

Auburn University

Non-Endowment Cash Pool Investment Policy

Policy Statement

The purpose of this policy is to establish a framework within which the Office of Cash Management and Treasury manages the cash operations of Auburn University:

- To maximize earnings potential by acquiring assets within prudent guidelines.
- To provide liquidity necessary to conduct the day-to-day business activities of the University.
- To generate a favorable return on investments without undue compromise of other objectives.
- To implement efficient, cost effective banking operations.
- To conform to all statutes governing the investment and deposit of University funds.

Scope

This policy statement applies to all investment activities of the Office of Cash Management and Treasury for non-endowed cash entrusted to the Treasurer by Auburn University Board of Trustees as well as related foundations non-endowed cash. These funds are accounted for in Auburn University's Comprehensive Annual Financial Report.

Delegation of Authority

Amendment 161 as amended, Constitution 1901, states, Auburn University shall be under the management and control of a board of trustees. Therefore, the Board of Trustees shall ultimately be responsible for the investment policy. By Board Resolution the Board of Trustees has delegated investment authority to the President or Treasurer or other such persons as may be authorized to act on their behalf.

The Investment Policy is established to provide guidance in the management of the University's Non-Endowment Cash Pool to insure compliance with the laws of the State of Alabama and investment objectives. The Treasurer has delegated such authority to the Office of Cash Management and Treasury, which is accorded full discretion, within policy limits, to select individual investments and to diversify the portfolio by applying their own judgments concerning relative investment values.

Standards of Care

- Prudence- Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent person" and/or "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officials acting in accordance with the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

- Ethics and Conflict of Interest- The Treasurer, the Vice President for Business and Finance and the Office of Cash Management and Treasury staff shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees shall disclose to the Treasurer any financial interests in financial institutions that conduct business with the Office. Officers and employees of the Office of Cash Management and Treasury will comply with the State of Alabama Code of Ethics, as provided in Sections 36-25-1 thru 30, Code of Alabama (1975).

Objectives

The primary objectives, in priority order, of the non-endowed cash pool investment activities shall be:

- Safety- Investments shall be undertaken in a manner that seeks to ensure the preservation of principal. To obtain this objective, risk diversification will be considered and monitored, including investing funds among a variety of securities offering independent returns. Funds invested in state depositories shall be adequately collateralized.
- Liquidity- The investment portfolio shall remain sufficiently liquid to enable the Office of Cash Management and Treasury to meet all operating requirements that might be reasonably anticipated or occur. Additionally, a fundamental characteristic of investment securities will be the existence of a resilient secondary market in which assets may be sold timely at market prices.
- Return on Investment- The highest available return will be attained throughout economic cycles, commensurate with the Office of Cash Management and Treasury's investment risk constraints, statutory constraints, and the cash flow characteristics of the portfolio.

Safety and liquidity will not be compromised in favor of increased rate of return. The use of the investment portfolio for market oriented trading activities or speculative purpose is expressly prohibited.

Investment Procedures

The Office of Cash Management and Treasury shall establish a written investment procedures manual consistent with this policy. The procedures shall include reference to safekeeping, approved brokers and or professional investment managers, banking service agreements, approved depository agreements and procedures, collateral requirements, and bank deposit requests. Such procedures shall include explicit delegation of authority to staff responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the established procedures.

Authorized Financial Dealers/Brokers, Managers and Institutions

- Authorized Dealers/Institutions- The Office of Cash Management and Treasury shall maintain a list of authorized brokers /investment managers and institutions to transact investments for the University. All interested parties must meet minimum eligibility requirements and provide audited financial statements upon request.
- Investment Managers- The Office of Cash Management and Treasury may seek qualified firms through an open, competitive search and review process to provide professional investment management services. A Request for Proposal will be consistent with the requirements of Section 14-16-72(4), Code of Alabama (1975). Investment managers will assume the standard of care defined in Section 4.1 of this document.

The Office of Cash Management and Treasury may from time to time request disciplinary history, educational background and work experience of candidate firms or representatives. Any false information

knowingly submitted, any failed delivery, or failure to follow the non-Endowment Cash Pool Investment Policy may result in the permanent exclusion of the provider from any further business dealings with the University at the sole discretion of the Office of Cash Management and Treasury.

Authorized and Suitable Investment Types

All investments will be restricted to fixed income securities with the maturity range to be consistent with the liquidity needs of the pooled fund groups. It is essential that cyclical cash flow be offset by liquid investments while maintaining an overall duration not to exceed ten years. Permissible investment instruments may include but not limited to:

- Repurchase Agreements- Market value of the securities transferred shall equal at least 102% of the amount invested.
- Commercial Paper issued within the United States by any corporation provided the instrument carries a rating of at least P1 by Moody's or A1 by Standard & Poors or a comparable rating by another nationally recognized rating agency.
- Banker's Acceptances issued within the United States by banks on the AU Official Depositories List or by depository institutions with a long term debt rating of at least AA or short term debt rating of AAA (or comparable ratings) as provided by one of the top nationally recognized rating agencies.
- Money Market Deposit Accounts in banks on the AU Official Depositories List. These funds are subject to full collateralization for the amounts above the FDIC coverage limit.
- Money Market Mutual Funds that are rated AAA. (invested solely in the items listed under this section)
- Certificates of Deposit issued by banks on the AU Official Depositories List and fully collateralized for the amounts above the FDIC coverage limit. Negotiable Certificates of Deposit or Deposit Notes issued by credit worthy United States Banks in amounts not to exceed the FDIC coverage limit.
- Direct obligations of the United States or obligations unconditionally guaranteed as to principal and interest by the United States.
- Obligations of a Federally sponsored instrumentality of the United States (including mortgage-backed securities), including but not limited to the following:
 - Federal Home Loan Bank (FHLB)
 - Federal Home Loan Mortgage Corporation (FHLMC)
 - Federal Farm Credit Banks (FFCB)
 - Government National Mortgage Association (GNMA)
 - Federal National Mortgage Association (FNMA)
 - Student Loan Marketing Association (SLMA)
 - Financing Corporation (FICO)
 - Tennessee Valley Authority (TVA)
 - Government Trust Certificates (GTC)
 - Resolution Funding Corp. (REFCO)
- Municipal Bonds, both taxable and tax free, of bank qualified investment quality.

Collateralization

Collateralization is required on all bank deposits and repurchase agreements.

- Bank deposits will be collateralized consistent with the SAFE Program, Title 41, Chapter 14A of

the Code of Alabama (1975).

- Repurchase agreements must be collateralized as follows:
 - Collateral shall consist of U.S. Treasury Securities, Federal Agency Securities, or Agency-Issued Mortgage Backed Securities.
 - Market value of the collateral shall be maintained at one hundred two percent (102%) of the cash invested in order to accommodate market fluctuations.
 - A safekeeping agent designated by the Office of Cash Management and Treasury will hold collateral as evidenced by safekeeping receipts.
 - The right of collateral substitution is granted.

Safekeeping and Custody

All securities purchased by the University shall be settled on a delivery versus payment (“DVP”) basis. A safekeeping agent designated by the University pursuant to a competitive selection process, or by a Federal Reserve Bank, will hold these securities.

Diversification

The investment portfolio shall be diversified by security type, institution, and maturity. The Office of Cash Management and Treasury shall take into account concentrations resulting from the obligations of a single/related issuer or industry, geographic and type distributions.

- Inherent Risk- Investment managers are expected to make decisions based upon an analysis of each security instrument to determine its quality, inherent risks, fit within the overall objectives of the University, and prospects for yield and/or appreciation. These risks include the following:
 - Credit (Default) risk- the potential for failure of a debtor to make timely payments of principal and interest as they become due.
 - Liquidity Risk- The risk that a financial instrument cannot be sold or closed out quickly, at or close to its implicit economic value. As liquidity decreases bid/offer spreads typically widen.
 - Interest Rate Risk- The risk that interest rates will change, causing a decline in either the market price for the security or a decline in yield.
 - Prepayment Risk- The risk that the actual prepayment of principal is different from the expected prepayment speed assumptions, thereby affecting the actual market price and yield of the investment.
 - Market Risk- The risk that the market price of the security will decline substantially for reasons such as market pricing aberrations, and changes in supply and demand characteristics of a particular security market(s). Market sensitivity, or the potential variability of price, yield (income), and cash flow characteristics of a security depending upon changes in market interest rates, is also a consideration.
 - Operating Risk-Potential for loss because of inadequate policies, procedures, controls, error, fraud, etc.
- Financial Institutions- Approved financial institutions perform various transactions for the University, such as cash letter processing, funds transfers, and acceptance of deposits. Additionally, these institutions may hold Certificate of Deposit accounts, and transact repurchase agreements.

Maturity and Portfolio Mix

In order to meet the primary objectives of the University’s policy, the investment portfolio will be divided into three portfolio pools:

- Primary Liquidity Portfolio- This portfolio is to be the major source for disbursement requirements and operational needs. Safety of principal and liquidity at the expense of return on investment are the foremost objectives of this portfolio. Investments in this portfolio will have an average maturity of no more than twelve months and include money market accounts, Certificate of Deposits, and repurchase agreements.
- Intermediate Portfolio- Investments within this Portfolio will be liquid within five business days or less. The investment objective of this portfolio is to produce a total return higher than the return on assets of the Primary Liquidity Portfolio. Investments in this portfolio will have an average maturity of no more than three years and include treasuries, agencies, commercial paper, mortgage backed securities, and Certificate of Deposits.
- Short Term Portfolio- The objective of the Short Term Portfolio is to generate an investment return higher than the return on assets of the Primary Liquidity Portfolio and Intermediate Portfolio. Investments in this portfolio with maturities greater than 5 years are permitted (overall duration not to exceed ten years). It is expected that when maturity increases, return should also increase. Investments in this portfolio include treasuries, agencies, commercial paper and mortgage backed securities.
- Characteristics of the Auburn University investment portfolio include:
 - The target asset allocation for the overall investment portfolio is:
 - Primary Liquidity Portfolio 5%-20%
 - Intermediate Portfolio 30%-40%
 - Short Term Portfolio 30%-40%
 - The weighted average maturity shall not be more than three (3) years, unless authorized by the Office of Cash Management and Treasury.
 - Quality Rating. The minimum investment quality rating for all investments at time of purchase shall be “AA or Aa” by Standard & Poor’s and/or Moody’s. “Split” ratings where one agency rating differs from another will be reviewed on a case-by-case basis. Debt securities downgraded below BBB or equivalent rating should be sold as soon as the market conditions are favorable to avoid/minimize loss.
 - All investment instruments will be denominated in US currency only.
 - Maturity and issuer limitations are as follows:

<u>Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Per Issue</u>
Treasuries	10 years	No limit
Agencies	10 years	No limit
Agency-Issued Mortgage Backed	15 year final, 5 year Average Life	No limit
Taxable Municipal Bonds	10 years	No limit
Repurchase Agreements	60 days	15% of issuer’s capital or \$400 million, whichever is less.
Mutual Funds	N/A	10% of average investment portfolio

Gifts/Awards

It is anticipated that from time to time the University will receive gifts/awards in the form of marketable securities. In such event the policy requires that the University will liquidate the securities as soon as possible. In the event that the securities are restricted from sale for a designated period of time due to regulatory reasons, the University will hold said securities until the restricted period has elapsed and then liquidate the securities as soon as possible thereafter. The University will make no attempt to add value to the Pool by holding gifted securities. Any exceptions to hold marketable securities must be approved by the Treasurer.

Exceptions to Policy

Investments are required to comply with the objectives and guidelines set forth in this policy. The Treasurer requires that any exceptions taken in this Investment Policy Statement be submitted in writing pending the approval of the Treasurer. The Treasurer must explicitly authorize each exception in writing. Failure to notify the Treasurer and obtain written authorization will result in the investment manager being liable for any corresponding loss to the University.

Pass Through or Designated Funds

This policy shall also cover pass through funds (endowment funds to be forwarded to external endowment fund managers) and any funds managed by the Office of Cash Management and Treasury and designated for specific purposes and not covered by individual investment restrictions (i.e. endowment funds that may not be co-mingled, Bond Proceeds during construction, Health Insurance Trust, etc.).

Internal Control Objectives

The Office of Cash Management and Treasury shall establish internal controls and procedures to regulate the investment function and related activities performed by staff. The controls shall be designed to prevent the loss of University funds arising from fraud, employee error, or imprudent actions by authorized investment officers.

The Office of Internal Audit, Compliance and Privacy will provide an independent review and audit of the internal controls every 3-5 years to assure compliance with policies, procedures and applicable State laws and regulations.

Performance Standards

The portfolio shall be designed to obtain an attractive rate of return throughout economic cycles commensurate with investment risk constraints and cash flow needs. Benchmarks will be established that most closely reflect the strategy pursued or securities purchased.

Reporting

The Office of Cash Management and Treasury will maintain accurate, complete and timely records of all investment activities and submit quarterly detailed reports to the Treasurer.

Investment managers/brokers will provide monthly reports to the Office of Cash Management and Treasury and/or custodian that include performance results and market value. Additionally, quarterly reports will be

provided that include economic and investment outlook, notice of any material changes in organizational structure, ownership, key personnel, etc. of the firm, and any material outstanding litigation against the firm or any of its members.

Effective Date and Transition Provisions

This policy is adopted and is effective June 10, 2016. The Office of Cash Management and Treasury shall review the policy at least annually; and make recommendations for revision to the Treasurer.

ADOPTED: June 10, 2016