

VIRGINIA COMMONWEALTH UNIVERSITY
Statement of Investment Objectives, Policies and Guidelines
For the Operating Pool

I. INTRODUCTION

The Finance, Investment and Property Committee of the Virginia Commonwealth University Board of Visitors (“Finance, Investment and Property Committee”) issues this statement. Its purpose is to guide University staff and investment managers in the investment of the assets in the Operating Pool. The “Operating Pool” consists of accumulated funds that have been derived from private and other sources, over which the University has the authority to invest.

II. FINANCIAL OBJECTIVES

Preservation of Capital Objective

The primary financial objective of the investment program is to ensure the preservation of asset values equal to or greater than the nominal value. Asset value is defined as the market value of the operating pool. Nominal value is defined as the book value of the operating pool.

Liquidity Objective

A second financial objective is to ensure that cash is available to meet cash disbursement requirements.

III. SPENDING POLICY

The spending policy of the Operating Pool is to spend the income earned to the extent necessary for University purposes. The objective is to spend current budgeted income from the Operating Pool investments. Realized capital appreciation is to be reinvested to provide for growth of principal and income over time. Funds earned in excess of current budgeted income will be accumulated in an investment income stabilization fund.

IV. FUND STRUCTURE

The assets of the Operating Pool shall be divided into three funds:

The Liquidity Fund target range is 20% to 60% of the operating pool. This fund shall be invested in high quality fixed income securities with duration of two years or less.

The Intermediate Fund target range is 20% to 60% of the operating pool. This fund shall be invested in high quality fixed income securities with duration of five years or less.

The Stability Fund target range is 20% to 60% of the operating pool. This fund shall be invested in high quality fixed income securities with duration of twenty years or less.

V. INVESTMENT OBJECTIVE

Operating Pool

The primary investment objective for the Operating Pool is to invest available cash according to established policies while providing appropriate levels of safety, liquidity and yield, in that order. The long-term investment return objective for the Operating Pool is to earn a total return that exceeds the spending rate. Performance against this objective should be monitored on an ongoing basis. The prospect of credit risk or risk of permanent loss shall be avoided. The portfolio shall be diversified in order to minimize risk exposures.

Liquidity Fund

The investment objective of this fund is to provide the liquidity to meet the short-term cash disbursement needs of the University. The performance objective is to earn a rate of return, net of fees and expenses, that exceeds the six-month Treasury Bill Rate. Investments are limited to cash equivalents and fixed income securities with duration of any issue being two-years or less with the average duration of the portfolio being one year or less.

Intermediate Fund

The investment objective of this fund is to provide a maturity risk buffer between the Liquidity and Stability Funds. The performance objective of this fund is to earn a rate of return, net of fees and expenses, that exceeds the Merrill Lynch 1-3 Year Treasury Index. Investments are limited to high quality fixed income securities with the duration of any issue being five years or less. The duration of the fund shall not exceed 150% of the Merrill Lynch 1-3 Year Treasury Index.

Stability Fund

The investment objective of this fund is to provide a stable income stream. The performance objective is to earn a rate of return, net of fees and expenses, that exceeds the Lehman Brothers Aggregate Bond Index. Investments are limited to high quality securities with the duration of any issue being twenty years or less. The duration of the fund shall not exceed 125% of the duration of the Lehman Brothers Aggregate Bond Index.

VI. INVESTMENT MANAGEMENT

One or more professional investment managers shall manage the Operating Pool. Investment managers are given explicit guidelines of investment objectives, asset types to be used, and ranges of asset allocation. Managers are instructed to maximize total return, without consideration of whether investment-returns are derived from capital appreciation or current income.

VII. MONITORING OF OBJECTIVES AND RESULTS

All objectives, policies and guidelines contained in this document are in effect until modified by the Finance, Investment and Property Committee. The Finance, Investment and Property Committee will review the Investment Objectives, Policies and Guidelines at least annually. Individually managed portfolios will be monitored for consistency of investment philosophy, return relative to objectives, and investment risk as measured by asset concentration, exposure to extreme economic conditions, and market volatility. Portfolios will be monitored on an on-going basis.

VIII. ALLOWABLE INVESTMENTS

Investment managers may invest in the following:

1. Direct obligations of the United States.
2. Obligations unconditionally guaranteed (principal and interest) by the United States. Collateralized Mortgage Obligations and other mortgage backed securities guaranteed by the United States or an agency or instrumentality of the United States.
3. Obligations of any agency or instrumentality of the United States such as:
 - A. Federal Home Loan Bank
 - B. Federal National Mortgage Association
 - C. Government National Mortgage Association
4. Repurchase Agreements collateralized with securities that are approved for direct investment.
5. Banker's Acceptances with major U.S. money center banks rated B/C or better in the Thomson Bank Watch Ratings. Banker's Acceptances with international banks are permitted provided the bank has a rating from Thomson of B/C or better with a rating of AA for country.
6. Commercial Paper issued by domestic corporations having a credit rating no lower than P-1 by Moody's Investors Service, Inc. and A-1 by Standard & Poor's Corporation.
7. Money Market Funds of commercial banks and other major investment institutions restricted to securities approved for direct investment.
8. Corporate notes of domestic corporations having a credit rating of at least A by two rating agencies, one of which must be either Moody's Investors Service, Inc. or Standard & Poor's Corporation. Floating rate notes of domestic commercial banks are to be categorized as corporate notes.
9. Fully hedged debt obligations of sovereign governments and companies that are fully guaranteed by such sovereign governments with a credit rating of at least Aaa by Moody's Investors Service, Inc. and AAA by Standard & Poor's Corporation, with a maturity of no more than five years.
10. Obligations of the Commonwealth of Virginia and those unconditionally guaranteed by the Commonwealth of Virginia; obligations upon which there is no default.
11. Asset-backed securities having a credit rating of AAA by at least two rating agencies, one of which must be either Moody's Investors Service, Inc. or Standard & Poor's Corporation. Duration shall not exceed five years.
12. Negotiable certificates of deposit and negotiable bank notes of domestic banks. They must be rated at least Aa by Moody's Investor Service and AA by Standard and Poor's Corporation.

IX. DIVERSIFICATION

Each Manager will diversify investments by security type and by issuer and the following shall apply:

1. Each portfolio will be diversified with no more than 5% of the value of the fund invested in the securities of any single issuer at time of purchase. This limitation shall not apply to the U.S. Government or Agency thereof, or U.S. Government sponsored corporation securities.
2. The maximum percentage in each eligible security type is limited as follows:

U.S. Treasury and Agency Securities (Section VIII Items 1, 2 & 3)	100%
Repurchase Agreements and/or Money Market Funds (Section VIII Item 4)	25%
Bankers Acceptances (Section VIII Item 5)	35%
Commercial Paper (Section VIII Item 6)	35%
Money Market Funds (Section VIII Item 7)	10%
Corporate Notes (Section VIII Item 8)	50%
Obligations of Sovereign Governments (Section VIII Item 9)	10%
Obligations of Virginia and Virginia Instrumentalities (Section VIII Item 10)	100%
Asset Backed Securities (Section VIII Item 11)	20%
Negotiable Certificates of Deposit and Negotiable Bank Deposit Notes of Domestic Banks (Section VIII Item 12)	20%

X. SAFEKEEPING ARRANGEMENTS

The University or its custodial agent shall hold securities purchased pursuant to the provisions of this policy.

XI. REPORTING POLICY

Performance results shall be reported to the Finance, Investment and Property Committee. The Finance, Investment and Property Committee shall report performance and other information deemed desirable to the Board of Visitors.

Approved by Virginia Commonwealth University Board of Visitors
August 2, 2002