

University of North Florida Investment Policy Statement

I. PURPOSE

The purpose of this policy is to set forth the investment objectives and parameters for the management of public funds of University of North Florida (hereinafter "University"). These policies are designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

II. SCOPE

In accordance with Section 218.415, Florida Statutes, this investment policy applies to all financial assets, of the board with the exception of Pension Funds and funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds. Funds held by state agencies (e.g., Department of Revenue) are not subject to the provisions of this policy.

1. Purpose and Scope

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A. Purpose — The purpose of this investment policy (Policy) is to govern the investment of funds in accordance with sections 1011.42(5) and 218.415, Florida Statutes.

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B. Scope — This investment policy applies to funds in excess of those required to meet current expenses for the benefit of the University of North Florida (University).

2.1. Investment Objectives

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Safety of Principal The foremost objective of this investment program is the safety of the principal of those funds within the portfolio. Investment transactions shall seek to be consistent with the other investment objectives, which are to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value.

Maintenance of Liquidity The portfolio shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodical cash flow analyses will be completed in order to ensure that the portfolios are positioned to provide sufficient liquidity.

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Return on Investment The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the

safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

~~The primary objective is to place the highest priority on the safety of principal and liquidity of funds. The optimization of investment income shall be secondary to the requirements for safety and liquidity.~~

~~A secondary objective is to maximize income (book yield) while providing minimal risk of market value volatility and adequate short-term liquidity to meet any cash flow demands. As a tertiary objective, the portfolio seeks to outperform its benchmark on a total return basis.~~

3.2. Performance Measurement

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- A. The State Treasury Investment Pool (SPIA) will be used as a benchmark for the current operating funds (short term portfolio.)
- B. For funds with a longer-term investment horizon (long term portfolio) ~~the State Treasury Investment Pool (SPIA) and the ML 1-5 Gov/Corp A+ will also be used as well as an indexes with similar maturity characteristics; specifically defined~~ relative to the specific longer-term funds ~~at the time they are invested.~~

4.3. Prudence and Ethical Standards

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Investments shall be made in accordance with the "Prudent Person" rule which states the following:

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 from the investment.

Employees involved in the investment process 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. Also, employees involved in the investment process shall disclose to the University any material financial interests in financial institutions that conduct business with the University, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the University's investment program.

5.4. Authorized Investments

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Investments should be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and the Board's needs change. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, Authorized Staff may sell the investment at the then-prevailing market price and place the proceeds into the proper account at the University's custodian.

The following are the guidelines for investments and limits on security types, issuers, and maturities as established by the University. The Treasurer shall have the option to further restrict investment percentages from time to time based on market conditions. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment. Investments not listed in this policy are prohibited.

Investments shall be limited to fixed income securities selected from the following types:

- A. U.S. Treasury Bills, Notes, Bonds, and other obligations whose principal and interest is fully guaranteed by the United States of America or any of its agencies or instrumentalities
- B. Government Sponsored Enterprises: Federal Farm Credit Bank (FFCB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), ~~Student Loan Marketing Association (SLMA)~~, Financing Corporation (FICO), The Resolution Funding Corporation (REFCO), Farm Credit System Financial Assistance Corporation, the Federal Housing Finance Board and all other government sponsored agencies and enterprises
- C. Repurchase Agreements: collateralized at 102% by U.S. Treasuries
- D. Investments Certificates of Deposit with in-state-certified qualified public depositories which are fully collateralized to meet the requirements described by Florida Statute 218.415
- ~~D~~.E. Mortgage-Backed Pass Throughs guaranteed by the U.S. Government or a Federal agency, including securities collateralized by the same
- ~~E~~.F. Asset-Backed Securities: rated "AAA" by either Standard & Poor's or Moody's at the time of purchase. Thereafter, any security downgraded below AAA will be sold at the earliest beneficial opportunity.
- ~~F~~.G. Money Market Instruments: securities rated "A1/P1" or the equivalent as a minimum as defined by Standard & Poor's and/or Moody's and all other nationally recognized credit rating organizations (Tier 1 as defined by 2(a) 7 money market funds) at the time of purchase. Included but not limited to commercial paper, time deposits and banker's acceptances.
- ~~G~~.H. Corporate Notes rated single A and higher by either Standard & Poor's and Moody's at the time of purchase. Thereafter, any security downgraded below single A by either rating agency will be sold at the earliest beneficial opportunity.
- ~~H~~.I. Money Market Funds registered with the SEC and only invested in securities as allowed by this policy
- ~~I~~.J. State Treasury Investment Pool (e.g. SPIA)
- ~~J~~.K. State Board of Administration Local Government Surplus Fund Trust Fund (SBA Pool)

It should be recognized that certain securities may meet the above definition of an Authorized Investment but their risk characteristics, as created by their structure, may be such that a prudent investor would deem them inappropriate for the University. Securities of this type which are prohibited:

- A. Reverse repurchase agreement
- B. Floating rate securities whose coupon floats inversely to an index or whose coupon is determined based upon more than one index
- C. Tranches of Collateralized Mortgage Obligations (CMO) which receive only the interest or principal from the underlying mortgage securities; commonly referred to as "IO's" and "PO's"
- D. Securities whose future coupon may be suspended because of the movement of interest rates or an index

6.5. Maturity and Liquidity Requirements

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The investment portfolio shall be constructed in such manner as to provide sufficient liquidity to pay obligations as they come due. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements.

7. Portfolio Composition

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Recognizing that market value volatility is a function of maturity, the portfolio shall be maintained as a short-term maturity portfolio. Additionally, it is recognized that proper diversification is considered a prudent investment approach. Specifically, the following restrictions apply in the management and investment of the University Portfolio:

- A. The maturity of debt obligations with a call and/or put option(s) shall be considered the date on which it can be reasonably expected that the bond will be called, put or mature.
- B. The maturity of mortgage/asset-backed securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security's description.
- C. The effective maturity of floating rate securities shall be considered the time until the next full reset of the coupon. The maximum effective duration of a floating rate security shall be five (5) years from the date of purchase.
- D. The maximum effective duration of an individual security shall be five (5) years from the date of purchase.

- E. To limit principal fluctuation, ~~no more than 40% of the portfolio~~ shall have an effective duration ~~greater of~~ three (3) years ~~or less, unless otherwise directed~~.
- F. In order to provide sufficient liquidity and stability of principal, at least 10% of the Fund shall have an effective duration of one year or less.
- G. A maximum of 5% of the Fund may be invested in securities of any single issuer. U.S. Government, Government Agency and GSE government investment pool securities are not subject to any limitations.
- H. Investments in Collateralized Mortgage Obligations (CMOs) shall be limited to 25% of the market value of the total fixed income portfolio and shall be restricted to:
 - 1. Those issues backed by the full faith of the U. S. Government, an Agency thereof, or that are rated AAA by a major rating service.
 - 2. PAC (planned amortization class), NAES (non-accelerated securities), or VADM (very accurately defined maturity) securities.
- I. The Fund must maintain a total average quality rating of "AA" or higher.

7.6. Risk and Diversification

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Investments held shall be diversified, in accordance with the guidelines set above, to the extent practicable to control the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, dealer or bank through which financial instruments are bought and sold. Diversification strategies within these guidelines shall be reviewed and revised periodically, as deemed necessary by the management staff.

8.7. Authorized Investment Institutions and Dealers

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The University Treasurer will maintain an approved list of investment institutions and/or dealers for the purchase and sale of securities.

9.8. Third-Party Custodial Agreements

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All securities purchased by the University or by its approved Investment Manager(s) under this Policy shall be properly designated as an asset of the University and held in safe keeping by a third party custodial bank or other third party custodial institution. If a bank or trust company serves in the capacity of Investment Manager said bank or trust company could also perform required custodial and reporting services.

No withdrawal of securities, in whole or in part, shall be made from safekeeping except by those designated within the Investment Management and Custodial Agreement between the Custodian and the University.

10.9. Master Repurchase Agreement

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The Investment Manger will maintain a master repurchase agreement and require all approved institutions and dealers transacting repurchase agreements to adhere to the requirements of the master repurchase agreement.

11.10. Internal Controls

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The University Treasurer will establish a system of internal controls and operational procedures, which will be documented in writing. The internal controls will be reviewed by the appropriate committee and/or individual(s). The controls will be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of entity.

12.11. Continuing Education

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University staff involved with investments must annually complete eight (8) hours of continuing education in subjects or course of related to investment practices and products.

13.12. Reporting

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Unless otherwise indicated, the following are the responsibilities expected of the University:

- A. Monthly reporting of holdings and transactions occurring in the portfolio. This report is to include at least (1) all assets held by the University by class/type, book value, approximate market value, income earned, accrued income and (2) all transactions occurring in the portfolio during the month.
- B. Quarterly reporting of the portfolio's performance. The University will report the portfolio's total rate of return, which reflects the true earnings of the portfolio and incorporates cash flows, changes in market value and income earned. Calculation of the portfolio's total rate of return will comply with the performance measurement standards as defined by the Association of Investment Management and Research (AIMR).

14.13. Periodic Review

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It is the intention of the Board of Trustees to review this Statement of Investment Policy and its addenda periodically and to amend it to reflect any changes in philosophy or objectives. However, if at any time the investment managers believe that the specific objectives defined herein cannot be met or that these guidelines unnecessarily constrict performance, the Trustees shall be so notified in writing.

