

# **Auburn University Office of Cash Management**

## **Non-Endowment Cash Pool Investment Policy**

### **PURPOSE**

The purpose of this Investment Policy is to provide a guideline by which the pooled funds (the current, loan, agency, and plant fund groups) not otherwise needed to meet the daily operational cash flows for the University can be invested to earn a maximum return, yet still maintain sufficient liquidity to meet fluctuations in the inflow of funds from revenues, tuition payments and state appropriations. The investment portfolio is not intended to be used for speculative purposes.

### **INVESTMENT OBJECTIVES**

#### **Safety of Capital**

Preservation of capital is regarded as the highest priority in the handling of investments for Auburn University. All other investment objectives are secondary to the safety of capital. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from security defaults or erosion of market value.

It is assumed that all investments will be suitable to be held to maturity. However, sale prior to maturity is warranted in some cases. For example, investments may be sold if the quality of an investment deteriorates, if the need to change the maturity structure of the portfolio arises, or if swaps are desirable.

#### **Maintenance of Adequate Liquidity**

The investment portfolio must be structured in such a manner that will provide sufficient liquidity to pay obligations such as normal operating expenses and debt service payments as they become due. A liquidity base will be maintained by the use of Repurchase Agreements, Bankers Acceptances, Commercial Paper, the Common Fund Short Term Investment Account and the purchase of securities with active secondary markets. These securities could be converted to cash prior to their maturities should the need for cash arise.

#### **Return on Investments**

The University seeks to optimize return on investments within the constraints of safety and liquidity. The portfolio strives to provide a stable return consistent with the investment policy. The cash pool portfolio rate of return will be compared with a weighted average of the returns of broad indices representing the maturity structure of the Pool.

## **PRUDENCE AND ETHICAL STANDARDS**

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing the overall portfolio. Persons performing the investment functions, acting in accordance with written policies and procedures, 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 and appropriate recommendations to control adverse developments are reported in a timely fashion. The “prudent person” standard is understood to mean:

“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.”

## **DELEGATION OF AUTHORITY**

Amendment No. 161, 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 investment policy. By Board Resolution the Board of Trustees has delegated investment authority to the President or Vice President for Business & Finance and 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 Vice President for Business & Finance and Treasurer or his designee 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.

## **IMPLEMENTATION OF THE INVESTMENT POLICY**

The Vice President for Business & Finance and Treasurer or his designee is authorized to execute security transactions for the University investment portfolio. Reports of investments shall be presented to the Investment Committee of the Board of Trustees.

In addition to the Cash Pool, funds may be obtained by entering into Reverse Repurchase Agreements whereby the University sells securities under an agreement to repurchase the securities at a specified date, not to exceed 90 days. The purpose of entering into a Reverse Repurchase Agreement shall be to meet operating cash flow needs...NOT speculative investment transactions.

## **AUTHORIZED INVESTMENT INSTRUMENTS**

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 six

years. In addition, the maximum maturity, or average life of any one investment shall not exceed ten years. Permissible investment instruments may include:

1. Repurchase Agreements. Market Value of the securities transferred shall equal at least 105% of the amount invested.
2. Common Fund Short Term Investment Account.
3. 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.
4. Banker's Acceptances issued within the U.S. 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.
5. 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 \$100,000 coverage limit.
6. Money Market Mutual funds such as the Starburst Government Money Market Fund managed by Compass Bank and the First Priority Treasury Market Fund managed by First Alabama Bank.
7. Certificates of Deposit issued by and savings accounts in banks on the AU Official Depositories List and fully collateralized for the amounts above the FDIC \$100,000 coverage limit. Negotiable Certificates of Deposit or Deposit Notes issued by credit worthy U.S. Banks in amounts not to exceed the FDIC \$100,000 coverage limit.
8. Direct obligations of the United States or obligations unconditionally guaranteed as to principal and interest by the United States.
9. Obligations of a Federal Agency (including mortgage backed securities) or a sponsored instrumentality of the United States 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 Corp (FICO)
  - Tennessee Valley Authority (TVA)
  - Government Trust Certificates (GTC)
10. Municipal bonds, both taxable and tax free, of bank qualified investment quality.
11. Common Fund Intermediate Investment Fund.

Diversification by type of acceptable investment is important so that no funds are put at risk by over-investing in one type of investment.

## **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 Treasurer 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.).

## **EFFECTIVE DATE**

This policy shall become effective immediately upon its adoption by the Board of Trustees. Further, this policy shall be reviewed at least annually and updated whenever changing market conditions or investment objectives warrant.

Adopted this 18<sup>th</sup> day of August, 1995

AUBURN UNIVERSITY BOARD OF TRUSTEES