
OPERATING PROCEDURES

For The

INVESTMENT POLICY STATEMENT
For Treasury Pool

For

The Regents of the University of Colorado

Effective: July 1, 1997
Revised: August 14, 2024

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SUMMARY

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Planning Time Horizon: Segment 1: 0 - 1 Year (Daily liquidity)
Segment 1.5: Enhanced Cash 0-1 year
Segment 2: 1 - 3 Years
Segment 3: Greater than 5 years

Risk Tolerance: Low risk tolerance in Segment 1, 1.5, and 2, with emphasis on preservation of principal. Moderate to high risk in Segment 3 with emphasis on total return.

Income Needs: Income for investment revenue distribution will be provided from earnings and realized gains. It is anticipated that liquidity will be sufficient to support the annual distribution from the pool. If necessary, assets may be sold to provide cash.

Asset Allocation, by Segment:

	Lower <u>Limit</u>	<u>Median*</u>	Upper <u>Limit</u>
Segment 1:	2%	6%	14%
Segment 1.5:	0%	12%	30%
Segment 2:	0%	5%	10%
Fixed Income, Short-Term			

**Varies based on operating needs (see liquidity analysis section)*

	Lower <u>Limit</u>	Strategic <u>Allocation</u>	Upper <u>Limit</u>
Domestic Large Capitalization Equities:	17%	21%	25%
Domestic Small Capitalization Equities:	3%	6%	9%
International Equities:	7%	10%	13%
Global Equities:	7%	10%	13%
Fixed Income:	36%	40%	44%
LTIP (Endowment Like):	9%	13%	17%

Performance Evaluation Benchmark: Each segment has a benchmark of a market index for performance measurement. The Treasury Pool (Pool) is expected to produce a total return exceeding that of an index based upon the strategic asset allocation of the Pool and various broad asset classes. Specifically, the policy index will be a weighted index comprised of:

<u>Segment</u>	<u>Benchmark</u>
1	30-Day T-Bills
1.5	Callan's Curated Prime Institutional Money Market Peer Group and ICE Bank of America Merrill Lynch 3 Month Treasury Bill Index (G001)
2	Bloomberg US Government/Credit 1-3 Year Bond Index
3	21% S&P 500 6% Blended S&P 400 Mid / 600 Small-Cap. 10% MSCI ACWI ex-US Index 10% MSCI All Country World Index 40% Bloomberg US Aggregate Bond Index 13% 80% MSCI ACWI / 20% Bloomberg US Aggregate Bond Index

Expected Total Return (Segment 3 only): 7.2% Nominal; 4.7% Real, based on
Based on current capital market projections CPI inflation of 2.5%.

Regent Policy 13.A authorizes the Treasurer of the University to manage and invest the financial assets within the described limits.

The Treasurer of the University shall invest the university's financial assets, including the University of Colorado Foundation's Long Term Investment Pool, primarily in cash equivalents, debt instruments, equities, and alternative strategies, using external managers and commingled and mutual funds, where appropriate, with advice from the University Investment Advisory Committee, according to the following:

- (A) The Prudent Investor Rule within the Colorado Uniform Prudent Investor Act;
- (B) The Uniform Prudent Management of Institutional Funds Act;
- (C) Applicable federal and state laws and regulations; and
- (D) Regent laws, policies, and resolutions. Examples of these resolutions are:
 - (1) institutional neutrality (South African and other investments), and
 - (2) Sudan divestment.

For each operating and non-operating fund for which discretion over investments lies with the university, the Treasurer of the University shall develop written guidelines which:

- (A) Document the purpose of the portfolio and the use of earnings thereon;
- (B) Specify the appropriate time horizon and risk profile;
- (C) Establish diversification limits by asset class, sector, industry, and issuer;
- (D) Communicate other restrictions and limits;
- (E) Inform the reader of the desired balance between safety, liquidity, and yield;
- (F) Select performance benchmarks and explain their use in the review processes;
- (G) If employed, document securities lending limits and goals;
- (H) For the operating funds, known as the University Treasury Pool, establish adequate earnings distribution and stabilization reserves; and
- (I) Set in writing the process used to periodically review the investment strategy and the guidelines.

REGENT INVESTMENT POLICY

Operating Procedures

Members of the University's Investment Advisory Committee shall be chosen by the Treasurer in consultation with the vice president for budget and finance. There shall be at least five members of this committee as required by C.R.S. § 23-20-117.5 (4). No member of this committee may be in the business of selling investment services or advice, brokering investments, or have a potential conflict of interest. This committee shall provide advice to the treasurer on investment strategies and goals.

The Treasurer of the University is authorized to designate qualified employees of the Treasurer's office who can buy, sell, and transfer certificates of stock, bonds, and approved funds, and/or other similar financial instruments held in the name of the Regents of the University of Colorado, the University of Colorado, or any of the divisions thereof in order to efficiently manage and invest the university's financial assets. End of Regent Policy

PURPOSE OF THE OPERATING PROCEDURES *Operating Procedures*

The purpose of the Operating Procedures and Investment Policy Statement (IPS) is to assist the Treasurer in effectively investing the assets of the Pool, monitoring investment results, and communicating the investment objectives to the Regents, the Investment Advisory Committee, the Consultant, and external investment managers. The Pool's investment program is defined in the various sections of the IPS:

- State in a written document the University's objectives and guidelines for the investment of Pool assets, including explicit consideration of liquidity needs and risk tolerance.
- Set forth an investment structure for managing all Pool assets. The structure includes a target asset allocation, various asset classes, and investment management styles, that, in total, are expected to produce an intended level of overall diversification and investment return over the long term.
- Provide guidelines for each investment portfolio that establishes the level of overall risk and liquidity assumed in that portfolio, so that all Pool assets are managed in accordance with stated objectives.
- Establish formal criteria to monitor, evaluate and compare the performance results achieved by the money managers on a regular basis against reasonable benchmarks and peer groups.
- Encourage effective communications between the Treasurer's department, the Regents, the Investment Advisory Committee, the investment consultant, and the money managers.
- Comply with all fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, consistent with the Prudent Investor Rule, and with all other applicable laws, rules and regulations from various local, state and federal entities that may impact Pool assets.

These Operating Procedures have been formulated after consideration by the Treasurer and the Investment Advisory Committee of the financial implications of a wide range of policies, and represents a prudent investment process deemed appropriate for the University.

ROLE OF THE POOLED TREASURY EXTERNAL INVESTMENTS

Operating Procedures

The role of the Treasury Pool is:

1. To maintain sufficient liquidity for day-to-day operations of the University;
2. To maintain sufficient liquidity for withdrawals, e.g., for capital projects;
3. To generate distributable earnings;
4. To maximize distributable earnings for the University by matching investment horizon to projected timing of spending;
5. To maintain the nominal real value of assets over the investment horizon; and
6. To control costs of administering the Pool and managing the assets.

The Treasury Pool provides the necessary liquidity and earnings as one of the few sources of the University unrestricted funds. The Treasurer has the responsibility for preserving, protecting and effectively investing the financial resources of the University. Growth of the Pool over the past several years and the pattern of disbursements suggest that some of the assets are amenable to a longer-term time horizon and a commensurate increase in both returns and risk. Further, funds collected and managed by the University of Colorado Treasurer are within the control and direction of the Board of Regents, and are to be managed pursuant to Sections 23-20-109 and 111, C.R.S. (2014), and the rules adopted by the Regents pursuant to Section 23-20-112, C.R.S. (2014), Laws of the Regents, (2009), Section 13.B.3, and Regent Policy 13A (2009). The Regents are specifically authorized to hold certain kinds of investments, Sections 23-20-118 and 119, C.R.S. (2014), and to control and invest moneys from donations and from University lands, Sections 23-20-120, and 121, C.R.S. (2014). Per the Opinion provided by the Office of the Attorney General of the State of Colorado, these funds 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. (2014). These factors led the Treasurer, the staff, and the Investment Advisory Committee to undertake the development of the Regent's Investment Policy Statement and these Operating Procedures.

The role of the Investment Advisory Committee is two-fold. First, the Committee provides continuing impartial investment expertise to further improve the University's investment decision-making process. Second, the Committee reviews the performance of the investment managers and other service providers and assist in decision-making on selection of, and changes to, the external managers to achieve the goals and objectives of the investment strategy.

This procedure has been adopted to provide guidelines to invest the financial resources of the University and requires a formal annual review of the Investment Policy and Procedures for the Treasury Pool.

Asset Allocation Process

This section describes the factors that inform the asset allocation process, specifically, the time horizon, liquidity constraints, risk tolerance, and income distribution needs. The first step in this process is to review the cash flows and liquidity needs of the Pool. This review results in the division of the Pool into four segments based on the investment time horizon and informs the investment strategy decision for each segment.

Time Horizon

The Treasury Pool contains assets with varying investment time horizons ranging from overnight to beyond five years.

1: Daily Working Capital - This Segment includes the day-to-day operating funds. Investments with maturities of one year or less and high credit quality are appropriate in this Segment.

1.5: Enhanced Cash - This Segment includes asset flows that occur in mid-August and January largely from tuition payments that support payroll and debt service obligations as detailed in the draw schedule in Appendix VII. The expectation of the external manager of these funds is to invest in assets that are low risk but can enhance the return over daily liquid investments and meet the requested disbursements to the University.

2: Contingency Segment - This Segment includes assets that would be available if the amounts specified in the Daily Working Capital and Enhanced Cash Segments prove to be insufficient. This Segment is invested in limited maturity securities, from 1 to 3 years, enabling this Segment to provide an enhanced return relative to Segment 1 and 1.5, with only a small risk to principal.

3: Non-Recurring Segment - This Segment includes assets that are not expected to be spent within the near term. The Non-Recurring Segment is designed to achieve higher returns in the longer term while taking an appropriate level of risk. Segment 3 is capable of absorbing the short-term volatility that comes with higher return and risk strategies.

Liquidity Analysis

Each year, a review of Pool cash flows is undertaken to determine the amount allocated to each segment. Annual reviews are part of the budgeting process. Following completion of the review process, the segments are rebalanced as necessary.

1: Cash Segment/Daily Working Capital - To determine the amount of working capital required in the Pool, the historical cash inflows and outflows are analyzed. Based on this analysis, the recommended working capital balance ranges from 2% to 14%, with an average balance of about 6% of the portfolio. This working capital cash is set aside to support ongoing and unpredictable daily cash requirements.

1.5: Enhanced Cash - This Segment invests funds received in the fall and winter cash flow cycles to fund the outgoing payroll/debt service obligations. The objective is to take advantage of potentially higher yields for cash that has a longer holding period based on projected cash needs.

This Segment ranges between 0% and 30% of the portfolio, with an average of about 12% and is used to provide for the draw schedule in Appendix VII. See also Appendix VIII for enhanced cash investment procedures.

2: Contingency Segment - Funds allocated to this segment should be for short-term spending needs. Additional funds can also be added in changing economic environments to provide liquidity per the forecasted cash flow needs. Funds set aside in Segment 2 also supports the stabilization fund (see page 12) and expected spending in a 1–3 year period. Segment 2 ranges between 0% and 10% of the portfolio.

3: Non-Recurring Segment - The assets remaining in the Pool that are not needed in Segments 1, 1.5, and 2 may be invested in the Non-Recurring Segment with a longer time horizon. Earnings from the funds invested in Segment 3 are intended to support on-going distribution of income needs of the University for all purposes outlined in the annual budgeting process.

Risk Tolerances

The overall risk tolerance of the Treasury Pool is low, though varies by Segment. Segments 1, 1.5 and 2 are to be invested with a minimal risk of loss of principal. A relatively higher risk tolerance is only appropriate for Segment 3 with the objective of achieving higher returns. The asset allocation adopted for Segment 3 has an expected, nominal return of approximately 7.2 percent, based on Callan's current Capital Market Expectations. The modeling on Segment 3 looks at a median outcome and downside risk at the 95th percentile over 1 and 5-year periods.

Asset Allocation – Segments 1, 1.5 and 2

Assets of the Daily Working Capital, Enhanced Cash, and Contingency Segments are to be invested solely in fixed income securities.

Asset Allocation – Segment 3

The asset allocation of the Non-Recurring Segment is examined separately from Segments 1, 1.5, and 2. Segment 3 asset allocation considers a long-term investment horizon intended to maximize

return with the lowest level of expected risk. The Pool's risk and liquidity postures are, in large part, a function of asset class mix. Based on the performance characteristics of various asset classes, focusing on both the risks and rewards, the following asset classes are deemed appropriate for the Non-Recurring Segment:

- Domestic Large Capitalization Equities
- Domestic Mid- and Small-Capitalization Equities
- International Equities
- Global Equities
- Alternatives
- Domestic Fixed Income
- Cash Equivalents

Based on the Non-Recurring Segment's time horizon, risk tolerances, performance expectations and asset class preferences, an efficient or optimal portfolio was identified. The strategic asset allocation of Segment 3 is as follows:

Strategic Asset Allocation	Lower <u>Limit</u>	<u>Strategic Allocation</u>	Upper <u>Limit</u>
Domestic Large Capitalization Equities:	17%	21%	25%
Domestic Small Capitalization Equities:	3%	6%	9%
International Equities:	7%	10%	13%
Global Equities:	7%	10%	13%
Fixed Income:	36%	40%	44%
CUF LTIP:	9%	13%	17%

Rebalancing the Strategic Allocation

The Strategic Allocation, shown in the middle column, is the target. Some variability around the target is expected and acceptable. Extreme deviation from the target is undesirable because it alters the risk and return expectations for the Pool. Therefore, an upper and a lower limit are established for each asset class. The percentage allocation to each asset class may vary as much as plus or minus 4 percent for the larger asset classes before rebalancing to the target is required. Each asset class in this segment of the portfolio is actively monitored and rebalanced, as needed, to ensure allocation is within the allowable ranges.

Rebalancing the portfolio may recognize capital gains/losses from the sale of assets. Care shall be taken to minimize losses that may affect the planned income distribution. Also, realized gains shall be minimized/maximized depending on the investment revenue distribution plan and adequate buffer against market downturns.

When necessary and/or available, cash inflows/outflows are deployed in a manner consistent with the strategic asset allocation of the Non-Recurring Segment. If the University Treasurer judges cash flows to be insufficient to bring the Pool within the strategic allocation ranges, the Treasurer, in consultation with the Investment Advisory Committee and the external investment consultant, shall

decide whether to make transactions to bring the allocation back to the target Strategic Allocation.

Combined Asset Allocation

Based on the assumptions provided in the **Liquidity Analysis** section above, when all four segments are combined, it results in the following aggregate asset allocation.

Asset Allocation:	<u>Strategic Allocation</u>
Domestic Large Capitalization Equities:	16.2%
Domestic Small/Mid Capitalization Equities:	4.6%
Global/International Equities:	15.4%
LTIP:	10.0%
Fixed Income - Broad Market:	30.8%
Enhanced Cash/Short-Term Bonds:	17.0%*
Cash Equivalents:	6.0%*

**Varies depending on available cash and may be as low as 2% prior to rebalancing.*

Diversification

Each Segment of the Pool and each portfolio within each Segment are diversified with respect to economic sector, industry, and specific issuer, with the exception of securities issued by the United States government, government backed agencies, and US government-sponsored corporations. Such diversification is intended to reduce risk. Diversification guidelines for each asset class are provided in the section “*Security and Portfolio Guidelines*”.

Distribution of Income and the Stabilization Fund

The budgeted investment revenue distribution is reviewed with the Pool’s outside investment advisory firm, the IAC, and the Regent’s Finance Committee or full Board of Regents at least annually. The investment policy explicitly recognizes the fact that the budgeted distribution decision (made by system CFO, President and Treasurer) and investment allocation decisions are related, yet separate. The Treasurer evaluates the earnings of the pool to fund next year’s budgeted distribution in coordination with the System CFO, the President, and other members of the Budget & Finance team. This evaluation should consider the long-term purchasing power of the pool, quarterly campus cash flow forecast of capital projects and large non-capital spending and quarterly distribution of Pool earnings to campuses.

The stabilization fund is an account of undistributed realized investment gains, established and maintained to smooth out fluctuations in investment value and earnings and should be invested in liquid securities. When investment revenues exceed the distribution target, the excess is assigned to the stabilization fund until the account reaches a desired level. When the desired level has been reached, additional earnings may be used to augment the distribution. Conversely, when returns fall short of the distribution target, the stabilization fund account is used to meet the shortfall. If the account is fully depleted and the distribution target has not yet been met, the account cannot operate in a deficit. The status of this account is regularly reported to the IAC,

CU leadership, and the Board.

Realizing Gains

Equity mutual funds are accounted for by identified lot and/or average cost. In situations where a large distribution of the pool is planned or needed, selling lots that are in a gain position may be required to realize capital gains and cash to support the planned spending. Realizing investment losses is discouraged as this reduces the claim to cash balances and the loss must be accounted for as a reduction in investment income and spending. Robust planning and execution of trade gains should be vetted with outside investment advisory firm, IAC, CU System and campus leadership, and the Regent's Finance Committee or full Board of Regents.

Approval Threshold for Realizing gains for spending purposes

The Treasurer shall seek approval from the System CFO to realize gains through sale transactions intended to support large spending plans in excess of \$50 million per transaction. If the transaction is in excess of \$250 million, an additional approval from the President of the University is needed. Buy/sale transactions made to rebalance the portfolio are excluded from these approval thresholds.

Unrealized Gain Buffer

Unrealized gains serve as a buffer for market downturns or to allow for flexibility in case of unforeseen cash needs. Nearly all unrealized gains typically reside in Segment 3 assets. To hedge against financial market volatility, it is prudent to maintain a significant balance of unrealized gains. Realizing gains through the sale of appreciated assets should be done with extreme care. The best practice is to also rebalance the portfolio periodically to maintain target allocations.

SECURITY AND PORTFOLIO GUIDELINES

The following guidelines apply to both staff and external money managers. Any mutual funds or other commingled funds utilized should be reviewed to determine that their governing instruments are substantially consistent with the following guidelines. Each mutual fund complies with its respective prospectus. Separate accounts follow the guidelines contained herein. All assets are to be managed pursuant to Sections 23-20-109 and 111, C.R.S. (2014) and the rules adopted by the Regents of the University of Colorado pursuant to Section 23-20-112, C.R.S. (2014).

General

- All guidelines are considered at the time of purchase. In general, securities contained in the benchmark are acceptable investments. The sale of a security is not automatically required due to a subsequent change in circumstance.
- The following securities and transactions are not authorized unless the manager has received prior written approval from the Treasurer of the University of Colorado:
 - Letter stock and other unregistered securities, except those exempt from registration by the SEC due to short maturities; commodities or commodity contracts; and short sales or margin transactions. With the University Treasurer's approval, Rule 144A securities are permitted:
 - Securities lending, pledging or hypothecating securities.
 - Self-investment by manager
 - Short sales are not permitted
- Derivative securities are permissible investments when the derivative security has no more risk than the underlying security provided that the underlying security would be a permissible security.
- Holdings of individual securities shall be large enough for easy liquidation.
- Each portfolio shall be diversified with regard to specific issuer, industry, and economic sector, in order to reduce risk.
- Assets shall be invested in a manner consistent with the Regents' Resolution on Institutional Neutrality.
- Securities may be sold at a loss, if such an action is deemed to be consistent with the overall portfolio investment objectives.
- Leverage is not permitted. Borrowing prohibited except for short-term settlement mismatches.
- Convertible securities are not permitted.

Eligible Securities

Fixed Income

- U.S. Treasury and Agency issues (including Strips)
- Bank Certificates of Deposit (subject to prior approval of the CU Treasurer's Office), Bankers' Acceptances, Local Government investment pools, repurchase agreements, and commercial paper;

- Asset-backed and commercial mortgage-backed securities;
- Corporate bonds;
- Securities that are dollar denominated that are issued by foreign government agencies, local governments, sovereigns, and corporations that have no operations in the United States;
- Money market funds and other mutual funds;
- Mortgage-backed and asset-backed securities, including collateralized mortgage obligations (CMOs), collateralized loan obligation (CLOs), TBA securities issued by a Federal Agency and mortgage dollar rolls;
- Municipal securities;
- Guaranteed Investment Contracts (GICs);
- and Rule 144(a) securities and securities exempt from SEC registration under sections 3(a)2 and 3(a)4 of the US Securities Act of 1933. Securities exempt from SEC registration must be rated investment grade.

Maturity

Securities held in Segment 1 (Daily Working Capital) and Segment 1.5 (Enhanced Cash) shall have maturities of less than 1 year. Securities held in Segment 2 (Contingency) shall have effective maturities of up to 3 years. Securities held in Segment 3 (Non-Recurring Segment) shall have no specific maturity restriction.

The following guidelines may be used to establish effective maturity:

- The reset date for floating rate instruments will be used in place of the final maturity date;
- For securities with a put date, the put date may be used as the proxy for final maturity;
- Asset-Backed and Mortgage-Backed securities will use average life in place of final maturity;

Duration

The duration of Segment 1 and 1.5 shall be less than 1 year. The duration of Segment 2 shall be within 0.5 years of the duration of the Barclays Capital 1-3 Year. The duration of Segment 3 shall be within 20 percent of the duration of the Bloomberg Barclays US Aggregate Bond Index, approximately 4 to 6 years.

Quality

The fixed income portfolio shall be of high-grade quality. At the time of purchase, fixed income securities held in the portfolio shall have a minimum rating of Baa3 or equivalent except for high yield securities. Investment in high yield securities shall not exceed 10 percent of the Segment 3 portfolio. Standard and Poor's, Fitch, or Moody's ratings are acceptable. If the issue is rated by all three rating agencies, the middle rating shall apply. If the security is rated by two rating agencies, the lower rating shall apply. If the security is rated by one rating agency, that rating shall apply.

Diversification

The exposure of the portfolio to any one issuer, other than securities of the U.S. government or agencies, or government-sponsored corporations, shall not exceed 10 percent of the market value of the fixed income portfolio.

Futures and Options

Fixed income managers may, with prior written approval of the Treasurer, engage in futures and options transactions subject to the following limitations:

- No long or short futures and/or options position may be established unless the portfolio has adequate cash reserves or securities to fund the purchase or delivery of securities under the contract. The use of such instruments to lever the portfolio is strictly prohibited.
- The aggregate exposure to futures and options is limited to 25 percent. A futures position is to be valued at the face amount multiplied by the number of contracts adjusted for the most likely deliverable security. An options position is to be valued on a "delta-weighted" basis.

Derivatives

Derivative securities that derive their returns from factors other than interest rates are not permitted in the fixed income portfolio. Examples of such prohibited derivatives are structured notes tied to currencies or commodity prices.

Other Securities

Investments in the following securities are prohibited: inverse floaters, interest only securities, reverse repurchase agreements, and other securities that could impart leverage to the portfolio or have highly unpredictable cash flows. However, external managers who have a track record of using the above securities successfully, may be considered for Segment 3 on a selective basis.

SECURITY AND PORTFOLIO GUIDELINES

Domestic Equities

- Equity holdings in any one company shall not exceed 5 percent of the market value of Pool's equity portfolio.
- The portfolio shall be diversified by economic sector with not more than 25 percent of the market value of the portfolio invested in any one economic sector, as defined by Standard & Poor's.
- Managers are expected to remain essentially fully invested in equity securities, unless the manager has requested and received permission to hold significant cash.
- Managers are expected to invest primarily (at least 80 percent) in companies domiciled in the United States.
- The domestic equity portfolio shall have a broad market orientation, including both large and small companies.
- The manager shall emphasize quality in security selection and shall avoid risk of large loss through diversification.
- Convertible securities shall be considered as equities.
- Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor, are prohibited without prior written approval.
- Investments for the purpose of exercising control of management are prohibited.
- Equity managers shall not, without prior written approval of the Treasurer, engage in futures and options transactions, and then only subject to the following limitations:
 1. No long or short futures and/or options position may be established unless the portfolio has adequate cash reserves or securities to fund the purchase or delivery of securities under the contract. The use of such instruments to lever the portfolio is strictly prohibited.
 2. The aggregate exposure to futures and options is limited to 25 percent. A futures position is to be valued at the face amount multiplied by the number of contracts adjusted for the most likely deliverable security.

SECURITY AND PORTFOLIO GUIDELINES

International Equities

- Equity holdings in any one company shall not exceed 5 percent of the International Equity portfolio.
- No more than 25 percent of the portfolio shall be invested in one industry sector.
- Substantially all investments for this allocation shall be in the equity of companies domiciled in countries within the Morgan Stanley Capital International All Country World Index ex USA (MSCI-ACWI ex-US). The portfolio's allocation to non-MSCI World countries shall be no more than 5% above the MSCI-ACWI ex-US Index's weight to non-MSCI World countries. Allocations among countries are expected to be diversified.
- The manager may enter into foreign exchange contracts on currency provided that use of such contracts is limited to hedging currency exposure existing within the manager's portfolio. There shall be no direct foreign currency speculation or any related investment activity.

Global Equities

- Equity holdings in any one company shall not exceed 5 percent of the Global Equity portfolio.
- No more than 25 percent of the portfolio shall be invested in one industry sector.
- Substantially all investments for this allocation shall be in the equity of companies domiciled in countries within the Morgan Stanley Capital International All Country World Index (MSCI ACWI). The portfolio's allocation to non-MSCI World countries shall be no more than 5% above the MSCI-ACWI Index's weight to non-MSCI World countries. Allocations among countries are expected to be diversified.
- The manager may enter into foreign exchange contracts on currency provided that use of such contracts is limited to hedging currency exposure existing within the manager's portfolio. There shall be no direct foreign currency speculation or any related investment activity.

SECURITY AND PORTFOLIO GUIDELINES

Operating Procedures

Cash and Cash Equivalents

- Cash equivalent reserves shall consist of cash instruments having a quality rating of A-2 and P-2 or higher by S&P and Moody. The allocation to securities rated A-2 or P-2 shall be limited to 10 percent of the portfolio.
- Any idle cash not invested by the investment manager shall be invested daily by the Custodian or the Treasury staff through a procedure acceptable to the Treasurer.
- The Treasurer may engage in repurchase agreements for securities that have quality ratings equivalent to, or higher than, A-2 and P-2.
- In the use of mutual funds, careful attention shall be paid to the fund's policy for investing cash and cash equivalents, with the objective of selecting funds whose policies are consistent with the spirit of the guidelines.
- Federally insured cash deposits managed by a third party are an acceptable cash investment instrument.
- Due to the recent reform affecting money market funds (MMF), effective October 14, 2016, Treasury has established a preference for Government MMFs as its principal investment vehicle with Prime MMFs and other vehicles as supplemental investment vehicles.

SELECTION OF EXTERNAL INVESTMENT MANAGERS

To achieve the investment objectives of the Pool, both the staff and external investment managers may be employed to invest the assets. External managers are considered for those assignments where they complement the efforts of the staff and contribute additional expertise, and the additional expense of external management is justified. Both separate accounts and commingled investment vehicles may be considered. Where appropriate, the Treasurer, with the assistance of the Investment Advisory Committee selects qualified money managers to manage Pool assets. External managers must meet the following minimum criteria:

1. Be a bank, insurance company, independent investment counselor, or investment adviser as defined by the Registered Investment Advisers Act of 1940.
2. Clearly articulate the investment strategy that will be followed, provide quarterly performance associated with the strategy, and document that the strategy is consistent with the IPS guidelines.
3. Provide quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
4. Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel.
5. Selected firms shall have no outstanding legal judgments or past judgments which may reflect negatively upon the firm's ability to perform.
6. Demonstrate the absence of conflict of interest.
7. Offer a competitive fee structure.
8. Managers are also evaluated for their Environmental, Social, Governance (ESG) policies, practices and engagement on a regular basis.

Duties and Responsibilities of the Investment Managers

The duties and responsibilities of each money manager retained for the Treasury Pool include the following:

1. Manage the assets under its care, custody and/or control in accordance with the IPS objectives and guidelines set forth herein, and also expressed in separate written agreements when deviation is deemed prudent and desirable by the Treasurer and the Investment Advisory Committee.
2. Exercise investment discretion within the IPS objectives and guidelines set forth herein.
3. Provide monthly reports on the holdings and transactions. Provide quarterly reports that provide additional detail on the investment strategy and outlook, performance returns and attribution for the prior quarter. Quarterly reports from separate-account managers must state whether the portfolio is in compliance with the guidelines, and note the steps being taken to correct any failures to comply. Compliance requirements of particular interest include duration, quality ratings, and the use of derivatives.
4. Promptly inform the Treasurer in writing regarding all significant and/or material matters and changes within the investment management firm pertaining to the investment of Pool assets, including, but not limited to:
 - a. Investment strategy
 - b. Portfolio structure
 - c. Tactical approaches
 - d. Ownership
 - e. Organizational structure
 - f. Financial condition
 - g. Professional staff
 - h. Recommendations for guideline changes
 - i. All material, legal, SEC, and other regulatory agency proceedings affecting the firm.
5. Promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Pool set forth herein. Each manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.
6. Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like investment programs with like aims in accordance and compliance with the Prudent Investor Rule and all other applicable laws, rules and regulations from local, state, federal and international political entities as it pertains to fiduciary duties and responsibilities.
7. Adopt a brokerage policy that ensures that all transactions for the Treasury Pool are “subject to the best price and execution”.

Monitoring of Investment Managers

Quarterly performance is evaluated to test progress toward the attainment of longer-term targets. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on *peer* performance comparisons with managers employing similar styles.

On a quarterly basis, the Treasurer reviews:

- Manager's adherence to the security and portfolio guidelines and the duties and responsibilities of money managers, as prescribed above;
- Material changes in the manager's organization, investment philosophy and/or personnel; and,
- Comparisons of the manager's results to appropriate indices and peer groups, specifically:

<i>Asset Category</i>	<i>Index</i>	<i>Peer Group Universe</i>
Domestic Large Capitalization Equity	S&P 500 Index	Large Cap Style Group
Alternative Investments	LTIP Custom Benchmark	Endowment/Foundation: Mid-Sized Database
Domestic Small and Mid Capitalization Equities	S&P 600 Small and 400 Mid Cap Index	Mid and Small Cap Equity Style Group
International Equity	MSCI-ACWI ex-US Index	International Equity Style Group
Global Equity	MSCI ACWI	Global Equity Style Group
Domestic Fixed Income		
Segment 1	30 Day T-Bills	Active Cash Style Group
Segment 1.5	ICE Bank of America Merrill Lynch U.S. 3 Month Treasury Bill Index (G001) and the Callan Curated Prime Institutional Money Market Peer Group	Active Cash
Segment 2	Bloomberg 1-3 Year Govt./Credit Index,	Defensive F/I Style Group
Segment 3	Bloomberg Aggregate Index	Core Fixed Income Style Group

The risk associated with each manager’s portfolio, as measured by the variability of quarterly returns (standard deviation), must not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

The Treasurer and the Investment Advisory Committee are aware that the ongoing review and analysis of investment managers is just as important as the due diligence implemented during the manager selection process. Accordingly, a thorough review and analysis of an investment manager will be conducted if:

- A manager performs in the bottom quartile (75th percentile) of their peer group over a 3-5 year period;
- A manager falls in the bottom-right quadrant of the risk/return scatterplot for a 5-year time period;

- A manager's 5-year risk-adjusted return falls below that of the median manager within the appropriate peer group.

Furthermore, performance which may require the replacement of a manager includes:

- Managers that consistently perform below the median (50th percentile) of their peer group over rolling three-year periods.
- Managers that perform below the median (50th percentile) of their peer group over a five-year period.
- Managers with negative alphas for 3- and/or 5-year time periods.

Major organizational changes also warrant immediate review of the manager, including:

- Change in professionals
- Significant account losses
- Significant growth of new business
- Change in ownership

The performance of the investment managers is monitored on an ongoing basis. The Treasurer retains the discretion to terminate external investment managers at any time based upon concerns shared with members of the Investment Advisory Committee.

The proxy voting policies of external managers is reviewed annually by the Treasury staff to ensure that these policies support the University's investment objectives.

Review of Investment Objectives

This investment policy statement (IPS) will be reviewed at least annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS. Changes in the financial condition of the University and the Treasury Pool may lead to significant changes in the Operating Procedures for the Investment Policy Statement for Treasury Pool. To that end, an analysis of the time horizon and liquidity needs of each Segment will be undertaken annually to determine the relative portion of the Treasury Pool to be allocated to each Segment.

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Active Cash Managers whose objective is to achieve a maximum return on short-term financial instruments through active management. The average portfolio duration is typically less than one year.

Active Management A form of investment management which involves buying and selling financial assets with the objective of earning positive risk-adjusted returns.

Alpha This statistic measures a portfolio's return in excess of the market return adjusted for risk. It is a measure of the manager's contribution to performance with reference to security selection. A positive alpha indicates that a portfolio was positively rewarded for the residual risk which was taken for that level of market exposure.

$$\text{Alpha} = \text{Mean of excess return of portfolio} - \beta (\text{Mean of excess returns of the index}).$$

Alternative Investments are investment products other than traditional investments such as equities, fixed-income, or cash. The term is used to describe investments strategies and investments in financial assets such as commodities, private equity, and hedge funds.

Asset Allocation The process of determining the optimal allocation of a fund's portfolio among broad asset classes.

Bloomberg Barclays US Aggregate Bond Index- The Aggregate Index is a composite of all dollar-denominated, fixed-rate, non-convertible, securities. The issues must be rated investment-grade. Each issue must have a minimum outstanding principal of \$250 million. Asset-backed securities must have at least \$500 million deal size and \$25 million tranche size. Commercial mortgage-backed securities must have similar deal and tranche size and current outstanding transaction size of at least \$300 million. All securities must have a maturity of at least one year. The index is capitalization weighted. This index is the most commonly used index for the domestic bond market.

Barclays Capital Intermediate Aggregate Index The Intermediate Aggregate Index is the portion of the Aggregate Index that has a maturity of less than 10 years. Thus the index is composed of all dollar-denominated, investment grade, fixed rate securities with a maturity of at least one year and less than 10 years.

Barclays Capital Gov/Credit Index Barclays Capital Gov/Credit Index is a composite of all publicly issued, fixed rate, non-convertible, domestic bonds. The issues included are rated no lower than BBB- and Baa3, have a minimum outstanding principal of \$250 million, and have a maturity of at least one year. The index is capitalization-weighted.

- Barclays Capital Gov/Credit 1-3 Year Index is one of the components of the Gov/Credit Index, which includes only bonds with maturities of one to three years.
- Barclays Capital Gov/Credit 1-5 Year Index is one of the components of the Gov/Credit

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Index, which includes only bonds with maturities of one to five years.

Book Value The value at which an asset is carried on the balance sheet. In portfolio management, book value is the net worth per share of a company's stock. Book value is calculated by subtracting from total assets the following items: intangible assets, liabilities and the par value of preferred stock. The sum is divided by the number of common shares of stock the company has outstanding. The deficiency of book value is that it is normally based on historical cost of assets (after depreciation). The fair market value of these assets may be far in excess of their historical cost but it is used as an estimate of the company's break up value.

Cash Flow/Sales Cash flow divided by sales. Cash flow is the cash generated by a company after all cash expenses, including income taxes and minority interest, but before provision for dividends. Expenses do not include non-cash expenses such as depreciation. Sales represent gross sales reduced by cash discounts, return sales, etc.

Commingled Fund An investment fund which is similar to a mutual fund in that investors purchase and redeem units that represent ownership in a pool of securities. Commingled funds are usually offered through a bank-administered plan allowing for broader and more efficient investing.

Defensive A fixed income investment strategy where objective is to minimize interest rate risk by investing only in short to intermediate term securities. The average portfolio maturity is typically two to five years.

Disbursement Any net decrease in the level of funding for a portfolio, asset class, or security. At the total fund level, a disbursement would be a cash or asset withdrawal from the portfolio. At the asset class level, a disbursement would be any sales of assets that would bring about a net decrease in the amount of asset in the asset class. For a security, a disbursement would be a sale of that asset. Since a principal payment reduces the amount of assets in a portfolio, it is also considered a sale and thus a disbursement.

Duration A measure of the average maturity of the stream of interest payments of a bond. The value of a given bond is more sensitive to interest rate changes as duration increases (i.e., longer duration bonds have greater interest rate volatility than shorter duration bonds). Duration is always shorter than maturity except for zero coupon bonds.

Europe Managers who invest predominantly in the well-developed stock markets of Europe. These products will exhibit risk/return profiles similar to the MSCI Europe Index.

Emerging Market Equities Managers who invest in Emerging Market companies seek shares of stock located in countries with small markets or brief histories of offering securities. Examples are Latin America and Eastern Europe as well as some South and East Asian countries.

Fiduciary Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person. For example, the relationship between a trustee and the beneficiaries of the trust.

- Under ERISA, any person who: (1) exercised any discretionary authority or control over the management of a plan or the management or disposition of its asset, (2) render investment

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advice for a fee or other compensation with respect to the funds or property of a plan, or has the authority to do so, or (3) has any discretionary authority or responsibility in the administration of a plan.

- One who acts in a capacity of a trust and who is therefore accountable for whatever actions may be construed by the courts as breaching that trust. Under ERISA, fiduciaries must discharge their duties solely in the interest of the participants and beneficiaries of an employee benefit plan. In addition, a fiduciary must act exclusively for the purpose of providing benefits to participants and beneficiaries in defraying reasonable expenses of the plan.

Guaranteed Investment Contracts (GICs) Contract between an insurance company and a corporate profit-sharing or pension plan that guarantees a specific rate of return on the invested capital over the life of the contract. Although the insurance company takes all market, credit and interest rate risks on the investment portfolio, it can profit if its returns exceed the guaranteed amount. For pension and profit-sharing plans, guaranteed income contracts are a conservative way of assuring beneficiaries that their money will achieve a certain rate of return.

Liquidity In general, liquidity refers to the ease by which a financial asset can be converted into cash. Liquidity is often more narrowly defined as the ability to sell an asset quickly without having to make a substantial price concession.

Maturity The date on which a bond's par value becomes due and payable.

MSCI ACWI (All Country World Index) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of May 2, 2010, the **MSCI ACWI** consisted of 45 country indices comprising 24 developed and 21 emerging market country indices.

MSCI ACWI (All Country World Index) ex USA is a market capitalization weighted index that is designed to measure the investable equity market performance for global investors of developed and emerging markets, excluding the United States.

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of May 27, 2010, the **MSCI World Index** consisted of 24 developed market countries.

Small Capitalization Managers who invest in companies with relatively small Market Capitalization. The cut-off point for small capitalization varies from manager to manager, but on average, targets firms with capitalization of \$100 million to \$2 billion.

- **International Small Capitalization** Managers who invest in international companies with relatively small capitalization. The companies typically have zero dividends or dividend yields below the broader market. The securities exhibit greater volatility than the broader market as measured by the risk statistics Beta and Standard Deviation.
- **Small Capitalization (Growth)** Managers who invest mainly in small companies that are

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expected to have above average prospects for long-term growth in earnings and profitability. Future growth prospects take precedence over valuation levels in the stock selection process. Managers who invest in companies with P/E ratios, Price-to-Book values, and Growth-in-Earnings values above the broader market, in addition to the small capitalization market segment. The companies typically have zero dividends or dividend yields below the broader market. The securities exhibit greater volatility than the broader market as well as the small capitalization market segment as measured by the risk statistics values Beta and Standard Deviation.

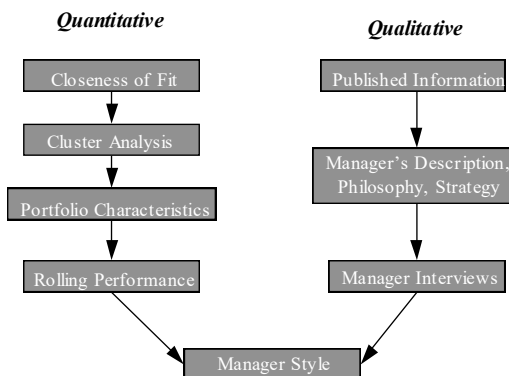
- **Small Capitalization (Value)** Manager who invests in small capitalization companies that are believed to be currently undervalued in the general market. Valuation issues take precedence over near-term earnings prospects in the stock selection process. The companies are expected to have a near-term earnings rebound and eventual realization of expected value. Invests in companies with P/E ratios, return-on-equity values, and price-to-book values below the broader market in addition to the small capitalization market segment. Invests in securities with risk/reward profiles in the lower risk range of the small capitalization market.

Standard & Poor's 500 Composite Stock Index An index of stocks composed of 400 industrial, 40 utilities, 40 financial firms, and 25 transportation issues. The index is market weighted. The Index is widely used as a benchmark for account performance measurement. Mutual funds and common trust funds have been organized to duplicate this index.

Strategic Asset Allocation Rebalancing back to the normal mix at specific time intervals or when established tolerance bands are violated ($\pm 10\%$).

Style The description of the type of approach and strategy utilized by an investment manager to manage funds. The style is determined by, as an example for equities, portfolio characteristics such as: market capitalization of issues, price-to-earnings ratio and dividend yield. Some equity styles include Growth, Value, Yield, Core and Small Cap.

Building the Style Groups



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Total Return A standard measure of performance that includes both capital appreciation or depreciation as well as realized gains and losses and income. The term is widely misunderstood and sometimes bitterly debated. Total return is often a published investment objective, usually a compromise between those trustees that advocate “growth” and those that advocate “income”. It is a standard for performance comparison between funds because it includes both income and growth as the manager’s entire contribution to the portfolio.

Total Risk Total risk is a measure of the total volatility of the returns of an asset or portfolio. The total risk is comprised of two measures of risk: market (non-diversifiable or systematic risk) and residual risk (diversifiable or firm specific– risk).

90-Day U.S. Treasury Bill The 90-Day T-Bill provides a measure of riskless return. The rate of return is the average interest rate available in the beginning of each month for a T-Bill maturing in 90 days.

Variance The Variance is a statistical measure that indicates the spread of values within a set of values. For example, the range of daily prices for a stock will have a variance over time period that reflects the amount that the stock price varies from the average, or mean, price of the stock. Variance is useful as a risk statistic because it gives an indication of how much the value of a portfolio might fluctuate up or down from the average value over a given time period.