



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)

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 funds, capital funds, and reserve funds (collectively, "short term investments"). A separate policy (40.2.14) governs the overall investment management of the university's pooled endowment funds.

2. **Reason for Policy**

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

3. **Who Should Read This Policy**

- Treasury Operations Staff
- All external managers engaged with the specific assignment to manage short-term investments.

4. **Related Documents**

None

5. **Contacts**

- a. Office of Treasury Operations
848-445-2788
- b. Vice President for Finance and Associate Treasurer
848-445-3787

6. The Policy

40.2.19 INVESTMENT POLICY FOR THE SHORT TERM INVESTMENTS

I. Policy Details

The following investment objectives and guidelines are intended to govern the overall management of the university's short term investments. 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 the Operating Portfolio 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. This policy does not cover investments in the Long-Term Investment Pool of the university.

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 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				

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)

commonfund

Rutgers University
- Policy Portfolio Asset Levels

	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 + 260 bps.	85% Barolays Agg. + 36% S&P	Core
\$0.0 -						

Average Monthly Operation Balances (Million \$)

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

Working draft only – all figures are estimates