

VCU Operating Pool Investment Policy

Responsible Offices:
Associate Vice President for Business
Services and Treasurer

Treasury and Foundation Services

POLICY STATEMENT AND PURPOSE:

This policy governs the investment management of Virginia Commonwealth University's ("the University" or "VCU") Operating Pool ("the Pool") and will set forth the responsibilities for both the University and its external managers.

The Pool will consist of unrestricted and restricted current funds, locally operated auxiliary enterprise funds, research and sponsored program funds, auxiliary enterprise funds and all other non-general fund revenues that are governed by the Uniform Prudent Management of Institutional Funds Act as required by the amended Code of Virginia in Sections 23-44.1, 23-50.10:01 and 23-122.1, effective July 1, 2009 (Exhibit 1).

In addition, the Pool will consist of tuition and Educational and General fees that are governed by the "Investment of Public Funds Act" of the Code of Virginia in Sections 2.2-4500 through 2.2-4516 (Exhibit 2).

The policy will attempt to impose discipline and provide a framework for prudent investment management, while also allowing for sufficient flexibility to capture investment opportunities as they may occur.

More specifically, the policy will provide guidance in the following areas:

- Define the financial objectives for the Operating Pool and setting up a fund structure.
- Provide guidance regarding authorized investments, asset allocation parameters and portfolio constraints.
- Establish performance measures and monitoring and reporting requirements.

The policy will be reviewed periodically and modified as necessary by the Board of Visitors to meet the changing needs of the University.

A. Financial Objectives

The primary objective for the Pool is to provide a safe and reliable source of funds to support the University's day-to-day operations. As such, capital preservation and liquidity are the two most important objectives.

Initial Policy Approved: 5/15/09
Revision History:

Last Revised:
2/10/11

A secondary objective is to earn the highest rate of return, given an appropriate level of risk. While investment return is secondary to safety and liquidity, funds invested in the Total Return Pool may be invested over a longer time horizon. To generate higher returns, it is recognized that additional interest rate risk and credit risk must be assumed.

All investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

B. Fund Structure

The Operating Pool will consist of funds managed by external money managers. The Primary Liquidity Pool will be the first source of liquidity for the University and will be used for short term operating expenses.

The remaining funds, collectively known as the Total Return Pool, will provide additional liquidity support in the case of unexpected or unplanned disbursements, but also seek out higher returns.

A more detailed description of each fund is described below:

The Primary Liquidity Pool – The Primary Liquidity Pool is intended to provide for the day-to-day working capital requirements for the University and will be invested in cash and cash equivalent investments (securities with a time to maturity of six months or less). The Primary Liquidity Pool will only invest in the highest quality, highly liquid investments that are readily convertible to known amounts of cash, and which are subject to relatively small risk of changes in value.

The Total Return Pool – will consist of the following funds:

The Short Duration Fund – This fund will provide a secondary source of liquidity in the event that disbursements exceed the amounts for the Primary Liquidity Pool. The fund will be invested in high quality short term fixed income securities with a duration of five years or less and a total fund duration less than 120% of the Merrill Lynch 1-3 year Gov't/Corp. Index.

The Core Bond Fund – This fund will be invested in high quality long term fixed income securities with a duration of twenty years or less and a total fund duration less than 120% of the Barclays Capital Aggregate Index.

The TIPS Fund – This fund will be invested in Treasury Inflation Protected Securities with a duration of twenty years or less and a total fund duration less than 120% of the Barclays TIPS index.

The Emerging Market Debt (EMD) Fund – This fund will be primarily invested in dollar denominated sovereign debt securities issued by emerging market countries with a duration of twenty years or less and a total fund duration less than 120% of the JPMorgan EMBI Global Diversified Index.

C. Authorized Investments

Treasury and Agency Securities – Obligations issued or guaranteed by the U.S. Government, an agency thereof or U.S. Government sponsored enterprises.

Non-Negotiable CD's – and time deposits of Virginia banks and savings institutions federally insured to the maximum extent possible and collateralized under the Virginia Security of Public Deposits Act.

Negotiable CD's and Bank Deposit Notes – of domestic banks and domestic offices of foreign banks with a rating of at least A-1 by Standard & Poor's and P-1 by Moody's Investors Service for maturities of one year or less. For maturities over one year and not exceeding five years, a rating of at least AA by Standard & Poor's and Aa by Moody's Investors Service is required.

Repurchase Agreements – collateralized by securities of the U.S. Treasury, an agency thereof or U.S. Government sponsored enterprises. The collateral on overnight or one day repurchase agreements is required to be at least 100% of the value of the repurchase agreement. Longer-term repurchase agreements are required to have collateralization of over 100% and be marked-to-market on a regular basis. Market fluctuations could result in the value of the collateral increasing or decreasing between valuation dates.

Banker's Acceptances – with major U.S. banks & domestic offices of international banks rated not lower than A-1 by Standard & Poor's and P-1 by Moody's Investors Service.

Commercial Paper – Prime quality commercial paper issued by domestic corporations and rated by at least two of the following: Standard & Poor's within its rating of A-1, Moody's Investors Service within its rating of P-1, Fitch Investor's Services within its rating of F-1, Duff and Phelps within its rating of D-1, or by their respective corporate successors, provided that at the time of any such investment the corporation meets the criteria specified in section 2.2-4502 of the *Code of Virginia*.

Money Market Funds – and other open-end investment funds provided that they are registered under the Securities Act of the Commonwealth of Virginia or by the Federal Investment Co. Act of 1940, and that the investments by such funds are restricted to investments otherwise permitted by qualified public entities within the Commonwealth of Virginia.

Asset-Backed and Mortgage-Backed Securities – with a duration of no more than five years and rated no less than AAA by at least two nationally recognized rating agencies, one of which must be either Standard & Poor's or Moody's Investors Service. Authorized mortgage-backed investments include Commercial Mortgage-Backed Securities (CMBS), Agency and Non-Agency (private label) Mortgage-Backed Securities (MBS) including pass-throughs, Collateralized Mortgage Obligations (CMOs) and Planned Amortization Classes (PACs).

Corporate Debt – having a credit rating of at least A or better by two nationally recognized rating agencies, one of which must be either Standard & Poor's or Moody's Investors Service. This includes all levels of the "A" rating. In addition, the managers of the Core Bond Fund and EMD Fund may invest 10% of the portfolio in securities having a credit rating of at least BBB or Baa2 by two nationally recognized rating agencies, one of which must be either Standard & Poor's or Moody's Investors Service.

Taxable Municipal Bonds – issued by states, political subdivisions and agencies of the fifty United States (including D.C.) and its territories rated A or better by two nationally recognized rating agencies, one of which must be either Standard & Poor's or Moody's Investors Service. This includes all levels of the “A” rating.

Obligations of Sovereign Governments – Dollar denominated obligations of sovereign governments, and their instrumentalities.

Should a security fail to meet the required credit quality limitations after purchase (i.e. credit downgrades), the external manager shall notify the University’s Treasury Department and the Investment Consultant in writing within one business day after the security fails to meet the credit quality limitations. Such security must then be sold within 30 calendar days, unless retention of the security is approved in writing by the University’s Chief Financial Officer or Treasurer.

If a manager is allowed to retain an out-of-compliance security, the manager should provide a monthly report to the University Treasury staff and the Investment Consultant. The report must include the manager’s rationale on why a security should continue to be considered for an exception.

The use of pooled funds may be considered. If a pooled fund is utilized, it is understood that the portfolio will be governed by the prospectus or similar document for the fund. However, pooled fund managers are expected to comply with the appropriate performance standards and reporting requirements contained in the Operating Pool Investment Policy.

Finally, the Operating Pool can only be invested in senior debt. Subordinated and convertible debt securities are not authorized investments. Investment securities not specifically authorized above are prohibited.

D. Asset Allocation Parameters and Portfolio Constraints

Asset Allocation

Primary Liquidity Pool

As noted above, the Primary Liquidity Pool is intended to provide for the day-to-day working capital requirements of the University, with the remaining balance being invested in the Total Return Pool.

The University will utilize the expertise of its investment consultant to make asset allocation recommendations for the Total Return Pool. A formal asset allocation study will be performed at least annually, but the strategy will be evaluated quarterly and target allocations adjusted accordingly.

However, the assets of the total return pool should not fall outside of the policy ranges described below:

<u>Total Return Pool</u>	<u>Policy Range</u>
Short Duration Fund	0 – 100%
Core Bond Fund	0 – 40%
TIPS Fund	0 – 30%
EMD Fund	0-10%

Duration Limitations

<u>Operating Pool Funds</u>	<u>Individual Security</u>	<u>Fund</u>
Primary Liquidity Pool	Less than 13 Months	Less than 6 Months
Short Duration Fund	Less than 5 Years	Less than 120% of the index
Core Bond Fund	Less than 20 Years	Less than 120% of the index
TIPS Fund	Less than 20 Years	Less than 120% of the index
EMD Fund	Less than 20 years	Less than 120% of the index

Diversification

Each fund will be diversified with no more than 5% of the value of the fund invested in the securities of any single issuer. The limitation shall not apply to the U.S. Government, or agency thereof, or U.S. Government sponsored corporation securities and fully insured and/or collateralized certificates of deposits.

For separate accounts, the maximum percentage in each eligible security type is limited as follows:

Authorized Investments	Primary Liquidity	Short Duration	Core Bond	TIPS	Emerging Market
U.S. Treasury and Agency Securities	100%	100%	100%	100%	-
Overnight Repurchase Agreements	100%	-	-	-	-
Bankers Acceptances	40%	-	-	-	-
Negotiable CD's and/or Negotiable Bank Deposit Notes	40%	20%	20%	-	-
Commercial Paper	35%	-	-	-	-
Repurchase Agreements	35%	-	-	-	-
Money Market Funds	35%	10%	10%	10%	10%
Non-Negotiable Certificates of Deposits	5%	-	-	-	-
Corporate Debt	35%	65%	65%	-	25%
Asset Backed Securities	-	35%	35%	-	-
Taxable Municipal Securities	-	20%	20%	-	-
Obligations of Sovereign Governments	-	10%	10%	-	100%
Combined MBS, CMBS, CMO PAC	-	60%	60%	-	-
Mortgage Backed Securities	-	50%	50%	-	-
Planned Ammortization Classes	-	20%	20%	-	-
Commercial Mortgage Backed Securities	-	10%	10%	-	-
Collateralized Mortgage Obligations	-	10%	10%	-	-

As noted above, if the University chooses to make an investment in a pooled fund, those assets will be governed by the prospectus or similar document for the fund.

E. Performance Measures

In accordance with the Management Agreement between VCU and the Commonwealth, the University should achieve a three year average rate of return at least equal to the iMoney.net money market index fund.

External managers should produce returns commensurate with the following benchmarks:

<u>Operating Pool Funds</u>	<u>Benchmark</u>
Primary Liquidity Pool	iMoney.net Index Fund
Short Duration Fund	Merrill Lynch 1-3 Year Gov't/Corp A+ Index
Core Bond Fund	Barclays Capital Aggregate Index
TIPS Fund	Barclays Capital TIPS Index
EMD Fund	JPM EMBI Global Diversified Index

Staff and the University's investment consultant will monitor and review each external manager's performance no less frequently than quarterly.

Each external manager's performance will be reviewed annually. In addition, the University's investment consultant will perform ongoing due diligence on each manager and report any change that may significantly impact the investment process and recommend appropriate action.

F. Duties of Investment Managers

Investment Managers shall be responsible for the following*:

- Accepting Trust assets as directed by the University, and investing those assets according to the stated investment philosophy and strategy as dictated in A) the fund prospectus, and/or B) investment guidelines provided to each manager of individual assets;
- Issuing prospectuses, annual reports and other pertinent information on a timely basis to the University;
- Meeting as required with the University to review portfolio and investment results;
- Notifying the University and Investment Consultant in advance of potential material changes in fund and/or firm operations under consideration or about to be implemented. This includes organizational or strategy changes that may impact asset management;
- Within 30 days of each month end, reconcile all transactions, market values, security holdings, and cash flows with the custodian and provide a written report to the University;
- Report monthly performance against the benchmarks established for the account by the fifth business day of the following month;
- Provide quantitative quarterly performance attribution relative to the appropriate benchmark. Provide quarterly reports concerning investment strategy, including quantitative performance attribution based on interest rate risk, sector allocation and security selection. Provide an economic and investment outlook by the end of the following month.

*Assets held in a pooled fund may not meet all requirements.

G. Monitoring and Reporting

The Operating Pool Investment Policy will be reviewed annually and any suggested changes will be reported to the Board for consideration and action.

Semi-annually, the Board will receive an investment report for the Operating Pool. At a minimum, the report will include the following information:

- Investment performance (net of fees) for each external manager and the Operating Pool as a whole versus appropriate benchmarks.
- Actual asset allocation versus the targets.
- A compliance report to include duration, credit quality and diversification restrictions.
- Status of any investments that may require management attention (such as credit downgrades).

WHO SHOULD READ THIS POLICY:

- Vice Presidents and other Senior Executives
 - Vice Provosts, Deans, Directors, and Department Heads
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RELATED DOCUMENTS:

- VCU Debt and Risk Management Guidelines
 - Commonwealth of Virginia Department of Treasury General Account Investment Guidelines
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CONTACTS:

General and specific questions about this policy can be answered by VCU's Department of Treasury and Foundation Services.

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Policy Revision(s)
February 10, 2011