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3.439 Short-Term Investments

Type of Policy ■ *University* □ *Campus* □ *Department/Unit* □ **Interim**	**Short-Term Investments** **Policy 3.439**
Business Management Policies	**Effective date: February 27, 2010**

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Responsible Office:	**Responsible Administrator:**	**Contact information:**	**Applies to:**
Office of University Vice Chancellor / CFO	Vice Chancellor / CFO	937-769-1304	University

I. Introduction and Purpose

The purpose of this policy is to set guidelines for the parameters, responsibilities, and controls for the short term (24 months or less) investment of Antioch University funds. Proceeds from tax-exempt bond issues, endowment assets, and money held in bank demand deposit accounts are not covered under this policy. Except for cash in certain legally restricted and special accounts, the University will consolidate cash and reserve balances to optimize University-wide liquidity management and investment earnings and to increase efficiencies with regard to investment pricing, custody/trust and administration.

II. General Objectives

The primary objectives of the policy are to set short-term investment parameters, establish limits consistent with the University's risk tolerance, and provide appropriate benchmarks for performance. Investment activities shall be guided by the following priorities, listed in order:

1. **Safety** - Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by mitigating credit risk and interest rate risk.2.

2. **Liquidity** - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

3. **Yield** - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles.

III. Standards of Care

A. Prudence - The standard shall be the "prudent person" standard, except as may otherwise be prescribed by applicable laws or regulations now or in the future. Under the "prudent person" standard, investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like **character and with like aims.**

IV. Custody, Trust, and Controls

A. Custody / Trust - The University will not take physical possession of investment securities. Securities will be held by an independent third-party custodian selected by the University as evidenced by custody/trust receipts in the University's name. The custody / trust institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

B. Internal Controls – The University CFO is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the University are protected from loss, theft, or misuse.

V. Suitable and Authorized Investments

A. Investment Types - USD-denominated securities, issued by entities with capitalization of at least $250 million

B. Duration - The average duration of any short-term investment portfolio must not exceed nine months. Any individual security may not have a maturity longer than 24 months.

C. Collateralization - Where appropriate and allowed by state law the University may require full collateralization of any investment assets.

D. Permitted Investments - Subject to the foregoing, the University may invest in the following investment vehicles:

1. **U.S. Treasury Obligations** - Bills, notes, and any other obligation or security issued by or backed by the full faith and credit of the United States Treasury.

2. **Federal Agency Obligations** - Bonds, notes, and other obligations of the United States, and securities issued by any AAA-rated federal government agency or instrumentality or government sponsored enterprise except for collateralized mortgage obligations.

3. **Negotiable Certificates of Deposit, Bank Deposit Notes and Non-Negotiable Certificates of Deposit / Time Deposits** - Negotiable and non-negotiable certificates of deposit, time deposits and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks with a rating of at least A-1 by Standard & Poor's, Inc., and P-1 by Moody's Investor Service, Inc., for maturities of one year or less, and a rating of at least AA by Standard & Poor's, Inc., and Aa by Moody's Investor Service, Inc., for maturities over one year.

4. **Bankers' Acceptances** - Issued by domestic banks or domestic offices of foreign banks, which are eligible for purchase by the Federal Reserve System with a maturity of 180 days or less. The issuing corporation, or its guarantor, must have a short-term debt rating of no less than "A-1" (or its equivalent) by at least two of the Nationally Recognized Statistical Rating Organizations ("NRSRO's").

5. **Corporate Debt Obligations** - High quality corporate notes with a rating of at least Aa by Moody's Investors Service, Inc., and a rating of at least AA by Standard and Poor's, Inc., and a maturity of no more than two years from the date of purchase.

6. **Commercial Paper** - "Prime quality" commercial paper, with a maturity of 270 days or less, issued by domestic corporations (corporations organized and operating under the laws of the United States or any state thereof) provided that the issuing corporation, or its guarantor, has a short-term debt rating of no less than "A-1" (or its equivalent) by at least two of the NRSRO's.

7. **Municipal Obligations** - Bonds, notes, and other general obligations of a municipal authority organized within the United States upon which there is no default and having a rating of at least AA by Standard & Poor's, Inc., and Aa by Moody's Investor Service, Inc. and maturing within two years of the date of purchase.

8. **Repurchase Agreements** - Overnight, term, and open repurchase agreements provided that the following conditions are met:

   a) The contract is fully secured by deliverable U.S. Treasury and federal agency obligations as described above (with a maximum maturity of two years), having a market value at all times of at least 102 percent of the amount of the contract;

   b) A master repurchase agreement or specific written repurchase agreement governs the transaction and which in each case contains terms qualifying each transaction as a securities loan for purposes of Section 512 under the Internal Revenue Code, and provides for master netting of obligations;

c) The securities are free and clear of any lien and held by an independent third-party custodian acting solely as agent for the University, provided such third party is not the seller under the repurchase agreement;

d) A perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the University;

e) For repurchase agreements with terms to maturity of greater than one day, the University will have the collateral securities valued daily and require that if additional collateral is warranted, then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);

f) The counterparty is a:

(1) Primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or

(2) A bank, savings and loan association, or diversified securities broker-dealer having at least $5 billion in assets and $500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and

(3) The counterparty meets the following criteria:

(a) A long-term credit rating of at least ‘AA’ or the equivalent from an NRSRO; and

(b) Has been in operation for at least five years.

Collateral under repurchase agreements with a maturity of 14 calendar-days or less may be held by the agreement counterparty. Collateral under repurchase agreements with a maturity of over 14 calendar days must be held by an independent custodian.

9. **Money Market Mutual Funds (Open-Ended Investment Funds)** - Shares in open-ended, no-load, money market investment funds, provided such funds are registered under the Federal Investment Company Act of 1940 and rated at least “AAAm” or the equivalent by an NRSRO.

VI. The University evaluates the following primary risks as part of its short-term investment management:

A. Interest Rate Risk - The University seeks to manage the impact of interest rates on the market value and cash flows of its short-term investments. The University develops an annual cash flow forecast and, through the use of sensitivity modeling, determines its tolerance for interest rate risk.

B. Credit Risk - The University will invest in securities with a short-term rating of no lower than A-\Standard and Poor's, Inc., and P-1 by Moody's Investors Service, Inc. Government obligations and municipal securities must be rated AAA. Corporate obligations must be rated no lower than AA by Standard and Poor's, Inc., and Aa by Moody's Investors Service, Inc.

C. Liquidity Risk - The University assesses its need for liquidity by (a) using its cash flow forecast to predict periods of greater liquidity needs and (b) by providing for sufficient liquidity to support outstanding debt as prescribed by the rating agencies.

VII. Investment Parameters & Diversification

It is the policy of the University to diversify its investment portfolios to eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities. The portfolio should consist largely of securities with active secondary or resale markets. The University will diversify its short-term investments within the following categories:

A. Portfolio Diversification - The Investment Portfolio shall be diversified by security type and institution. The maximum percentage of the portfolio permitted in each eligible security is as follows:

Permitted Investment	Sector Limit	Issuer Limit
U.S. Treasury Obligations	100%	100%
Federal Agency Obligations	100%	50%
Municipal Obligations	25%	5%
Commercial Paper	35%	5%
Bankers' Acceptances	35%	5%
Corporate Notes	20%	5%
Negotiable Certificates of Deposit and Bank Deposit Notes	20%	5%
Non-negotiable Certificates of Deposit	10%	5%
Collateralized Bank Deposits	50%	50%
Repurchase Agreements	Limited by underlying asset limits above	10%
Money Market Mutual Funds	Limited by underlying asset limits above	25%

Antioch University structures a portfolio benchmark that is consistent with the security types and duration, or weighted average maturity, guidelines established under this policy. The University will use the Merrill Lynch 6-month T-Bill Index as its benchmark.

Policy Cross Reference

Investment Policy, Objectives and Guidelines	Policy # 3.433