investment goals and objectives for operating fund assets.
- Offer guidance and limitations regarding the investment of operating fund assets.
- Establish a basis of evaluating investment results.
- Manage the operating fund assets according to industry best practices and applicable laws.

The fund's investment objectives, in order of priority, are the following:

Safety of Principal

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Maintenance of Liquidity

The University's funds shall remain sufficiently liquid to enable the University to meet all operating requirements which might be reasonably anticipated, including but not limited to payroll, accounts payable, capital projects, debt service and any other payments.

Return on Investment

The University's funds shall be managed with the objective of attaining a market rate of return (or higher) throughout the budgetary and economic cycles, considering the University's risk constraints and cash flow characteristics of the portfolio.

Responsibilities:

Delegation of Authority

The Executive Vice President for Finance and CFO has delegated to the Treasurer the responsibility for the custody, investment and disbursement of University funds in accordance with applicable laws and established policies and procedures. The Treasurer shall oversee the management of investment activity in accordance with the approved investment policy and fulfill the fiduciary responsibility to the University. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer.

Investment Advisory Committee

The Investment Advisory Committee (IAC) consists of the Treasurer, AVP Budget and Financial Planning, Assistant Treasurer, Director of Investments-Endowment and Gift Operations Strategies, Assistant Controller or Director of Accounting and Reporting and a Director level person to be determined. The committee will meet quarterly or as needed to review operating fund investments and to advise staff on investment allocations. Staff will prepare investment reports and make recommendations to the committee.

Treasury Staff

The Treasury Staff includes the Treasurer, the Assistant Treasurer, Director of Investments-Endowment and Gift Operations Strategies and employees in the Treasury Services department. Treasury Staff shall manage the daily operating fund investments and prepare analysis and recommendations to the IAC. Treasury Staff shall prepare assessments of investment balances and performance. When selecting investments to purchase for staff managed funds, as defined in Tiers 1, 2, and 3 above, a standard selection process shall be utilized. See Appendix 1 for more information regarding the selection process.

Treasury Staff may retain the services of a qualified investment manager(s) to invest funds pursuant to this policy. The Treasury staff will provide updates to the IAC on manager appointments, terminations, and the ongoing monitoring and evaluation of existing managers, at each meeting and at other times as requested by the IAC.

Safekeeping, Custody and Collateralization

The bank selected as the primary depository for the University will serve as the primary Custodian ("Custodian") for the University's bank deposits (Tier 1), operating fund investments (Tier 1, Tier 2 and Tier 3 managed by staff) and perform standard custodial functions, including security safekeeping, collection of income, settlement of trades, maintenance of collateral levels, collection of proceeds of maturing securities, and distribution of income. Other Custodians may be utilized when deemed appropriate based on the underlying fund(s) selected for investment. All cash deposits in excess of FDIC or NCUA insurable amounts and investments maintained by any financial institution shall be collateralized or have a FHLB Letter

of Credit. Collateralized securities shall be purchased using the delivery versus payment procedure. Collateral shall be marked to market daily.

The Custodian(s) shall provide monthly account statements and other reports as requested by University Treasury Staff. Treasury Staff may also establish a collateral account with the Federal Reserve Bank in the name of the University of Louisville for collateral requirements.

Short-term and intermediate-term investments held by the Commonwealth for the benefit of the University are invested in the Commonwealth's investment pools and are held in the name of the Commonwealth by the Commonwealth's custodian. The low duration strategy investments managed by an external manager(s) (Tier 4 managed by external managers) are held in the University of Louisville Foundations name by the Foundation's endowment investment custodian / Money Managers.