



Policy Name:	Investment Policy
Effective Date:	April 2011
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Approving Authority:	Board of Regents
Responsible Office:	Finance & Administration
Category:	Finance

Purpose

To provide guidelines under which the investments of the University will be managed while providing the highest investment return with minimum risk while meeting the daily cash flow demands and conforming to the state laws governing the investment of public funds.

Policy

This policy applies to all financial assets of the University eligible for investment and which are accounted for in the University's annual financial audit.

Delegation of Authority

Missouri Revised Statutes Chapter 174 authorizes the Board of Regents to manage the University's investment program. Deposit and investment of state funds must comply with Article IV, Section 15 of the Missouri Constitution and Chapters 30 and 110 of the Revised Statutes of Missouri. Investments of endowment funds must be made in accordance with Missouri Revised Statutes Chapter 402, the Uniform Prudent Management of Institutional Funds Act. The Board of Regents hereby delegates responsibility for the management of the investment program and written procedures for the operation of the investment program to the President of the University. The Vice President of Finance & Administration has the authority to receive and disburse funds of the University.

General Investment Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield.

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. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The University will manage credit risk by:

- Establishing minimum credit ratings for each non-government security type.
- Implementing a credit review and approval process or hiring an outside registered investment advisor that has such a process.
- Diversifying the portfolio to reduce the risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or type of securities.

b. **Interest Rate Risk**

Interest rate risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. It is recognized that all fixed-income investments carry some interest rate risk, and that longer maturities have greater volatility than shorter maturities.

The University will manage interest rate risk by:

- Maintaining adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.
- Establishing maximum individual investment maturity (or duration) and maximum portfolio average maturity (or portfolio duration) limits.
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- Structuring the investment portfolio so that securities mature to meet expected cash requirements for ongoing operations, seeking to avoid the need to sell securities prior to maturity.

2. **Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). The portfolio may be placed in repurchase agreements or other investment options that offer same-day liquidity.

3. **Yield**

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the University's investment risk constraints and liquidity needs. The University may establish a performance benchmark to evaluate performance; however, return on investment is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to securities considered relatively low risk in anticipation of earning a fair return relative to the risk being assumed.

Standards of Care

1. **Prudence**

All University officers and employees involved in the investment process shall act responsibly as custodians of the public trust. The standard of prudence to be applied is the "prudent investor" rule, which states, "Investments shall be made with 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."

2. **Ethics and Conflicts of Interest**

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the University.

Safeguards and Controls

1. Internal Controls

The Vice President of Finance & Administration is responsible for establishing and maintaining an internal control structure that will be reviewed annually with the University's independent auditor. The internal control structure shall be designed to ensure that the assets of the University are protected from loss, theft or misuse and to provide reasonable assurance that these objectives are met. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery of securities
- Clear delegation of authority to subordinate staff members or an outside investment advisor
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

2. Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by the University. All securities will be evidenced by safekeeping receipts in the University's name. The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011.).

3. Delivery vs. Payment

All trades, where applicable, will be settled on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the University's safekeeping accounts prior to the release of funds. All securities shall be perfected in the name of or for the account of the University and shall be held by a third-party custodian as evidenced by safekeeping receipts.

4. Sales Prior to Maturity

Securities may be sold prior to maturity for the following reasons:

- To meet unexpected liquidity needs,
- To reduce credit risk or minimize loss of principal,
- As part of a security swap that would improve the quality, yield, or expected return of the portfolio,
- To adjust or rebalance the portfolio to be in compliance with policy guidelines, to better match expected cash flows, to better match the target portfolio duration, or to better match a designated performance benchmark.

5. External Management of Funds

Investment through an external registered investment advisor, programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

Authorized Investments

1. Investment Types

The following security types are authorized for the investments of funds by the University:

- a. **United States Treasury Securities**
U.S. Treasury and other government obligations that carry the full faith and credit of the United States for the payment of principal and interest. This includes investment in Treasury bills, notes, bonds, strips, and Treasury inflation protected securities (TIPS).
- b. **United States Agency Securities**
Obligations, participations, or other instruments issued or guaranteed by any U.S. government agency, instrumentality, or government sponsored enterprise (GSE). This includes investment in coupon issues, zero coupon issues and strips, discount notes, callables, step-up coupons, floating-rate coupons, and mortgage-backed securities.
- c. **Repurchase Agreements**
Repurchase agreements between the University and a commercial bank or primary government securities dealer. Investment in repurchase agreements must be covered by a signed master repurchase agreement substantially of the standard form designated by SIFMA. Acceptable collateral includes only securities in A. and B. above, and must be collateralized at a minimum of 102%.
- d. **Collateralized Public Deposits (Certificates of Deposit)**
Instruments issued by financial institutions which state that specified sums have been deposited for specified periods of time and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as described in §§ 110.010 - .020, RSMo.
- e. **Bankers' Acceptances**
Time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances. The University may invest in bankers' acceptances issued by domestic commercial banks rated A-1, P-1, or the equivalent by at least two nationally recognized statistical rating organizations (NRSROs). Purchases of bankers' acceptances may not exceed 180 days.
- f. **Commercial Paper**
Commercial paper rated A-1, P-1, or the equivalent by at least two nationally recognized statistical rating organizations. Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of \$500,000,000 and have long term debt ratings, if any, of "A" or better from at least one NRSRO. Purchases of commercial paper may not exceed 270 days to maturity.
- g. **Negotiable Certificates of Deposit**
Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank or federal savings and loan association or by a federal- or state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institutions are rates "A-", its equivalent, or better by two nationally recognized statistical-rating service.
- h. **Corporate Bonds**
Investment grade corporate bonds, rated A- or better by at least two nationally recognized statistical rating organizations (NRSROs).
- i. **Money Market Mutual Funds**
Registered money market mutual funds that adhere to SEC rule 2a-7, and are rated AAAM or the equivalent by at least one nationally recognized statistical rating organization.
- j. **Asset Backed Securities**
Asset-backed securities (ABS) whose underlying collateral consists of loans, leases or receivables, such as auto loans/leases, credit card receivables, student loans, equipment loans/leases, or home-equity loans, rated A-1+/P-1 short-term or AAA/Aaa long-term by one NRSRO, with an average life of no more than 5 years.
- k. **Municipal Bonds**
Obligations of any state, subdivision or agency that is rated A- or better by any nationally rated statistical rating agency.

2. Investment Restrictions and Prohibited Transactions

To provide for the safety and liquidity of the University’s funds, the investment portfolio will be subject to the following restrictions:

- Borrowing for investment purposes (“leverage”) is prohibited.
- Reverse repurchase agreements are prohibited.
- Investments in complex derivatives are prohibited. Prohibited investments include inverse floaters, leveraged floaters, mortgage-backed IOs and POs, equity- or currency-linked securities, options, futures, swaps, caps, floors, and collars.
- Contracting to sell securities not yet acquired (short sale) is prohibited.
- Investment in any form of mutual fund, other than registered money market mutual funds, is prohibited.

3. Collateralization

Collateralization will be required on two types of investments including certificates of deposit and repurchase agreements. The market value (including accrued interest) of the collateral should be at least 100%.

For certificates of deposit, the market value of collateral must be at least 100% or greater of the amount of certificates of deposits plus demand deposits with the depository, less the amount, if any, which is insured by the Federal Deposit Insurance Corporation, or the National Credit Unions Share Insurance Fund.

All securities, which serve as collateral against the deposits of a depository institution, must be safe kept at a non-affiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts within five business days from the settlement date.

The University shall have a depository contract and pledge agreement with each safekeeping bank that will comply with the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This will ensure that the University’s security interest in collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution.

4. Repurchase Agreements

The securities for which repurchase agreements will be transacted will be limited to U.S. Treasury and government agency securities that are eligible to be delivered via the Federal Reserve Fedwire book entry system. Securities will be delivered to the University’s designated Custodial Agent either on a delivery vs. payment basis or through a tri-party arrangement.

Additional Limitations

1. Security Type Limits

Investments shall be diversified, subject to the following maximum allocations per security type:

- U.S. Treasuries and securities guaranteed by the U.S. Government.....no limit
- Collateralized time and demand deposits.....no limit
- U.S. Government agencies, instrumentalities and government sponsored enterprises.....no limit
- U.S. Government agencies callable securities.....no more than 30%
- Collateralized repurchase agreements.....no limit
- Commercial paper, bankers’ acceptances, and negotiable certificates of deposit (combined).....no more than 50%
- Corporate Bonds.....no more than 40%
- Money Market Mutual Funds.....no more than 20%
- Asset Backed Securities.....no more than 25%
- Municipal Bonds.....no more than 20%

2. Maximum Maturities

To the extent possible, the University shall attempt to match its investments with anticipated cash flow requirements. No investment shall have a maturity longer than 5 years or 5-year average life from the date of settlement. Investments are subject to the following maximum maturities:

- U.S. Treasuries.....5 years or 5-year average life
- U.S. Government Agencies.....5 years or 5-year average life
- Repurchase Agreements.....90 days
- Bankers' acceptances.....180 days
- Commercial paper.....270 days
- Corporate Bonds.....5 years or 5-year average life
- Negotiable CDs.....5 years or 5-year average

The University's portfolio shall have a duration consistent with its investment and liquidity objectives, and a maximum duration of 3 years. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as bank deposits, overnight repurchase agreements or money market mutual funds to ensure that appropriate liquidity is maintained to meet ongoing obligations.

3. Issuer Limit

No more than 5% of the total market value of the portfolio may be invested in any one non-government issuer. Investments in bankers' acceptances, commercial paper, corporate bonds, and negotiable CDs will be combined to determine aggregate exposure.

Reporting

1. Methods

The Vice President of Finance & Administration shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the University to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Board of Regents of the University. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration (in accordance with Government Accounting Standards Board (GASB) 31 requirements). [Note, this is only required annually]
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should seek to obtain a market average rate of return over a full market/economic cycle. A benchmark may be established against which portfolio performance shall be compared on a quarterly basis.

3. Marking to Market

The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be issued at least annually to the Board of Regents of the University. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

4. Credit Downgrades

Credit ratings should be monitored on a regular basis. The University or its investment advisor shall review any downgrades below the minimum ratings guidelines and recommend an appropriate course of action.

Policy Considerations

1. Exemption

Any investment held as of the date of the adoption of this policy that does not meet the guidelines of this policy shall be exempt from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

2. Investment Policy Adoption

This investment policy shall become effective upon adoption by resolution of the Board of Regents. The policy shall be reviewed by the Vice President of Finance & Administration on an annual basis and any modifications made thereto must be approved by the Board of Regents before becoming effective.

Source Documents & Approval Dates

Source Documents: Article IV, Section 15, Constitution of Missouri
Chapters 174 and 402, Revised Statutes of Missouri
Chapters 30 and 110, Revised Statutes of Missouri
110.010-110.020 Depositories for Public Funds & Secured Deposits
030.250-030.260 Contract with Depositary & Deposit of Funds
030.260-030.270 Investment Policy & Security for Safekeeping of Funds
State of Missouri Investment Policy

Key Dates: Policy Developed (April 2011)
Last Reviewed by Board People, Finance & Operations Committee (May 2023)
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