

BF4026 - Investment Policy

Issued: June 14, 2017

Responsible Official: Executive Vice President and Chief Operating
and Financial Officer

Responsible Office: Controller

POLICIES

Policy Statement

An Investment Policy shall be established to identify various policies that provide for a prudent and systematic investment process. This policy shall cover all funds and investment activities of the University of Memphis (the "University"). All investments shall be made consistent with applicable sections of the Tennessee Code Annotated ("T.C.A."). As used in this Investment Policy, an "investment" includes all mediums used to earn investment income, including savings accounts, certificates of deposit, U.S. Government securities, commercial paper, deposits with the State of Tennessee Local Government Investment Pool, and other authorized investments; demand deposit balances are not considered an investment.

Procedures

I. OBJECTIVES

- A. Safety of principal is the foremost objective, followed by liquidity and yield. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or permanent erosion of market value.
- B. Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.
- C. The University's portfolio shall remain sufficiently liquid to enable it to meet all operating requirements.
- D. All transactions will be traded in U.S. dollars.

E. The University's investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

F. All investments will be held by an agent of the University in the University's name. All bank deposits, including Certificates of Deposit and CDARS, shall be collateralized by securities in accordance with T.C.A. 9-4-103, 9-4-403, and 9-4-404, any other applicable sections of T.C.A. and held by the University's agent in the University's name. This will be done so that risk will be in Category 1 per Statement 3 of the Governmental Accounting Standards Board.

G. All investment decisions shall be in accordance with this Investment Policy and must be approved by the Executive Vice President and Chief Financial Officer or his or her designee.

H. All investments in which funds are deposited outside the State of Tennessee must be authorized by the President.

I. A trustee custodian account should be used for handling and holding all investments, other than the State of Tennessee Local Government Investment Pool and collateralized certificates of deposit.

J. All funds which are received by the University and which are available for a sufficient period of time for investment in any interest generating medium should be invested within a reasonable time after receipt of such funds.

K. Funds of the University may be invested in a savings account or certificate of deposit of any depository provided the requirements of this Investment Policy, including Section VI, are met. Other authorized investments, subject to the limitations of Section VII, are set forth in T.C.A. Section 9-4-602.

II. DELEGATION OF AUTHORITY AND REPORTING

The specific responsibility for the University's investment program rests with the chief business officer which is the Executive Vice President and Chief Financial Officer. The Executive Vice President and Chief Financial Officer has delegated the day-to-day responsibility to the Controller or his or her designee.

The Investment Advisor shall submit monthly a report to the Controller. This report will describe the investments active during the period, compute the average yield and maturity, describe the

type of investments and where they are invested, and compare to budgetary expectations and policy requirements.

The Investment Advisor shall quarterly discuss investment strategies employed and rationale for the period(s), and changes (if any) in investment strategies.

III. INTERNAL CONTROLS AND INVESTMENT PROCEDURES

A system of internal controls and operational procedures that are in writing shall be established and made a part of the University's operational procedures. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees. The written procedures should include reference to safekeeping, repurchase agreements, the separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts and collateralization. No person may engage in an investment transaction except as authorized under the terms of these internal controls and operational procedures.

IV. PRUDENCE

The standard of prudence to be used by investment staff shall be the "prudent person rule," which obligates a fiduciary to ensure that:

Investments shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

While the standard of prudence to be used by investment officials who are officers or employees is the "Prudent Person" standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of "Prudent Expert". The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the Investment Advisor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

V. ETHICS AND CONFLICTS OF INTEREST

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Also, employees involved in the investment process shall disclose to the Controller and Executive Vice President and Chief Financial Officer any material financial interests in financial institutions that conduct business with the University, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the University’s investment program.

VI. BANK SELECTION AND REVIEW

All financial institutions approved as University depositories shall be required to execute a depository contract. All depositories which provide deposit or investment services shall agree to comply with the terms of this Investment Policy and with the requirements of Chapter 4 of Title 9 of the T.C.A.

VII. AUTHORIZED INVESTMENT INSTRUMENTS

The following are the investment requirements and allocation limits on security types, issuers, and maturities which are authorized for purchase by the University. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment at the time of purchase. Investments not listed in this policy are prohibited.

Security Type	Minimum Rating Requirement¹	Maturity Limits	Maximum Allocation Limit	Maximum Issuer Limit
U.S. Treasury	N/A	5 Years	100%	N/A
GNMA				40%
Other U.S. Government Guaranteed (e.g. AIG, GTC)				10%
Federal Agency/GSE ²	N/A	5 Years	80%	40%
Agency Mortgage-Backed Securities	N/A	5 Year Avg. Life ³	20%	40%
State of Tennessee Local Government	Highest Fund Rating by all NRSROs who	N/A	100%	N/A

Investment Pool (LGIP)	rate the fund N/A			
Repurchase Agreements	N/A	90 Days	25%	10%
Commercial Paper	Highest ST Rating Category(A-1/P-1, or equivalent)	270 Days	30%	5%
Bankers' Acceptances	Highest ST Rating Category(A-1/P-1, or equivalent)	180 Days	5%	5%
Interest Bearing Time Deposit or Savings Accounts	N/A	1 Year	50%	25%

Notes:

1 Rating by at least one Nationally Recognized Statistical Ratings Organization (“NRSRO”). ST=Short-term; LT=Long-term.

2 Includes, but is not limited to: Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation (FHLMC); Federal Home Loan Bank or its District banks (FHLB); Federal Farm Credit Bank (FFCB).

3. The maturity limit for MBS is based on the expected average life at time of purchase, measured using Bloomberg or other industry standard methods.

A. U.S. Treasury & Government Guaranteed - U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. Government.

B. Federal Agency/GSE - Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality or government-sponsored enterprise (GSE).

C. 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 U.S. Federal Agency or government

sponsored enterprise, including but not limited to pass-throughs, collateralized mortgage obligations (CMOs) and REMICs

D. State of Tennessee Local Government Investment Pool

(LGIP) A thorough investigation of the Pool is required prior to investing. Attachment B is a questionnaire that contains a list of questions, to be answered prior to investing, that cover the major aspects of any investment pool/fund. A current prospectus or portfolio report must be obtained.

E. Repurchase Agreements - Repurchase agreements (Repo or RP) that meet the following requirements:

- a. Securities purchased under a repurchase agreement shall be limited to bonds, notes, and treasury bills of the United States or other obligations of the United States or its agencies guaranteed as to principal and interest by the full faith and credit of the United States government.
- b. Securities shall be marked-to-market daily and shall be maintained at a value equal to or greater than the cash investment.
- c. The purchased securities must, at the time of purchase, have a current market value of at least 100% of the amount of the repurchase agreement.
- d. All securities purchased under a repurchase agreement shall be held by an agent of the University in the name of the University.
- e. The seller of repurchase securities shall be entitled to substitute securities only by authorization. New or substitute securities should be reasonably identical to the original securities in terms of maturity, yield, quality, and liquidity.
- f. Investments in repurchase agreements shall generally be used to maintain a liquidity margin and to ensure that funds are fully invested to the maximum extent practical. Due to varied liquidity requirements, the amount invested in repurchase agreements is not limited. Repurchase agreements shall not be used as a primary investment vehicle.
- g. Repurchase agreements may be entered into only with broker/dealers that complete a master repurchase agreement consistent with provisions of this policy.

h. There must be a written agreement in accordance with the standard agreement set forth in guidelines established pursuant to this policy. The agreement must state explicitly that the exchange of assets represents a simultaneous purchase and resale transaction "and is not intended to be collateralized loan." The purchased securities must be transferred to the Trustee Custodian Account.

F. Commercial Paper – U.S. dollar denominated commercial paper issued or guaranteed by a domestic corporation, company, trust or other entity, including both unsecured debt and asset-backed programs.

G. Bankers' Acceptances - Prime banker's acceptances must be eligible for purchase by the Federal Reserve System. Prime banker's acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with an AAA long-term debt rating by a majority of the rating services that have rated the issuer. The short term debt rating must be at least A-1 or equivalent by all of the rating services that rate the issuer (minimum of two (2) ratings must be available). To be eligible for purchase banker's acceptances must:

a. Arise out of the current shipment of goods between counties or within the United States, or

b. Arise out of storage within the United States of goods under contract or sale or expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

H. Interest Bearing Time Deposit or Saving Accounts -

Certificates of deposit shall only be placed with institutions within the State of Tennessee, including branches within Tennessee of out-of-state banks.

Prior to placing a certificate of deposit, institutions must provide prove of collateral pledged in accordance with the State law. If collateral is insufficient, funds shall not be released until sufficient collateral has been pledged to cover the additional certificates of deposit.

All investments of funds in certificates of deposits where the period of investment will exceed thirty (30) days shall be determined on the basis of competitive bids, with appropriate records maintained for audit purposes, including the person obtaining the bids, the

institutions which submitted the bids, the amount and rate of return of each bid, and the person who approved the investment. Where more than one bid provides the highest rate of return available, investments should be made in such a manner that no one institution making one of the high bids receives a disproportionate amount of the investments on the basis of two or more equal bids over a reasonable period of time.

VIII. MATURITY AND LIQUIDITY REQUIREMENTS

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds (“short term funds”) shall have maturities of no longer than twenty-four (24) months.

Investments of other non-current operating funds (“core funds”) shall have a term appropriate to the need for funds, but in no event shall exceed five (5) years maximum maturity, aside from MBS where average life cannot exceed five (5) years. Additionally, the average portfolio duration for the core funds cannot exceed three (3) years.

IX. PERFORMANCE MEASUREMENTS

The University’s portfolio shall be designed to attain the highest rate of return throughout budgetary and economic cycles, taking into account investment risk constraints, cash flow requirements, State law, and this Investment Policy.

Investment performance of funds designated as short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return on the Standard & Poor's GIP Government Index 30 Day Gross Yield. Investments of current operating funds shall have maturities of no longer) twenty-four (24) months. The index will be utilized as a benchmark to be compared to the short term portfolio’s yield to maturity at cost.

Investment performance of funds designated as Core Funds and other non-operating funds that have a longer-term investment horizon (long-term portfolio) will be compared to an index selected with the consultation of the Investment Advisor. The appropriate index will have a duration and asset mix that approximates that of the investment portfolio and will be utilized as a benchmark to be compared to the investment portfolio’s total rate of return.

X. AUTHORIZED INVESTMENT

The Investment Advisor shall utilize and maintain its own list of approved primary and non-primary dealers.

INSTITUTIONS AND DEALERS

Authorized University staff shall only purchase securities from financial institutions, which are qualified depositories that are supervised by the Department of Financial Institutions of the State of Tennessee, the United States Comptroller of the Currency, or the Federal Home Loan Bank Board; institutions designated as “Primary Dealers” by the Federal Reserve Bank of New York, direct issuers of commercial paper and bankers’ acceptances or approved non-primary securities dealers.

For authorized University staff, all approved non-primary dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) must provide the following information prior to executing investment trades with the University:

- a. Annual financial statement, as well as most recent quarterly statement.
- b. Regulatory history, through either the Office of the Comptroller of the Currency for dealer banks, or the FINRA for securities firms.
- c. Statement of any pending lawsuits materially affecting the firm’s business.

XI. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

After University staff, with or without consultation with the Investment Advisor, has determined the approximate maturity date based on cash flow needs and market conditions and has analyzed and selected one or more optimal types of investments, a minimum of three (3) qualified banks and/or approved broker/dealers must be contacted and asked to provide bids/offers on securities. Bids will be held in confidence until the bid best deemed to meet the investment objectives is determined and selected. All transactions will be executed on a delivery versus payment basis.

However, if obtaining bids/offers are not feasible and appropriate, securities may be purchased utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:

1. Tradeweb
2. Bloomberg Information Systems
3. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing

4. Daily market pricing provided by the University's custodian or their correspondent institutions

University staff or the Investment Advisor shall utilize the competitive bid process to select the securities to be purchased or sold. Selection by comparison to a current market price, as indicated above, shall only be utilized when, in judgment of University staff, in consultation with the Investment Advisor, competitive bidding would inhibit the selection process.

Examples of when comparison to a current market price may be used include:

1. When time constraints due to unusual circumstances preclude the use of the competitive bidding process
2. When no active market exists for the issue being traded due to the age or depth of the issue
3. When a security is unique to a single dealer, for example, a private placement
4. When the transaction involves new issues or issues in the "when issued" market

Overnight sweep repurchase agreements will not be bid, but may be placed with the University's depository bank relating to the demand account for which the repurchase agreement was purchased.

XII. REPORTING

The -Controller shall provide the Executive Vice President and Chief Financial Officer with quarterly investment reports. Schedules in the quarterly report should include the following:

1. A listing of individual securities held at the end of the reporting period
2. Percentage of available funds represented by each investment type
3. Coupon, discount or earning rate
4. Average life or duration and final maturity of all investments
5. Par value and market value

XIII. THIRD-PARTY CUSTODIAL AGREEMENTS

All securities, with the exception of certificates of deposits, shall be held with a third party custodian. All securities purchased by, and all collateral obtained by, the University should be properly designated as an asset of the University. The securities must be

held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Tennessee, or any other state or territory of the United States which has a branch or principal place of business in the State of Tennessee as defined in T.C.A. § 9-4-108, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Tennessee. Certificates of deposits will be placed in the provider's safekeeping department for the term of the deposit.

The University will execute a third party custodial agreement(s) with its bank(s) and depository institution(s). Such agreements may include letters of authority from the University, details as to the responsibilities of each party, method of notification of security purchases, sales, delivery, procedures related to repurchase agreements and wire transfers, safekeeping and transaction costs, procedures in case of wire failure or other unforeseen mishaps and describing the liability of each party.

The custodian shall accept transaction instructions only from those persons who have been duly authorized by the University and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping, shall be permitted unless by such a duly authorized person.

The custodian shall provide the University with safekeeping receipts that provide detail information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

XIV. EXCEPTIONS

The President or his or her designee may approve exceptions to the requirements of this policy in appropriate cases.

This policy does not apply to funds invested by external trusts or foundations.

Links

GLOSSARY OF TERMS
(Attachment A)

http://bf.memphis.edu/bfguide/um1776_investment_glossary.pdf

**LOCAL
GOVERNMENT
INVESTMENT POOL
QUESTIONNAIRE**
(Attachment B)

http://bf.memphis.edu/bfguide/um1776_investment_lgip_questionnaire.pdf

Revision Dates

UM1776 -- Revised June 14, 2017
Revised January 14, 2020

Subject Areas:

Academic	Finance	General	Human Resources	Information Technology	Research	Student Affairs
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
