



UNIVERSITY POLICY RUTGERS POLICY

Section: 40.2.19

Section Title: Fiscal Management

Policy Name: Investment Policy for the Short Term Investments

Formerly Book: N/A

Approval Authority: Senior Vice President for Finance and Treasurer

Responsible Executive: Vice President for Finance and Associate Treasurer

Responsible Office: Office of Treasury Operations

Originally Issued: 01/20/2010

Revisions: ~~7/1/2013; 10/10/2013 (Updated title); 9/3/2014 (Changes in roles and investment portfolio definitions)~~

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|--------------------------------------|---|------------------------------|------------------------|---|-------------------------|-----------|
| <u>Policy Name:</u> | Investment Policy for Operating Funds | | | | | |
| <u>Section #:</u> | 40.2.19 | <u>Section Title:</u> | Fiscal Management | <u>Formerly Book:</u> | N/A | |
| <u>Approval Authority:</u> | Executive Vice President for Finance and Administration, University Treasurer | | <u>Adopted:</u> | 1/20/2010 | <u>Reviewed:</u> | 7/18/2018 |
| <u>Responsible Executive:</u> | Director of Treasury Operations | | <u>Revised:</u> | 7/1/2013; 10/10/2013; 9/3/2014; 7/18/2018 | | |
| <u>Responsible Office:</u> | University Treasury | | <u>Contact:</u> | Treasury Operations (848)-445-3500 | | |

~~Errors or changes? Contact: Office of Treasury Operations at 848-445-2788~~

1. Policy Statement

These objectives and policies are intended to govern the overall investment management of the ~~university's current~~ University's operating funds, including capital funds, and reserve funds (collectively, "short term investments"). A separate policy, (University Policy 40.2.14: Investment Policy), governs the overall investment management of the ~~university's~~ University's pooled endowment funds.: ~~http://policies.rutgers.edu/sites/policies/files/40.2.14-current%20%2800011955-5xDE114%29.PDF.~~

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2. Reason for Policy

To define the investment process, policies, guidelines, and objectives for the short-term operating fund investments; create a framework from which the Administration/University can evaluate performance, explore new opportunities, and make recommendations; and, provide guidance for, expectations of, and limitations on all parties bearing responsibilities related to each investment management of the university/University's operating funds.

3. Who Should Read This Policy

- Treasury Operations Staff-staff
- All external managers engaged with the specific assignment to manage short-term operating fund investments-
- Custodian of operating investments

4. Related Documents/Resources

University Policy 40.2.14: Investment Policy
—None

5. ~~5.~~ Contacts/Definitions

- a. Office of Treasury Operations
treasury@finance.rutgers.edu
(848-) 445-2788
- b. Vice President for Finance and Associate Treasurer
848-445-3787

Accrued Interest: Interest earned but which has not yet been paid or received.

Asset-Backed Security: A security whose income payments, and hence value, are derived from and collateralized (or "backed") by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets which are unable to be sold individually.

Bankers' Acceptance: A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bid Price: Price at which a broker-dealer offers to purchase a security from an investor

Bond: Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of cash-flows including periodic interest payments and a principal repayment.

Broker: Brings buyers and sellers together for a commission.

Broker-Dealer: A person or firm in the business of buying and selling securities, operating as both a broker and a dealer, depending on the transaction. A brokerage acts as a broker (or agent) when it executes orders on behalf of clients, whereas it acts as a dealer (or principal) when it trades for its own account.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

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Collateral: Securities, evidence of deposit, or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: An unsecured promissory note with a fixed maturity no longer than 270 days. Public offerings are exempt from SEC regulation.

Corporate Notes: Unsecured promissory notes issued by corporations to raise capital.

Counterparty: The other party in a two-party financial transaction.

Counterparty risk: The risk that the other party to a transaction will fail in its related obligations. For example, the bank or broker dealer in repurchase agreement.

Credit Risk: Potential that a borrower or counterparty will fail to fulfill an obligation.

Custodial Bank: A firm that holds securities and other assets in electronic or physical form for safekeeping to minimize the risk of their theft or loss.

Dealer: A firm in the business of buying and selling securities for their own account. A dealer is defined by the fact that it acts as principal in trading for its own account, as opposed to a broker who acts as an agent in executing orders on behalf of its clients.

Delivery versus Payment: Delivery of securities with an exchange of money for the securities.

Diversification: Allocation of investment funds among a variety of securities offering independent returns.

Duration: A measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates. Duration is expressed as a number of years.

Exchange Traded Funds (ETF): A marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund. Unlike mutual funds, an ETF trades like a common stock on a stock exchange. ETFs experience price changes throughout the day as they are bought and sold.

Federal Agency: Government sponsored/owned entity created by the United States Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets, also referred to as Government Sponsored Enterprises or GSEs. The largest are Ginnie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Banks, Federal Farm Credit Bank, Tennessee Valley Authority.

Federal Deposit Insurance Cooperation (FDIC): Federal agency that insures deposits at commercial banks, currently to a limit of \$250,000 per depositor per bank.

Government Accounting Standards Board (GASB): A non-profit organization that establishes generally accepted accounting principles (GAAP) for state and local governments in the United States.

Government Securities: An obligation of the United States government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the United States securities market.

Government Sponsored Enterprise (GSE): A financial services corporation created by the United States Congress. Their intended function is to enhance the flow of credit to targeted sectors of the economy and to make those segments of the capital market more efficient and transparent, and to reduce the risk to investors and other suppliers of capital.

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Instrumentality: An organization that serves a public purpose and is closely tied to a federal and/or state government, but is not a government agency. Many instrumentalities are private companies, and some are chartered directly by state or federal government.

Index Funds: A type of mutual fund with a portfolio constructed to match or track the components of a market index, such as the Standard & Poor's 500 Index (S&P 500).

Investment Grade: Credit ratings of BBB- or higher by Standard & Poor's or ratings of Baa3 or higher by Moody's. This rating indicates that the security has a relatively low risk of default.

Investment Manager: A person or organization that makes investments in securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients.

Investment Adviser's Act of 1940: Legislation passed by Congress in 1940 that requires all investment advisers/managers to register with the Securities and Exchange Commission. The Act is designed to protect the public from fraud or misrepresentation by investment advisers/managers.

Liquidity: The ability or ease with which an asset can be converted into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and ask prices is narrow and reasonable size can be transacted at those quotes.

Long-Term Credit Rating: Probability factor of a security issuer going into default over a long timeframe.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: A written contract covering all future transactions between the parties of repurchase/reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Money Market Fund: An investment whose objective is to earn interest for shareholders while maintaining a net asset value (NAV) of roughly \$1 per share. A money market fund's portfolio is comprised of short-term (less than thirteen months to maturity) securities representing high-quality, liquid debt and monetary instruments.

Mortgage-Backed Securities: A type of asset-backed security that is secured by a mortgage or collection of mortgages. The mortgages are sold to a group of individuals (a government agency or investment bank) that securitizes, or packages, the loans together into a security that investors can buy.

Municipal Obligations: A form of debt obligation issued by states, provinces, cities, or towns, typically used to fund municipal and local projects.

Mutual Fund: Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (e.g., bond, equity, and money market funds); all except some money market funds operate on a variable net asset value (NAV).

Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency that issues credit ratings that the United States Securities and Exchange Commission (the "SEC") permits other financial firms to use for certain regulatory purposes. Several examples include Moody's Investor Service, Standard & Poor's, and Fitch Ratings.

Net Assets: The total assets of a business minus its total liabilities.

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No-Load Fund: A mutual fund which does not levy a sales charge on the purchase of its shares. Transaction fees will still apply.

Offer: The price at which a seller is willing to sell a security.

Open-End Fund: A type of mutual fund that does not have restrictions on the amount of shares the fund will issue. If demand is high enough, the fund will continue to issue shares no matter how many investors there are. Open-end funds also buy back shares when investors wish to sell.

Portfolio: Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Prudent Investor Standard: Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. It is more stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (RP or Repo): An agreement under which the holder of securities sells these securities to an investor with a commitment to repurchase the securities at a fixed price on a fixed date. The security's "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the "buyer" for this.

Safekeeping: A service rendered by banks for a fee whereby securities and valuables of all types and descriptions are held by the bank for protection.

Securities and Exchange Commission ("SEC"): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Short-Term Rating: Probability factor of an issuer of debt going into default within a year.

SIFMA ("Securities Industry and Financial Markets Association"): A member-driven trade association that represents a broad spectrum of the capital and financial markets.

Spending Policy: An annual rate of withdrawal which serves as a perpetual source of cash to the university

Third-Party Safekeeping: A custodial arrangement where investment securities are held by a firm that is not otherwise a party to the transaction (i.e. broker, dealer, portfolio manager) or affiliated with a party to the transaction.

Total Return: Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

Yield: The rate of annual return on an investment from income, expressed as a percentage. Income/current yield is obtained by dividing the current dollar income by the current market price for the security. Net yield or yield to maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

6. The Policy

40.2.19 INVESTMENT POLICY FOR THE SHORT TERM INVESTMENTS

I. Investment Policy Details for Operating Funds

A. INTRODUCTION

~~The following investment objectives and guidelines are intended to govern the overall management investment of the university's short term investments. University's operating funds. Additional objectives of this policy statement include the designation of responsibility for investing and reporting, the provision of appropriate authorizations and indemnification to those individuals so designated.~~

~~This policy applies to short-term investments within of the Operating Portfolio University's operating funds managed by the internal staff of Rutgers and assigned investment managers. The State University of New Jersey Treasury Operations Department and external managers will be engaged with the specific assignment to manage the Operating Portfolio consisting of (1) Working Capital required for daily needs and (2) A Policy Portfolio required for Limited Term needs.~~

~~The short-term investments are defined as operating cash necessary for daily operations, reserve, restricted and strategic cash, funds, capital funds and reserve funds. This policy does not cover investments any operating funds invested in the Long Term Investment Pool of the university. University's Endowment, which is governed by the University Policy 40.2.14: Long Term Investment Policy (40.2.14): <http://policies.rutgers.edu/sites/policies/files/40.2.14-current%20%2800011955-5xDE114%29.PDF>.~~

B. INVESTMENT ADVISORY COMMITTEE

~~The University has established an Investment Advisory Committee ("Committee") to oversee and monitor management of the operating fund investments. The Committee consists of four members; the Vice President for Finance and Associate Treasurer, the Director of Treasury Operations, the Director of Investments, the Treasury Manager, and/or others designated by the Director of Treasury Operations.~~The

II. Responsibilities

A. Senior Vice President for Finance and Treasurer

~~The Senior Vice President for Finance and Treasurer's responsibilities are as follows:~~

- ~~1. Approve investment policy statement as established by the Vice President for Finance and Associate Treasurer.~~
- ~~2. Authorize revisions to the investment policy statement.~~
- ~~3. Designate authorized trading personnel.~~
- ~~4. Execute investment documents.~~

5. Designate authorization to execute investment documents to Vice President for Finance and Associate Treasurer.

B. Vice President for Finance and Associate Treasurer

The Vice President for Finance and Associate Treasurer's responsibilities are as follows:

1. Establish investment policy statement regarding quality, size, type and maturity, the Director of investments.
2. Recommend revisions to this investment policy statement.
3. Recommend authorized trading personnel for designation by the Senior Vice President for Finance and Treasurer.
4. Approve Investments and Investment Managers for Operating Portfolio.
5. Approve Permissible Investments (Appendix A).
6. Approve Policy Portfolio for the Fiscal Year (Appendix B).
7. Assume advisory role of overseeing allocation and manager selection for the university's current funds, capital funds, and reserve funds, or appoint Investment Advisor when appropriate.
8. Appoint outside investment managers, when appropriate.
9. Establish custodial accounts.
10. Execute investment documents.

C. Treasury Accounting Manager

The Treasury Accounting Manager's responsibilities are as follows:

1. Maintain investment liquidity within the Working Capital to meet the fluctuating cash requirements which includes direct investments.
2. Integrate Cash Management needs for Payables and payroll with Liquidity levels of the current funds to ensure appropriate liquidity for operating needs.
3. Work with Vice President for Finance and Associate Treasurer as advisor to maximize the return while protecting the principal of investments.
4. Rebalance investments when appropriate.
5. Move funds between bank accounts/investment accounts as necessary.

D. Senior Treasury Analyst

The Senior Treasury Analyst's responsibilities are as follows:

1. Reconcile the records of the managers, the custodian and the general ledger for the short-term investments.
2. Maintain records related to valuation of the securities and provide such information periodically to related accounting/auditing personnel.
3. Monitor existing portfolio for suitability and compliance with investment policy statement.
4. Generate reports at least monthly regarding the portfolio performance and compliance with policy.
5. Perform functions of Treasury Accounting Manager when necessary.

E. Investment Managers

The investment managers' responsibilities are as follows:

1. ~~Invest assets under their management according to the mandate presented and approved at time of investment.~~
2. ~~Exercise discretionary authority over assets entrusted to them subject to the manager guidelines herein and separately provided.~~
3. ~~Provide written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics no less frequently than on a monthly basis in addition to other information as requested by the university administration.~~
4. ~~Vote (and annually report to university administration) proxies vigorously in the best interest of the university.~~
5. ~~For those investment manager/products that are registered with the SEC, they must annually provide an updated copy of the investment advisor's form ADV Part II.~~
6. ~~Unless otherwise stated in this or supplemental documents, decisions as to individual stock selection, security size and quality, number of industries and holdings, current income levels, turnover and the other tools employed by active managers are left to the manager's discretion, subject to the usual standards of fiduciary prudence.~~
7. ~~Communicate with the Vice President for Finance and Associate Treasurer upon the occurrence of any of the following events:~~
 - a. ~~Any adverse/unfavorable shifts in the marketplace;~~
 - b. ~~An issuer is placed on negative credit watch whereby any action taken would result in the investment's credit rating falling below the minimum acceptable credit rating stated in this policy;~~
 - c. ~~A decline in the issuer's credit rating below the minimum credit rating stated in this policy;~~
 - d. ~~Any change to the ownership structure of the investment manager;~~
 - e. ~~Any key personnel changes at the investment manager; and~~
 - f. ~~Any charges levied by the SEC, CFA Institute, State Regulatory Agencies, or any other regulating body against the investment management firm or key personnel responsible for the short-term investments.~~

F. ~~Custodian~~

~~The custodian's responsibilities are as follows:~~

1. ~~Within 15 business days following the end of each month, provide the following reports:~~
 - a. ~~Statement of all securities and other assets on hand;~~
 - b. ~~Statement of all property received representing contributions to the accounts;~~
 - c. ~~Statement of all sales, redemptions, and principal payments;~~
 - d. ~~Statement of all distributions from the account;~~
 - e. ~~Statement of all expenses paid;~~
 - f. ~~Statement of all purchases; and~~
 - g. ~~Statement of all income.~~

2. ——— Maintain an account for each Investment Manager of the short-term investments.
3. ——— Provide all normal custodial functions including security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, and daily investment of uninvested cash, etc.; effect trades, if applicable; and manage securities lending program, if applicable.
4. ——— Prepare additional accounting reports as requested by the university administration.
5. ——— Annually, provide an electronic copy of the custodian's SAS 70 to the university's external auditor.

III. ——— Investment Policy and Guidelines

A. ——— General Investment Philosophy

Operating Assets will be managed in order to provide the necessary liquidity for the ongoing operations of Rutgers University. The portfolio will be segmented into levels of liquidity representing the expected investment time horizon for specific asset levels. The overall investment objective of the portfolio is to control the downside risk of the portfolio while providing returns in excess of the Treasury bill rate.

The Portfolio will be divided into three investment groups: Liquidity program, Contingency program, and Core program. The Treasurer shall determine how much of the Portfolio will be allocated to each group.

Permissible programs will be selected by these criteria:

1. ——— Strength of Provider and underlying capital committed to cash investment business.
2. ——— Areas of strengths include economic (macro) outlook, credit research, duration decisions, etc.
3. ——— Commitment to cash investment and operating asset investment business by the provider(s)
4. ——— Historic performance of the investment team with priorities on Safety and Liquidity, and then Return, in that order.
5. ——— Compliance with regulatory requirements, as well as ability to adapt to ongoing regulatory change.

I. ——— Liquidity Program(s):

Liquidity Investments will be available daily for use. Assets in this pool will all be rated as Investment Grade or better by any one rating agency and have an average maturity of no more than one year.

Primary Investments for Liquidity include:

Domestic Money Market Instruments

- a. ——— FDIC insured Certificates of deposit
- b. ——— Money market funds (Aaa rated)
- c. ——— Demand Deposit Accounts from A1-rated commercial banks.

And all acceptable Liquidity Investments are detailed in Appendix A.

II. ——— Contingency Program(s):

~~Intermediate-Term Investments within the Contingent Program will be liquid within five business days or less and may be rated Investment Grade or better by any one rating agency. The investment objective of the Contingency Program is to produce a total return in excess of the Merrill Lynch 1-3 Year Treasury Index and attaches a greater emphasis to its goal of generating a higher income yield than short term money market investments in the Liquidity program.~~

~~This asset class will include commingled programs and/or securities that have average maturities of no more than five years. At times short duration strategies that are below Investment Grade may be used to diversify the portfolio.~~

~~III. Core Program(s)~~

~~Assets will be liquid within 20 business days or less. Fixed Income programs may be rated Investment Grade or better by any one rating agency. At times, below investment grade fixed income strategies may be used to diversify the portfolio. Assets with average maturities of greater than five years are permitted. This asset class also includes equities. Derivatives may be used in the Portfolio as hedging strategies but only by Investment Managers where those strategies are appropriate. Derivatives may not be used for speculative purposes.~~

~~B. Permissible Investments~~

~~Appendix A contains the types of securities authorized for investment within the Liquidity program. All securities must meet the minimum credit ratings, maximum maturity, and maximum exposure (portfolio and issuer) restrictions outlined in Appendix A. Updated versions of Appendix A can be obtained from the Office of Treasury Operations.~~

~~Appendix B contains the Policy Portfolio for the Fiscal Year. The Policy Portfolio determines the level of operating assets allocated to the Liquid, Contingent and Core programs as well as investment targets and volatility for each program. This is to be reviewed and amended if necessary annually by the Vice President and Associate Treasurer with the approval of the Senior Vice President for Finance and Treasurer. Updated versions of Appendix B can be obtained from the Office of Treasury Operations.~~

~~C. Safekeeping~~

~~When possible, securities are to be delivered to a custodial bank either physically or through an electronic book entry system. However, all institutions with whom the university is permitted to place investments are eligible to provide custodial services so long as it can fulfill the responsibilities of the custodian outlined in this policy statement. All investments must be held in the name of the university at no charge to the University.~~

~~D. Currency Risk~~

~~All securities must be denominated in US dollars.~~

~~E. Liquidity~~

~~The short term investments should have sufficient liquid assets to meet all spending needs of the University.~~

~~F. Return Measurement Objectives~~

~~Benchmarks for the portion of the short-term investments managed by external investment managers will be set at the time of the engagement and will be based upon the mandate given to that investment manager. The benchmark for the portion of the short-term investments managed by internal staff within the Treasury Operations Department will be 3-month US Treasury Bills.~~

APPENDIX A

Permissible Investments for Liquidity Programs within Working capital and Policy Portfolio

| Security Type | Minimum Credit Rating (S&P/Moodys) | Maximum Maturity | Maximum Portfolio Exposure ¹ | Maximum Issuer Exposure ¹ |
|---|------------------------------------|------------------|---|--------------------------------------|
| US Treasury Obligations | AA3/Aa- | 5 Years | No Limit | No Limit |
| US Government Agency Obligations ² | AA3/Aa- | 5 Years | 50% | No Limit |
| US Government Owned or Sponsored Enterprise Obligations | AA3/Aa- | 5 Years | 50% | 5% |
| Commercial Paper | A1 / P1 | 9 Months | 50% | 5% |
| Domestic Bank Certificates of Deposit | A1 / P1 | 1 Year | 50% | 5% |
| Money Market Funds ³ | Non-Rated | NA | No Limit | 5% |
| Domestic Corporate Debt Securities | AAA/Aaa | 3 Years | 25% | 3% |
| Repurchase Agreements - at least 102% collateralized by US Treasury or Government Agency Obligations | Non-Rated | 7 Days | 25% | 5% |
| Collateralized Bank Sweep Accounts | Non-Rated | 3 Days | 25% | 10% |
| Variable Rate Demand Notes | VMIG1 / SP1 | 7 Days Reset | 25% | 3% |
| Demand Deposit Accounts | | | No Limit | \$ 24,999,999 |
| Municipal Commercial Paper | VMIG1 / SP1 | 9 months | 25% | 3% ⁴ |
| ¹ At the time of purchase | | | | |
| ² Obligations which carry full faith and credit of the US Government or are 100% guaranteed by the US Government or one of its agencies. | | | | |
| ³ 2a-7 and / or IMMFA compliant money market funds only | | | | |
| ⁴ There is a maximum exposure limit of 5% per liquidity provider | | | | |

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APPENDIX B

Policy Portfolio

Policy and Targets for Fiscal Year ending June 30, 2015

~~a) The Policy Portfolio will be based on an average expected annual asset level of \$450 Million. The Policy Portfolio will be segmented into:~~

- ~~• \$100 to \$200 Million Liquidity assets (assets needed on a daily basis)~~
- ~~• \$100 Million Contingent assets (assets not expected to be needed over one to three years)~~
- ~~• \$200 Million Core Assets (assets not expected to be needed over three to five years)~~
- ~~• The policy portfolio has been constructed to minimize the risk of any loss over a one year period. Maximum drawdowns are anticipated to be no more than 1% for a quarter and no more than 5% for an annual period.~~

~~b) Determination of Targets -- In light of the current Policy Portfolio segmentation:~~

- ~~• The Liquidity assets will be invested with the objective of Safety and Liquidity.~~
- ~~• The combined operating portfolio has a return objective of the 3-month Treasury bill yield plus 150 basis points or higher over a period of (one year or three year).~~
- ~~• The portfolio will also attempt to maintain or exceed a Strategic Policy benchmark that consists of:~~

~~◦ 30 % 3 month Treasury bill yield,~~

~~◦ 20 % Merrill Lynch 1 to 3 year Treasury Index, and~~

~~◦ 50% Barclays Aggregate Bond Index.~~

~~Performance will be measured based on the Policy Portfolio asset level. This portfolio will utilize diversified strategies to meet its targets and benchmarks. These strategies may include investment programs that incorporate longer term fixed income programs, non-fixed income programs including investment in equities and/or programs that may engage in alternative assets such as borrowing, short sales, purchasing securities on margin, trading derivatives or otherwise leverage the assets of the individual program.~~

~~Policy and Targets may be amended at any time and will be reviewed at least annually. Any changes may be incorporated into this Investment Policy Statement only in writing.~~

APPENDIX B continued

(As of June 30, 2015)

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Rutgers University
- Policy Portfolio Asset Levels

| Average Monthly Operation Balance (Million \$) | Time Horizon | Programs | Allocation Ranges (Million \$) | Targets | Volatility Targets (est) | |
|--|--------------|--|--------------------------------|--------------|-----------------------------|-------------|
| \$450 MM | Daily Funds | Money Funds – Government Securities and Prime Funds | \$100 to 160 Million | 3 month T | 3 month T | Liquid |
| \$300 MM | 1-3 Years | High Quality and Short Duration Fixed Income | \$160 to \$200 Million | T+75 bps. | 2 year T | Contingency |
| \$200 MM- | 3-5 Years | Diversified Fixed Income, Low Vol. Equity and Diversified Strategies | \$300 to 400 Million | T + 250 bps. | 65% Barclays Agg. + 35% S&P | Core |
| \$0.0 - | | | | | | |

Policy Portfolio expected at \$450 Million
Portfolio Target = T + 150bps.

Working draft only – all figures are estimates

RESPONSIBILITIES

1. The Executive Vice President for Finance and Administration and University Treasurer is responsible for the overall implementation of this policy and may delegate some or all of the responsibilities to the Vice President for Finance and Associate Treasurer.

2. The ~~Maintain~~ Committee is responsible for:
 - a. Reviewing and updating the investment policy at least annually in response to changes in applicable laws, shifting economic and market conditions, and liquidity needs of the University;
 - b. Monitoring the investment program and associated controls to ensure the integrity and security of the University's portfolios;
 - c. Ensuring that the University is in compliance with the University's written investment policies;
 - d. Determining the allocation between investment tiers; and
 - e. Meeting quarterly to deliberate such topics as economic outlook, portfolio diversification, maturity structure/duration, cash flow forecasts, potential risks, and the target rate of return on the investment portfolio.

3. The Office of Treasury Operations is responsible for:
 - a. Managing the relationships with the investment managers and custodian;
 - b. Directing the day-to-day investing activities;
 - c. Ensuring compliance with this policy;
 - d. Monitoring performance of the investments; and
 - e. Preparing reports for the Executive Vice President for Finance and Administration and for the Committee on Finance & Facilities of the Board of Governors.

4. The investment managers are responsible for:
 - a. Maximizing investment return given the constraints of this policy, the University's liquidity, directions from the University, and any other prudent risk considerations;
 - b. Providing performance reports within 10 business days following the end of each month; and
 - c. Providing other services (e.g., portfolio updates) and fulfilling of requests (e.g., ad hoc reports), as needed.

5. The custodian is responsible for:
 - a. Maintaining an account for each investment manager of the operating funds;
 - b. Providing the following reports within 10 business days following the end of the month:
 - i. Statement of all cash and securities held for the University, including the book value of holdings and the market value as of month-end (the market values presented in these reports will be consistent with GASB account guidelines pertaining to the valuation of investments and the treatment of unrealized gains/losses);
 - ii. Statement of all property received representing contributions to the accounts;
 - iii. Statement of all sales, redemptions, and principal payments;
 - iv. Statement of all distributions from the account;
 - v. Statement of all expenses paid;
 - vi. Statement of all purchases; ~~the Working Capital~~
 - vii. Statement of all income; and
 - c. Providing an electronic copy of the custodian's SSAE16 report to the University's external auditor on an annual basis.

C. INVESTMENT PORTFOLIOS

Maintenance of adequate liquidity to meet the fluctuating cash flow needs of the University is essential. Accordingly, to the extent possible, the investments will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Whenever practical, selection of investment maturities will be consistent with the known cash requirements of the University in order to minimize the risk of poor execution due to the forced sale of securities prior to maturity.

For purposes of the Policy, investments shall be segregated into three categories based on expected liquidity needs and purposes:

Tier 1 Portfolio

Assets categorized as Tier 1 are intended to be used for daily liquidity needs and therefore shall be invested in permitted investments maturing in thirteen (13) months or less. Because of the difficulties inherent in accurately forecasting cash flow requirements, a portion of the portfolio shall be continuously invested in readily available securities and deposits including but not limited to bank deposits, government money market mutual funds and overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations. Safety and liquidity are the primary objectives of this tier.

Tier 2 Portfolio

The Tier 2 Portfolio represents investments that are not immediately needed to meet the University's operating requirements but may be used for strategic purposes in the future. These funds are available for longer-term investment and may be invested in permitted investments with an effective maturity of up to five (5) years. To manage the volatility of the portfolio, the University shall determine an appropriate duration target not to exceed three (3) years. The objective of this tier is to generate strong risk-adjusted performance while maintaining safety and liquidity. The Director of Treasury Operations may choose to institute a "spending policy" for annual distributions to the University, which will be discussed and agreed upon with the investment manager(s).

Tier 3 Portfolio

The Tier 3 Portfolio comprises monies that are not expected to be needed to meet the operating requirements of the University in the upcoming five (5) – ten (10) years. The primary objective of this tier is to maximize long-term real returns commensurate with the risk tolerance of the University. Maximum drawdowns are anticipated to be no more 5% for an annual period. The Director of Treasury Operations may choose to institute a "spending policy" for annual distributions to the University, which will be discussed and agreed upon with the investment manager(s).

The asset allocation guidelines listed below have been established by the Committee to achieve the investment objectives of the operating fund investments.

| | <u>Minimum</u> | <u>Preferred Range</u> | <u>Maximum</u> |
|-------------------------|----------------|------------------------|------------------------|
| <u>Tier 1 Portfolio</u> | <u>10%</u> | <u>15% - 40%</u> | <u>80%</u> |
| <u>Tier 2 Portfolio</u> | <u>20%</u> | <u>30% - 50%</u> | <u>90%¹</u> |
| <u>Tier 3 Portfolio</u> | <u>0%</u> | <u>15% - 35%</u> | <u>40%</u> |

¹The Maximum value of 90% in Tier 2 reflects a theoretical result if, for example, there are no Tier 3 funds in the portfolio and the majority of Tier 1 funds are spent for working capital during a low point in our business cycle. However, this should be a temporary situation and the portfolio should be managed back towards the preferred range for most of the year.

The asset allocation ranges have been defined to reflect the cyclical cash flows of the investments. In allocating funds, the Committee will consider the risk of the aggregate portfolio in addition to the risk of the individual tiers. At the discretion of the Committee, the allocations to individual tiers may be changed periodically in response to market conditions or anticipated liquidity needs.

For the purposes of asset allocation, operating funds held in the University's Long-Term Investment Pool as an Unrestricted Quasi-Endowment should be considered part of the Tier 3 portfolio.

D. STANDARD OF PRUDENCE

Those responsible for the management of the University's investments, including employees and advisors alike, will perform their duties in a manner consistent with the standard of a "prudent investor" – "In making investments, the fiduciaries shall exercise the judgement and care, under the circumstances then prevailing, which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, considering probable safety of capital as well as probable income."

The Committee members and staff involved in the management of investments, although charged with exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price change provided any material deviations are reported in a timely manner to the Vice President for Finance and Associate Treasurer. In addition, these Committee members and staff are charged with taking any and all reasonable and prudent action to control potential adverse developments.

E. ETHICS AND CONFLICTS OF INTEREST

Committee members, the University's officers, and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions or otherwise be in violation of state law and/or University policy.

F. AUTHORIZED INVESTMENTS

The following rules apply to operating funds investments:

1. Investments in all tiers must be United States dollar denominated; investments in non-United States domiciled entities are permitted.
2. For securities that have coupon reset dates and a weighted average life, the coupon reset date will be treated as the weighted average life for maturity guideline purposes and will be used for duration guideline purposes.
3. For securities that have put dates, or that trade based on their weighted average maturity, the put date or weighted average maturity will be used instead of the final maturity date for maturity and duration guideline purposes.
4. The maturity of new issues will be calculated from the settlement date of the issue.

5. If a security is not equivalently rated by all three of the major Nationally Recognized Statistical Rating Organizations (“NRSRO”) that rate the issue (Moody’s, S&P, and Fitch), the following guidelines will apply:

- In case of two ratings, the lowest rating shall apply.
- In case of three ratings, the middle rating shall apply

If a security has no rating, the rating of the issuer or underlying program may be used.

The ~~includes~~ following are permitted investments for Tiers 1 and 2:

- 1. United States Treasury & Government Guaranteed Debt** – United States Treasury obligations, and obligations of which the principal and interest are backed or guaranteed by the full faith and credit of the United States Government.
- 2. Federal Agency / Government Sponsored Enterprise (GSE) Debt** – Debt obligations, participations, or other instruments issued or fully guaranteed by any United States Federal agency, instrumentality, or GSE. Securities must be rated by a NRSRO in the highest short-term or one of the two highest long-term rating categories (at least A-1, AA- or equivalent).
- 3. Foreign Government/Supranational Securities** – United States dollar denominated debt obligations issued or guaranteed by a foreign sovereign government or a multilateral organization of governments (supranationals). Securities must be rated by a NRSRO in the highest long-term rating category (AAA or equivalent).
- 4. Agency Mortgage-Backed Securities** – Mortgage-backed securities (MBS), backed by residential, multi-family, or commercial mortgages, that are issued or fully guaranteed as to principal and interest by a United States Federal agency or GSE. Securities must be rated by a NRSRO in the highest short-term or one of the two highest long-term rating categories (at least A-1, AA- or equivalent). *MBS derivatives (IOs, POs, etc.) are specifically prohibited.*
- 5. Non-Agency Mortgage-Backed Securities** – MBS backed by residential, multi-family, or commercial mortgages. Securities must be rated by a NRSRO in the highest short-term or one of the two highest long-term rating categories (at least A-1, AA- or equivalent). *MBS derivatives (IOs, POs, etc.) are specifically prohibited.*
- 6. Municipal Obligations** – Obligations issued or guaranteed by any state, territory, or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality, or other unit of local government of any United States state or territory. Securities must be rated by a NRSRO in the highest short-term or one of the three highest long-term rating categories (at least SP-1, A- or equivalent). For pre-refunded municipal obligations without a rating, the government rating will apply.
- 7. Corporate Notes** – Corporate notes, bonds, or other debt obligations issued or guaranteed by a domestic or foreign corporation, financial institution, non-profit, or other entity. Securities must be rated by a NRSRO in one of the two highest short-term or one of the four highest long-term rating categories (at least A-2, BBB- or equivalent). Investment in corporate notes issued under Securities and Exchange Commission Rule 144A is permitted.
- 8. Commercial Paper** – Commercial paper issued or guaranteed by a domestic or foreign corporation, company, financial institution, trust, or other entity. Securities must have a minimum rating of A-2 or the equivalent by a NRSRO. Investment in commercial paper issued under section 4(2) of the Securities Act of 1933 is permitted.

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- 9. Asset-Backed Securities (ABS)** – Obligations issued by bankruptcy-remote trusts, backed by regular cash flow payments from borrowings such as credit receivables, loans, and leases. Securities must be rated by a NRSRO in the highest short-term or the highest long-term rating categories (A-1, AAA or equivalent). Collateralized Debt Obligations are specifically prohibited.
- 10. Bankers' Acceptances** – Bankers' acceptances issued, drawn on, or guaranteed by a United States bank or United States branch of a foreign bank. Securities must be rated by a NRSRO in the highest short-term rating category (A-1 or equivalent).
- 11. Negotiable Certificates of Deposit and Bank Deposit Notes** – Negotiable certificates of deposit or bank deposit notes issued by banks organized under the laws of New Jersey or by national banks organized under the laws of the United States. Securities must be rated by a NRSRO in the highest short-term (for maturities of less than one (1) year) or one of the three highest long-term rating categories for maturities greater than one (1) year (at least A-1, A- or equivalent).
- 12. Insured & Collateralized Bank Deposits** – Interest-bearing time certificates of deposit, money market deposit accounts, or demand deposit accounts, which are fully insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA) or collateralized as determined by the Director of Treasury Operations.
- 13. Repurchase Agreements** – Repurchase agreements that meet the following requirements:
- a. Governed by a written SIFMA Master Repurchase Agreement which specifies securities eligible for purchase and resale, and which provides the unconditional right to liquidate the underlying securities should the counterparty default or fail to provide full timely repayment;
 - b. Counterparty is a Federal Reserve Bank, a primary dealer as designated by the Federal Reserve Bank of New York, a regional broker-dealer, or a nationally chartered commercial bank;
 - c. Counterparty is rated in one of the three highest long-term rating categories (at least A-1/P-1, A-/A3 or equivalent) by a NRSRO;
 - d. Securities underlying repurchase agreements are delivered to a third-party custodian under a written custodial agreement that must be deliverable or in tri-party form;
 - ~~6.e. Acceptable underlying securities include only securities that are direct investments-obligations of, or that are fully guaranteed by, the United States, an agency of the United States or a GSE, including United States Agency issued mortgage-backed securities;~~
 - ~~7. Integrate Cash Management needs for Payables and payroll with Liquidity levels of the current funds to ensure appropriate liquidity for operating needs.~~
 - ~~8. Work with Vice President for Finance and Associate Treasurer as advisor to maximize the return while protecting the principal of investments.~~
 - ~~9. Rebalance investments when appropriate.~~
 - ~~10. Move funds between bank accounts/investment accounts as necessary.~~

- f. Senior Treasury Analyst Underlying securities must have an aggregate current market value, including accrued interest, of at least 102% of the purchase price plus current accrued price differential at the close of each business day;
- g. The term of any repurchase agreement transaction will not exceed ninety (90) days.

14. Government Money Market Funds – Shares in open-end, no-load government money market funds, provided such funds are registered under the Investment Company Act of 1940 and operate in accordance with Rule 2a-7. Before investing in any mutual fund, the University or its investment manager shall obtain a copy of the fund's prospectus and review permitted investments, fees, and management structure. At no time shall the University own more than 10% of the total net assets of a mutual fund series.

15. The New Jersey Cash Management Fund – Units of the New Jersey Cash Management Fund established by New Jersey Revised Statute Section 52:18A-90.4, an investment trust fund managed by the New Jersey Department of the Treasury, provided that the Fund has the objectives of maintaining a constant net asset value and providing daily liquidity. At no time shall the University own more than 10% of the total net assets of the Cash Management Fund.

16. Fixed Income Mutual Funds and ETFs – Shares in open-end, no-load fixed-income mutual funds or exchange-traded funds (ETFs) whose underlying investments would generally be permitted for purchase under this policy and all its restrictions. In such cases, the vehicles' prospectuses govern allowable investments.

The Tier 3 Portfolio will be invested in various asset classes, broadly described as:

"Equity Assets" - Aa collection of investments and/or asset classes whose primary risk and return characteristics are focused on capital appreciation. Investments within this category can include income and risk mitigating characteristics, so long as the predominant investment risk and return characteristic is capital appreciation. The University will use domestic and international equity funds in this category.

"Fixed Income Assets" - Aa collection of investments and/or asset classes whose primary risk and return characteristics are focused on income generation. Investments within this category can include capital appreciation and risk mitigating characteristics, so long as the primary investment risk and return characteristic is income generation. The University will use fixed income securities or bond funds in this category.

"Real Return Assets" - Aa collection of investments and/or asset classes whose primary risk and return characteristics are focused on real returns after inflation. The University can include inflation protected securities and/or commodities in this category.

G. PORTFOLIO DIVERSIFICATION

Tier 1 and 2 Portfolios

Tier 1 and 2 portfolios shall be diversified to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. The maximum percentage of the Tier 1 and 2 portfolios permitted in each eligible security shall be as follows:

| | <u>Tier 1 Portfolio</u> Per Sector/Per Issuer | <u>Tier 2 Portfolio</u> Per Sector/Per Issuer |
|--|---|---|
| | | |

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| | <u>Tier 1 Portfolio</u> Per Sector/Per Issuer | <u>Tier 2 Portfolio</u> Per Sector/Per Issuer |
|---|---|---|
| <u>United States Treasury and Government Obligations</u> | <u>100%/100%</u> | <u>100%/100%</u> |
| <u>Federal Agency / GSE Debt</u> | <u>100%/40%²</u> | <u>100%/40%²</u> |
| <u>Foreign Government/Supranational Securities</u> | <u>10%/3%¹</u> | <u>30%/3%¹</u> |
| <u>Mortgage-Backed Securities</u> | | |
| <u>Agency</u> | <u>0%</u> | <u>40%/40%²</u> |
| <u>Non-Agency</u> | <u>0%</u> | <u>20%/3%¹</u> |
| <u>Municipal Obligations</u> | <u>0%</u> | <u>30%/3%¹</u> |
| <u>Corporate Notes</u> | | |
| <u>A-1 and A- or higher (or equivalent)</u> | <u>20%/3%¹</u> | <u>60%/3%¹</u> |
| <u>A-2 and BBB- to BBB+ (or equivalent)</u> | <u>0%</u> | <u>25%/2%³</u> |
| <u>Commercial Paper</u> | | |
| <u>A-1 or equivalent</u> | <u>40%/5%¹</u> | <u>20%/5%¹</u> |
| <u>A-2 or equivalent</u> | <u>0%</u> | <u>25%/2%³</u> |
| <u>Asset-Backed Securities</u> | <u>0%</u> | <u>40%/3%¹</u> |
| <u>Bankers' Acceptances</u> | <u>20%/5%¹</u> | <u>10%/5%¹</u> |
| <u>Negotiable Certificates of Deposit and Bank Deposit Notes</u> | <u>40%/5%¹</u> | <u>40%/5%¹</u> |
| <u>Insured & Collateralized Bank Deposits</u> | <u>50%/50%</u> | <u>0%</u> |
| <u>Repurchase Agreements</u> | <u>50%/25%</u> | <u>25%/25%</u> |
| <u>Government Money Market Funds</u> | <u>100%/50%</u> | <u>25%/25%</u> |
| <u>New Jersey Cash Management Fund</u> | <u>50%/50%</u> | <u>0%</u> |
| <u>Fixed Income Mutual Funds and ETFs</u> | <u>0%</u> | <u>100%/50%</u> |
| Notes: | | |
| ¹ <u>The per issuer limit applies across all non-governmental permitted investment sectors (excludes Treasuries, United States Federal Agencies and GSEs).</u> | | |
| ² <u>Maximum combined exposure to any one United States Federal Agency or GSE across all permitted investment sectors.</u> | | |
| ³ <u>Maximum combined exposure to A-2 and equivalent plus BBB and equivalent rated securities is 25% with no more than 2% per issuer.</u> | | |

Tier 3 Portfolio

Tier 3 assets shall be diversified and invested in accordance with the targets for each asset class as follows:

| <u>Asset Class</u> | <u>Asset Weightings</u> | |
|---------------------------|--------------------------------|----------------------|
| | <u>Range</u> | <u>Target</u> |
| | | |

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| | | |
|----------------------------|-----------|-----|
| Equity Assets | | |
| Domestic Equity | 20% – 60% | 50% |
| International Equity | 0% – 20% | 0% |
| | | |
| Fixed Income Assets | 20% – 50% | 50% |
| | | |
| Real Return Assets | 0% – 10% | 0% |
| | | |
| Cash Equivalents | 0% – 10% | 0% |

The asset allocation ranges established by this Investment Policy for Tier 3 represent a long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside Investment Policy ranges. When allocations breach the specified ranges, the asset classes will be rebalanced within the specified ranges. The Tier may also be rebalanced based on market conditions.

Limitations on Equity Portfolios – No more than the greater of 5% or the weighting in the relevant index of the total equity portfolio valued at market may be invested in the common equity of any one corporation; ownership of the shares of one company shall not exceed 5% of those outstanding; and not more than 40% of the equity valued at market may be held in any one sector, as defined by the Global Industry Classification Standard (GICS).

Domestic Equities – Other than the above constraints, there are no quantitative guidelines as to issues, industry or individual security diversification. However, prudent diversification standards should be developed and maintained by the investment manager.

International Equities – The overall non-United States equity allocation should include a diverse global mix that is comprised of the equity of companies from multiple countries, regions, and sectors. Emerging markets will not exceed 10% of tier 3 investments at any time.

Limitation on Fixed Income Portfolios – Fixed income securities of any one issuer shall not exceed 5% of the tier 3 portfolio at the time of purchase. The 5% limitation does not apply to issues of the United States Treasury, United States Federal Agencies, or United States GSEs. The overall credit quality of fixed income investments in the tier 3 portfolio shall be investment grade.

H. SUBSEQUENT EVENTS

The limitations established by the Investment Policy will apply at the time a security is purchased and will be based on the then-current book value for Tiers 1 and 2 and market value for Tier 3. Should a subsequent event cause a security or the investment portfolio to no longer meet the specifications of this Investment Policy, the Vice President for Finance and Associate Treasurer or the Director of Treasury Operations will determine the appropriate course of action, and report such actions to the Committee at the next regular meeting. There is no requirement that a security be sold prior to maturity if it no longer meets the criteria set forth in the Investment Policy. Further, any security held by the University at the time this investment policy was adopted may be held to its maturity.

I. PROHIBITED INVESTMENTS

The following are not permitted for any investment without prior approval of the Committee:

- Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing;
- Short sales (selling a specific security before it has been legally purchased);

- Speculative trading (repetitive buying and selling of the same or similar securities for capital gain); or
- Investing in any security or asset class not specifically permitted by this Policy.

J. COLLATERALIZATION OF BANK DEPOSITS

The University may require that cash and other bank deposits maintained in a financial institution be either insured or collateralized, including bank deposits and non-negotiable certificates of deposit. Bank deposits of the University in excess of the amount protected by federal deposit insurance may be collateralized at the discretion of the Director of Treasury Operations.

The University shall have either legal title to, or a prior perfected security interest in, the investments constituting the collateral. Collateral shall always be held by an independent third-party custodial agent. A clearly marked safekeeping receipt must be supplied to the University as evidence of ownership. The right of collateral substitution is allowed with advanced written permission of the University.

K. ENGAGEMENT OF THIRD-PARTY INVESTMENT MANAGERS

The University may engage one or more qualified firms to provide investment management services.

Only firms meeting the following requirements will be eligible to serve as investment manager for the University:

- 1) Registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940 or exempt from registration;
- 2) Must have provided to the University an annual updated copy of Form ADV, Part II, A and B to the University;
- 3) Must be registered to conduct business in the State of New Jersey; and
- 4) Must have managed a minimum of \$5 billion of assets for at least five (5) years prior to being engaged by the University.

Any firm engaged by the University to provide investment services shall:

- 1) Confirm receipt and understanding of this Investment Policy;
- 2) Maintain a list of approved security brokers/dealers selected by creditworthiness, experience, and efficiency of trade execution;

G. _____

The Senior Treasury Analyst's responsibilities are as follows:

6. _____ Reconcile the records of the managers, the custodian and the general ledger for the short-term investments.
7. _____ Maintain records related to valuation of the securities and provide such information periodically to related accounting/auditing personnel.
8. _____ Monitor existing portfolio for suitability and compliance with investment policy statement.
9. _____ Generate reports at least monthly regarding the portfolio performance and compliance with policy.
10. _____ Perform functions of Treasury Accounting Manager when necessary.

H. _____ Investment Managers

The investment managers' responsibilities are as follows:

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8. ~~Invest assets under their management according to the mandate presented and approved at time of investment.~~

9.3) ~~Exercise discretionary authority over assets entrusted to them subject to the manager guidelines herein and separately provided;~~

10. ~~Provide written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics no less frequently than on a monthly basis in addition to other information as requested by the university administration.~~

4) ~~Vote (and annually report to university administration) proxies vigorously in the best interest of the university. Prepare and submit to the Committee a "Quarterly Investment Report" that summarizes (i) recent market conditions, economic developments, and anticipated investment conditions, (ii) the investment strategies employed in the most recent quarter, (iii) a description of all securities held in investment portfolios at month end, (iv) the total rate of return for the quarter and year-to-date versus appropriate benchmarks, and (v) any areas of policy concern warranting possible revisions to current or planned investment strategies;~~

11.

12. ~~For those investment manager/products that are registered with the SEC, they must annually provide an updated copy of the investment advisor's form ADV Part II.~~

13. ~~Unless otherwise stated in this or supplemental documents, decisions as to individual stock selection, security size and quality, number of industries and holdings, current income levels, turnover and the other tools employed by active managers are left to the manager's discretion, subject to the usual standards of fiduciary prudence.~~

14.5) ~~Communicate with the Vice President for Finance and Associate Treasurer and the Director of Treasury Operations upon the occurrence of any of the following events:~~

- a. ~~Any adverse/unfavorable shifts in the marketplace;~~
- b. ~~An issuer/issue is placed on negative credit watch whereby any action taken would result in the investment's credit rating falling below the minimum acceptable credit rating stated in this policy/investment grade;~~
- c. ~~A decline in the issuer's credit rating below the minimum credit rating stated in this policy;~~
- d. ~~Any change to the ownership structure of the investment manager;~~
- e. ~~Any key personnel changes at the investment manager; and~~
- f. ~~Any charges levied by the SEC, CFA Institute, State Regulatory Agencies, or any other regulating body against the investment management firm or key personnel responsible for the short-term investments; and~~

~~I. Custodian~~

~~The custodian's responsibilities are as follows:~~

6. ~~Within 15 business days following the end of each month, provide the following reports:~~

~~h. Statement of all securities and other assets on hand;~~

~~i. Statement of all property received representing contributions to the accounts;~~

~~j.i. Statement of all sales, redemptions, and principal payments;~~

~~k.i. Statement of all distributions from the account;~~

~~l.i. Statement of all expenses paid;~~

6) ~~Statement of all purchases; Vote (and annually report to the Committee) proxies in the best interest of the University.~~

L. BEST EXECUTION OF SECURITY TRANSACTIONS

All purchases and sales of fixed income securities will be transacted with designated broker-dealers through a formal and competitive process. Investment managers must abide by a "Best Execution" policy and provide a written copy of that policy to the University.

Investment managers shall execute securities transactions in such a manner that the University's total cost (commissions and/or bid/ask spread) or proceeds in each transaction is the most favorable under current market conditions.

M. SAFEKEEPING AND CUSTODY

All investment securities purchased by the University or held as collateral on deposits or investments shall be held by the University or by a third-party custodial agent that may not otherwise be counterparty to the investment transaction. All University assets will be held in the name of the University and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery versus payment basis.

University officials and representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of the University shall be bonded in such a manner as to protect the University from losses from malfeasance and misfeasance.

N. INTERNAL CONTROLS

The University shall establish a framework of internal controls governing the administration and management of the investments. Such controls shall be designed to prevent and control losses of the University monies arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by any personnel. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

O. INVESTMENT PERFORMANCE OBJECTIVES

The investment strategy for operating funds will be designed to obtain at least a market level rate of return, net of investment management fees, given budgetary and economic cycles, commensurate with the University's investment risk and cash flow needs. The returns on each tier will be compared on a quarterly basis and over historic annual periods to appropriate market indices and peer universities, where applicable. Key considerations in selecting benchmark indices include broad market coverage, transparency of index construction, and objectivity of the index provider.

m. Performance and

n. Statement of all income.

Maintain comparisons will be made on a one, three, and five-year basis.

Tier 1 Portfolio

The performance of this portfolio should be equal to or greater than the ICE BofAML United States 3-Month Treasury Bill Index.

Tier 2 Portfolio

Over a market cycle, the annualized total return of the portfolio should exceed the annualized total return of the ICE BofAML 1-3-year Government/Credit Index.

Tier 3 Portfolio

Benchmark indices are selected to generally represent the risk and return profile of each asset class within Tier 3. In the case of equity markets, we expect that the portfolio will be structured to have less volatility than the underlying benchmark, and therefore may over or under-perform in any given time period. The strategic asset allocation together with the selected benchmark indices (listed below) form the Tier 3 benchmark.

| <u>Strategy</u> | <u>Target Allocation</u> | <u>Benchmark</u> |
|------------------------------------|--------------------------|--|
| <u>Domestic Equities</u> | <u>50%</u> | <u>S&P 500 Index</u> |
| <u>International/Global Equity</u> | <u>0%</u> | <u>MSCI All Country World Index</u> |
| <u>Real Return Assets</u> | <u>0%</u> | <u>Bloomberg Commodity Index</u> |
| <u>Fixed Income</u> | <u>50%</u> | <u>Bloomberg Barclays United States Aggregate Bond Index</u> |
| <u>Cash</u> | <u>0%</u> | <u>ICE BofAML United States 3-Month Treasury Bill Index</u> |

Glossary of Terms

Accrued Interest: Interest earned but which has not yet been paid or received.

Asset-Backed Security — A security whose income payments, and hence value, are derived from and collateralized (or "backed") by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets which are unable to be sold individually.

Bankers' Acceptance: A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bid Price: Price at which a broker-dealer offers to purchase a security from an investor.

Bond: Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of cash flows including periodic interest payments and a principal repayment.

Broker: Brings buyers and sellers together for a commission.

Broker-Dealer: A person or firm in the business of buying and selling securities, operating as both a broker and a dealer, depending on the transaction. A brokerage acts as a broker (or agent) when it executes orders on behalf of clients, whereas it acts as a dealer (or principal) when it trades for its own account for each.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

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Collateral: Securities, evidence of deposit, or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: An unsecured promissory note with a fixed maturity no longer than 270 days. Public offerings are exempt from SEC regulation.

Corporate Notes: Unsecured promissory notes issued by corporations to raise capital.

Counterparty: The other party in a two-party financial transaction.

Counterparty risk: The risk that the other party to a transaction will fail in its related obligations. For example, the bank or broker-dealer in repurchase agreement.

Credit Risk: Potential that a borrower or counterparty will fail to fulfill an obligation.

Custodial Bank: A firm that holds securities and other assets in electronic or physical form for safekeeping to minimize the risk of their theft or loss.

Dealer: A firm in the business of buying and selling securities for their own account. A dealer is defined by the fact that it acts as principal in trading for its own account, as opposed to a broker who acts as an agent in executing orders on behalf of its clients.

Delivery versus Payment: Delivery of securities with an exchange of money for the securities.

Diversification: Allocation of investment funds among a variety of securities offering independent returns.

Duration: A measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates. Duration is expressed as a number of years.

Exchange Traded Funds (ETF) – A marketable security that tracks an index, a commodity, bonds, or a basket of assets like an index fund. Unlike mutual funds, an ETF trades like a common stock on a stock exchange. ETFs experience price changes throughout the day as they are bought and sold.

Federal Agency: Government sponsored/owned entity created by the United States Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets, also referred to as Government Sponsored Enterprises or GSEs. The largest are Ginnie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Banks, Federal Farm Credit Bank, Tennessee Valley Authority.

Federal Deposit Insurance Cooperation (FDIC): Federal agency that insures deposits at commercial banks, currently to a limit of \$250,000 per depositor per bank.

Government Accounting Standards Board (GASB): A non-profit organization that establishes generally accepted accounting principles (GAAP) for state and local governments in the United States.

Government Securities: An obligation of the United States government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the United States securities market.

Government Sponsored Enterprise (GSE): A financial services corporation created by the United States Congress. Their intended function is to enhance the flow of credit to targeted sectors of the economy and to make those segments of the capital market more efficient and transparent, and to reduce the risk to investors and other suppliers of capital.

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Instrumentality: An organization that serves a public purpose and is closely tied to a federal and/or state government, but is not a government agency. Many instrumentalities are private companies, and some are chartered directly by state or federal government.

Index Funds – A type of mutual fund with a portfolio constructed to match or track the components of a market index, such as the Standard & Poor's 500 Index (S&P 500).

Investment Grade – Credit ratings of BBB or higher by Standard & Poor's or ratings of Baa3 or higher by Moody's. This rating indicates that the security has a relatively low risk of default.

Investment Manager of the – A person or organization that makes investments in securities on behalf of clients, in accordance with the investment objectives and parameters defined by these clients.

Investment Adviser's Act of 1940: Legislation passed by Congress in 1940 that requires all investment advisers/managers to register with the Securities and Exchange Commission. The Act is designed to protect the public from fraud or misrepresentation by investment advisers/managers.

Liquidity: The ability or ease with which an asset can be converted into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and ask prices is narrow and reasonable size can be transacted at these quotes.

Long-Term Credit Rating: Probability factor of a security issuer going into default over a long timeframe.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: A written contract covering all future transactions between the parties of repurchase/reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

7. **Money Market Fund:** An investment whose objective is to earn interest for shareholders while maintaining a net asset value (NAV) of roughly \$1 per share. A money market fund's portfolio is comprised of short-term investments (less than thirteen months to maturity) securities representing high-quality, liquid debt and monetary instruments.

Provide all normal custodial functions including

Mortgage-Backed Securities – A type of asset-backed security safekeeping, that is secured by a mortgage or collection of income, settlement of trades, collection mortgages. The mortgages are sold to a group of proceeds of maturing securities, and daily individuals (a government agency or investment bank) that securitizes, or packages, the loans together into a security that investors can buy.

Municipal Obligations: A form of debt obligation issued by states, provinces, cities, or towns, typically used to fund municipal and local projects.

Mutual Fund: Portfolio of uninvested cash, etc.; effect trades, if applicable; securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (e.g., bond, equity, and management money market funds); all except some money market funds operate on a variable net asset value (NAV).

Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency that issues credit ratings that the United States Securities and Exchange Commission (the "SEC") permits other financial firms to use for certain regulatory purposes. Several examples include Moody's Investor Service, Standard & Poor's, and Fitch Ratings.

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Net Assets: The total assets of a business minus its total liabilities.

No-Load Fund: A mutual fund which does not levy a sales charge on the purchase of its shares. Transaction fees will still apply.

Offer: The price at which a seller is willing to sell a security.

Open-End Fund: A type of mutual fund that does not have restrictions on the amount of shares the fund will issue. If demand is high enough, the fund will continue to issue shares no matter how many investors there are. Open-end funds also buy back shares when investors wish to sell.

8. **Portfolio:** Collection of securities lending program, if applicable held by an investor.

Primary Dealer: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Prudent Investor Standard: Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. It is more stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (RP or Repo): An agreement under which the holder of securities sells these securities to an investor with a commitment to repurchase the securities at a fixed price on a fixed date. The security's "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the "buyer" for this.

Safekeeping Prepare additional accounting reports as requested by : A service rendered by banks for a fee whereby securities and valuables of all types and descriptions are held by the bank for protection.

Securities and Exchange Commission ("SEC"): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Short-Term Rating: Probability factor of an issuer of debt going into default within a year.

SIFMA: Securities Industry and Financial Markets Association—A member driven trade association that represents a broad spectrum of the capital and financial markets.

9. **Spending Policy:** An annual rate of withdrawal which serves as a perpetual source of cash to the university administration.

10. Annually, provide an electronic copy of the custodian's SAS 70 to the university's external auditor.

III. **Investment Policy and Guidelines**

A. **General Investment Philosophy**

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~~Operating Assets, if utilized, will be managed a primary consideration in order to provide the necessary liquidity for the ongoing operations of Rutgers University. The portfolio will be segmented into levels of liquidity representing the asset allocation and expected investment time horizon for specific asset levels. The overall investment objective of the portfolio is to control the downside risk of the portfolio while providing returns in excess of the Treasury bill rate.~~

~~The Portfolio will be divided into three investment groups: Liquidity program, Contingency program, and Core program. The Treasurer shall determine how much of the Portfolio will be allocated to each group.~~

~~Permissible programs will be selected by these criteria:~~

~~6. Strength of Provider and underlying capital committed to cash investment business.~~

~~7. Areas of strengths include economic (macro) outlook, credit research, duration return decisions, etc.~~

~~8. Commitment to cash investment and operating asset investment business by the provider(s)~~

~~9. Historic performance of the investment team with priorities on Safety and Liquidity, and then Return, in that order.~~

~~10. Compliance with regulatory requirements, as well as ability to adapt to ongoing regulatory change.~~

~~**I. Liquidity Program(s):**~~

~~Liquidity Investments will be available daily for use. Assets in this pool will all be rated as Investment Grade or better by any one rating agency and have an average maturity of no more than one year.~~

~~Primary Investments for Liquidity include:~~

~~Domestic Money Market Instruments~~

~~a. FDIC insured Certificates of deposit~~

~~b. Money market funds (Aaa rated)~~

~~c. Demand Deposit Accounts from A1 rated commercial banks.~~

~~And all acceptable Liquidity Investments are detailed in Appendix A.~~

~~**IV. Contingency Program(s):**~~

~~Intermediate Term Investments within the Contingent Program will be liquid within five business days or less and may be rated Investment Grade or better by any one rating agency. The investment objective of the Contingency Program is to produce a total return in excess of the Merrill Lynch 1-3 Year Treasury Index and attaches a greater emphasis to its goal of generating a higher income yield than short term money market investments in the Liquidity program.~~

~~This asset class will include commingled programs and/or securities that have average maturities of no more than five years. At times short duration strategies that are below Investment Grade may be used to diversify the portfolio.~~

~~**V. Core Program(s)**~~

Assets will be liquid within 20 business days or less. Fixed Income programs may be rated Investment Grade or better by any one rating agency. At times, below investment grade fixed income strategies may be used to diversify the portfolio. Assets with average maturities of greater than five years are permitted. This asset class also includes equities. Derivatives may be used in the Portfolio as hedging strategies but only by Investment Managers where those strategies are appropriate. Derivatives may not be used for speculative purposes.

B. ~~Permissible Investments~~

~~Appendix A contains the types of securities authorized for investment within the Liquidity program. All securities must meet the minimum credit ratings, maximum maturity, and maximum exposure (portfolio and issuer) restrictions outlined in Appendix A. Updated versions of Appendix A can be obtained from the Office of Treasury Operations.~~

~~Appendix B contains the Policy Portfolio for the Fiscal Year. The Policy Portfolio determines the level of operating assets allocated to the Liquid, Contingent and Core programs as well as investment targets and volatility for each program. This is to be reviewed and amended if necessary annually by the Vice President and Associate Treasurer with the approval of the Senior Vice President for Finance and Treasurer. Updated versions of Appendix B can be obtained from the Office of Treasury Operations.~~

Third-Party Safekeeping: A custodial arrangement where investment securities are held by a firm that is not otherwise a party to the transaction (i.e. broker, dealer, portfolio manager) or affiliated with a party to the transaction.

Total Return: Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

Yield: The rate of annual return on an investment from income, expressed as a percentage. Income/current yield is obtained by dividing the current dollar income by the current market price for the security. Net yield or yield to maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

C. ~~Safekeeping~~

~~When possible, securities are to be delivered to a custodial bank either physically or through an electronic book entry system. However, all institutions with whom the university is permitted to place investments are eligible to provide custodial services so long as it can fulfill the responsibilities of the custodian outlined in this policy statement. All investments must be held in the name of the university at no charge to the University.~~

D. ~~Currency Risk~~

~~All securities must be denominated in US dollars.~~

E. ~~Liquidity~~

~~The short term investments should have sufficient liquid assets to meet all spending needs of the University.~~

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F. ~~Return Measurement Objectives~~

~~Benchmarks for the portion of the short-term investments managed by external investment managers will be set at the time of the engagement and will be based upon the mandate given to that investment manager. The benchmark for the portion of the short-term investments managed by internal staff within the Treasury Operations Department will be 3-month US Treasury Bills.~~

APPENDIX A

Permissible Investments for Liquidity Programs within Working capital and Policy Portfolio

| Security Type | Minimum Credit Rating (S&P/Moodys) | Maximum Maturity | Maximum Portfolio Exposure ¹ | Maximum Issuer Exposure ¹ |
|---|------------------------------------|------------------|---|--------------------------------------|
| US Treasury Obligations | AA3/Aa- | 5 Years | No Limit | No Limit |
| US Government Agency Obligations ² | AA3/Aa- | 5 Years | 50% | No Limit |
| US Government Owned or Sponsored Enterprise Obligations | AA3/Aa- | 5 Years | 50% | 5% |
| Commercial Paper | A1 / P1 | 9 Months | 50% | 5% |
| Domestic Bank Certificates of Deposit | A1 / P1 | 1 Year | 50% | 5% |
| Money Market Funds ³ | Non-Rated | NA | No Limit | 5% |
| Domestic Corporate Debt Securities | AAA/Aaa | 3 Years | 25% | 3% |
| Repurchase Agreements - at least 102% collateralized by US Treasury or Government Agency Obligations | Non-Rated | 7 Days | 25% | 5% |
| Collateralized Bank Sweep Accounts | Non-Rated | 3 Days | 25% | 10% |
| Variable Rate Demand Notes | VMIG1 / SP1 | 7 Days Reset | 25% | 3% |
| Demand Deposit Accounts | | | No Limit | \$ 24,999,999 |
| Municipal Commercial Paper | VMIG1 / SP1 | 9 months | 25% | 3% ⁴ |
| ¹ At the time of purchase | | | | |
| ² Obligations which carry full faith and credit of the US Government or are 100% guaranteed by the US Government or one of its agencies. | | | | |
| ³ 2a-7 and / or IMMFA compliant money market funds only | | | | |
| ⁴ There is a maximum exposure limit of 5% per liquidity provider | | | | |

APPENDIX B

Policy Portfolio

Policy and Targets for Fiscal Year ending June 30, 2015

~~c) The Policy Portfolio will be based on an average expected annual asset level of \$150 Million. The Policy Portfolio will be segmented into:~~

- ~~• \$100 to \$200 Million Liquidity assets (assets needed on a daily basis)~~
- ~~• \$100 Million Contingent assets (assets not expected to be needed over one to three years)~~
- ~~• \$200 Million Core Assets (assets not expected to be needed over three to five years)~~
- ~~• The policy portfolio has been constructed to minimize the risk of any loss over a one year period. Maximum drawdowns are anticipated to be no more than 1% for a quarter and no more than 5% for an annual period.~~

~~d) Determination of Targets -- In light of the current Policy Portfolio segmentation:~~

- ~~• The Liquidity assets will be invested with the objective of Safety and Liquidity.~~
- ~~• The combined operating portfolio has a return objective of the 3-month Treasury bill yield plus 150 basis points or higher over a period of (one year or three year).~~
- ~~• The portfolio will also attempt to maintain or exceed a Strategic Policy benchmark that consists of:~~

- ~~◦ 30% 3-month Treasury bill yield,~~
- ~~◦ 20% Merrill Lynch 1 to 3 year Treasury Index, and~~
- ~~◦ 50% Barclays Aggregate Bond Index.~~

~~Performance will be measured based on the Policy Portfolio asset level. This portfolio will utilize diversified strategies to meet its targets and benchmarks. These strategies may include investment programs that incorporate longer term fixed income programs, non-fixed income programs including investment in equities and/or programs that may engage in alternative assets such as borrowing, short sales, purchasing securities on margin, trading derivatives or otherwise leverage the assets of the individual program.~~

~~Policy and Targets may be amended at any time and will be reviewed at least annually. Any changes may be incorporated into this Investment Policy Statement only in writing.~~

APPENDIX B continued
 (As of June 30, 2015)

commonfund

Rutgers University
 - Policy Portfolio Asset Levels

| | Time Horizon | Programs | Allocation Ranges (Million \$) | Targets | Volatility Targets (est) | | |
|--|--------------|--|---|------------------------|-----------------------------|-----------|-------------|
| Average Monthly Operation Balance (Million \$) | \$450 MM | Daily Funds | Money Funds – Government Securities and Prime Funds | \$100 to 150 Million | 3 month T | 3 month T | Liquid |
| | \$300 MM | 1-3 Years | High Quality and Short Duration Fixed Income | \$150 to \$200 Million | T+75 bps. | 2 year T | Contingency |
| \$200 MM- | 3-5 Years | Diversified Fixed Income, Low Vol. Equity and Diversified Strategies | \$300 to 400 Million | T + 250 bps. | 55% Barclays Agg. + 35% S&P | Core | |
| \$0.0 - | | | | | | | |

Policy Portfolio expected at \$450 Million
 Portfolio Target = T + 150bps.

Working draft only – all figures are estimates