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[Home](#) > Investment Policy for Treasury Pool

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## **Investment Policy for Treasury Pool** <sup>[1]</sup>

Under this policy, The Board of Regents authorizes the Treasurer to manage the financial assets invested in the Treasury pool within the described limits.

### Background

The University Treasurer is responsible for protecting the financial resources of the University. Authorization for the function arises from constitutional and statutory authority to the Board of Regents mandating exclusive control and direction of all funds and specific authorization to elect a University Treasurer.

The Treasurer is responsible for implementing an investment strategy in support of the prudent investor rule, providing liquidity, safety and yield to the institution. Diversification of investments and appropriate time horizons contribute to the achievement of benchmark returns at acceptable levels of risk.

The Treasurer's office is well-positioned to forecast expected cash inflows and disbursements and to schedule investments to maximize earnings.

Collection of the major portions of revenue is fairly predictable. State appropriations, letters of credit and tuition are received on a scheduled basis throughout the year. Gift fund and endowment income transfers from the CU Foundation, investment earnings, credit card and auxiliary fund revenues and Federal contract receivables are also collected on a regular basis.

Projection of expenditures is based on patterns that are well established and reasonably predictable. approximately

65% of the University's total expenditures are regular, periodic payments, and 35% less predictable expenses, such as utilities, supplies, services, and equipment.

Investment earnings on most of the accounts in the Treasury Pool are unrestricted financial resources of the University. A small number of accounts receive earnings in accordance with federal or state law. All uses of the earnings are budgeted as part of the Annual Budget Process in compliance with applicable University Administrative Policy and federal and state law.

All University monies are invested as part of the Treasury Pool except for certain monies which are not eligible or appropriate for inclusion in this Treasury Pool, such as endowment funds and proceeds from bond issues. In cases where pooling is either not permitted or appropriate, the Treasurer makes specific alternative arrangements to assure fiduciary oversight of those monies.

### Matching Investment Horizons to Liquidity Requirements

The Treasury Pool is segmented into three categories by liquidity requirement in order to assure appropriate matching of investments with liquidity needs. At least annually, amounts assigned to the categories are reassessed.

The three liquidity segments are:

1. Daily Working Capital Segment;
2. Contingency Segment; and
3. Non-Recurring Segment

Assets held in the Daily Working Capital segment are invested with the primary objectives of stability of principal and liquidity. Such investments are restricted to high quality money market and other fixed income obligations with a maturity of one year or less. The determination of the amount of assets held in this segment is based on forecast expected cash inflows and disbursements and an examination of historical data from the most recent three fiscal years.

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The Contingency Segment serves as a buffer for the Daily Working Capital Segment. Shortfalls that occur will be met by the Contingency Segment, to protect against unplanned disbursements from the Non-Recurring Segment. The assets in the Contingency segment are equal to 9% of the combined total Treasury Pool. Investments are limited to high quality fixed income obligations with a maturity of five years or less.

Through proper identification of the needs of the first two segments, the remaining assets in the Treasury Pool are targeted for non-recurring expenditures.

These assets, designated the Non-Recurring Segment, have a longer time horizon for investment. At the Treasury Pool's minimum for the current fiscal year, 74% of Treasury Pool assets are allocated to the Non-Recurring Segment. This allocation will change over time. This segment is invested to achieve meaningful additional returns, relative to the current asset mix, without taking on inappropriate levels of risk. Up to 31% of this segment may be invested in certain types of equities and 69% will be invested in broad market fixed income instruments.

In summary, the first two segments are invested with the objectives of providing liquidity and safeguarding principal with a commensurate investment return. The third segment is invested according to a total return philosophy. In combination, the following investment objectives of the Pool will be met:

liquidity for day to day operations

protection of the nominal value of assets; and

generation of distributable earnings at a level that is commensurate with the time horizons of the investments.

#### Implementation

This policy contemplates the use of long-term investments, including equities, that are more volatile than the securities held by the Treasury Pool prior to the implementation of this policy. In an effort to minimize potential short-term negative consequences, the policy was implemented gradually, over two years.

#### Diversification

Each Segment of the Treasury Pool and each portfolio within the Non-Recurring Segment is diversified with respect to economic sector, industry and specific issuer. Such diversification is intended to reduce risk. Securities issued by the United States government and its Agencies are not subject to diversification requirements due to their risk-free nature.

#### Protecting The Invested Value And The Earnings Distribution

The Treasurer, in consultation with the Investment Advisory Committee, will develop a recommendation for maintaining undistributed investment returns in amounts which are considered to be reasonably adequate to dampen the effects of natural market cycles on the market value of invested assets and to protect the annual earnings distribution budget. The Treasurer will review this recommendation with appropriate University administrators during the annual budget process, and seek approval for funding. The Treasurer is responsible for deciding what effect these funding decisions will have on limiting the full implementation of this Investment Policy Statement.

#### Oversight, Advice and Operating Procedures

The Treasurer reports on the investments and performance of the Treasury Pool to the Board of Regents through quarterly reports to the Regent Audit and Financial Advisory Committee. Reports include review and analysis of Treasury Pool assets in the three segments described in this policy statement.

The Treasurer maintains a written statement of Operating Procedures that includes specific investment guidelines, performance measurement standards, and mutual fund investment manager and securities lending program provider selection criteria. This document governs the day-to-day operations of the staff of the Treasurer's Office. The Investment Advisory Committee reviews the Operating Procedures annually. At least annually, the Treasurer reviews the amounts assigned to each of the three distinct liquidity segments and discusses the rationale with the Investment Advisory Committee.

#### Authority

Funds collected and managed by the University of Colorado treasurer are under the control and direction of the Regents of the University of Colorado, and are managed pursuant to Sections 23-20-109 and 111, C.R.S. (1988), and the rules adopted by the Regents pursuant to Section 23-20-112, C.R.S. (1988); Laws of the Regents, 1990, Section 13.B.3.(c), and

Regents Handbook, Board Policy, 13-G.

The Regents are specifically authorized to hold certain kinds of investments, Sections 23-20-118 and 119, C.R.S. (1988), and to control and invest monies from donations and from University lands, Sections 23-20-120 and 121, C.R.S. (1988). Per the Opinion provided by the Office of the Attorney General of the state of Colorado, funds held by the Regents of the University of Colorado in the University Treasury are not subject to the provisions of Colo. Const Art. X, Section 12 or Sections 24-36-103 and 24-22-107, C.R.S. (1988)

As part of this Investment Policy, The Board of Regents specifically authorizes the University Treasurer, upon consultation with the Investment Advisory Committee, to select and enter into agreements with investment managers, commingled funds, mutual fund, and securities lending providers that implement this Policy in accordance with the Operating Procedures.

The University Treasurer invests in accordance with the prudent investor rule and specific statutory limitations that govern the University. The Treasurer invests in a manner consistent with the Regents' Resolution on Institutional Neutrality and all other applicable Regent Law upon its effective date.

Upon approval this policy is subject to modification by action of the Board of Regents, and remains effective until any modification is approved.

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**Links:**

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