



MEMORANDUM

TAB B

May 8, 2020

Southern Utah University – Investment Policy Revision

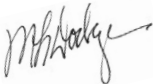
Regents policy R541, *Management and Reporting of Institutional Investments* requires the Board to approve changes to USHE institutional investment policies. Southern Utah University (SUU) requests approval of revisions to their University Investment Policy to ensure compliance with current financial laws, regulations, and stewardship.

Revisions to the SUU investment policy include: Trustee reporting, management of cash flows, reinstating the Trustee Advisory Committee, Public Treasurer qualifications, and outlining duties and responsibilities of both. Additional updates include allowable investment instruments, asset allocation, appropriate diversification strategies, and risk tolerance. All revisions received approval from applicable University committees and from the Board of Trustees on March 25, 2020. University representatives will be in attendance to address any specific questions.

Commissioner's Recommendation

The Commissioner recommends the Board approve the changes to the SUU investment policy as proposed.

Attachment

Date: April 27, 2020
To: Utah State Board of Regents
From: Marvin L. Dodge 
Subject: Revisions to Policy 10.12 *University Investment Policy*

The latest revisions to SUU's Investment Policy ensure ongoing compliance with changing financial laws and regulations. They also ensure University leadership is fulfilling its stewardship over investment funds. Policy revisions outlined in this document were drafted by the University Controller in collaboration with Accounting Services and Soltis Investment Advisors, SUU's contracted investment consultant. All revisions are compliant with the Utah Money Management Act and the Uniform Prudent Management of Institutional Funds Act.

Investment policies and procedures for public institutions are highly regulated by the state due to the sensitive nature of public funds and dynamic markets. As such, changes to the Investment policy require approval by both the University Board of Trustees and the Utah State Board of Regents prior to implementation.

General provisions include the management of cash flows to maximize financial returns, monthly and quarterly reporting to Trustees, reinstating the Trustee Investment Advisory Committee, setting qualifications for SUU's Public Treasurer, and outlining the duties and responsibilities of both.

The policy also provides guidelines for appropriate and allowable investment instruments, asset allocation, appropriate diversification, and establishes a long-term horizon to ensure principal growth outpaces inflation while maintaining a rate of return sufficient to meet annual scholarship needs.

Policy revisions received approval from applicable committees within the University, and ultimately by the Board of Trustees on March 25, 2020.



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UNIVERSITY INVESTMENT POLICY

- I. **PURPOSE:** To establish policies and guidelines related to the investment of public funds and the reporting of such investments in accordance with applicable statutes or rules.
- II. **SCOPE:** This policy applies to all funds owned, held, or administered by the University regardless of the source from which these funds are derived.
- III. **REFERENCES:**
 - A. Southern Utah University Policy 5.7 *Conflicts of Interest*
 - B. Utah Administrative Code R628 *Rules of the State Money Management Council*
 - C. Utah Code 51-7 *State Money Management Act*
 - D. Utah Code 51-8 *Uniform Prudent Management of Institutional Funds Act*
 - E. Utah State Board of Regents Policy R541 *Management and Reporting of Institutional Investments*
- IV. **DEFINITIONS:**
 - A. **State Funds:** Public money raised by operation of law for the support and operation of the state government, such as from legislative appropriations for the support and operation of the University.
 - B. **Public Funds:** State funds and all other money, funds, and accounts, regardless of the source, which are owned, held or administered by the University.
 - C. **Donated Funds:** Funds acquired by gift, devise or bequest to the University.
 - D. **Public Treasurer:** A University employee who has been designated by the Board of Trustees as the University's Public Treasurer as defined in the State Money Management Act, and who has the responsibility for the safekeeping and investment of any public funds.
 - E. **Investments:** As used in this policy, investments refer to all funds held by the University under provisions of the State Money Management Act or UPMIFA.
- V. **GENERAL PROVISIONS:**
 - A. The investment of public funds by the University shall comply with applicable



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statutory provisions, including the State Money Management Act, the rules of the State Money Management Council, the Uniform Prudent Management of Institutional Funds Act, and with the policies of the State Board of Regents and the Southern Utah University Board of Trustees.

- B. University Objectives: The University shall manage its cash flow in a manner that will maximize cash available for investment. Available funds shall be invested in accordance with the following objectives:
1. Protection and safety of the principal
 2. Liquidity and term of investment which will provide funds for anticipated expenditures in a timely manner
 3. Investment of funds recognizing the needs of both operating accounts and endowed funds
 4. Conformity with state law, pertinent bond resolutions or indentures, or other pertinent legal restrictions
 5. Maximize the rate of return consistent with the foregoing objectives
- C. Investments Administered on an Individual Basis
1. The following types of funds and investments shall be administered on an individual basis in accordance with their terms, restrictions, and/or governing policies:
 - a) Funds held in trust by others, the income of which accrues to the University
 - b) Investments of the State Land Board and any other State agencies administered on behalf of the University
 - c) Investments of funds restricted by donor agreements
 - d) Bond reserve investments in compliance with bond agreements
 - e) Funds approved for individual investment by the Investment Advisory Committee.
- D. Delegation of Responsibility:
1. Board of Trustees
 - a) The State Board of Regents has delegated to each institutional Board of Trustees full responsibility to manage and report institutional investments in compliance with Regents Policy R 541.



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- b) The Board of Trustees has investment oversight responsibilities and shall approve the investment policy, and designate a Public Treasurer.
 - c) The Board of Trustees shall review and approve monthly investment reports and quarterly reports of the institution's endowment portfolio.
 - d) The Board of Trustees shall require institutional compliance with the State Money Management Act Rules of the Money Management Council and UPMIFA.
 - e) The Board of Trustees shall approve external professional investment advisor(s) and manager(s) for the University.
 - f) The Board of Trustees shall designate one member as Chair of the Investment Advisory Committee.
2. President of the University
- a) Recommend University investment policies, including changes or modifications, to the Board of Trustees for approval.
 - b) Review and evaluate the University's investment performance through approval of monthly investment reports and quarterly endowment portfolio reports.
 - c) Make recommendations to the Board of Trustees regarding external professional investment advisors and/or managers for the University.
 - d) Recommend to the Board of Trustees an employee to serve as Public Treasurer.
 - e) Appoint up to four (4) individuals to serve on the Investment Advisory Committee at least one (1) of which shall be a qualified investment management professional.
3. Public Treasurer
- a) The Public Treasurer is appointed by the Board of Trustees. If a specific appointment of a Public Treasurer by the Board of Trustees has not been made, the Vice President of Finance and Administration is considered appointed.
 - b) The Public Treasurer shall have:
 - i. Demonstrated investment knowledge and experience through professional endeavors and/or through obtaining financial certifications;



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- ii. Integrity and strong moral character;
 - iii. The ability to build relationships with investment, banking, and other personnel;
 - iv. Possess financial acumen with proven ability to educate others on investments.
 - c) The Public Treasurer, in accordance with advice from the Investment Advisory Committee shall:
 - i. Develop and submit investment policies, guidelines, operating procedures, and asset allocation changes to the Investment Advisory Committee for review;
 - ii. Recommend investment policies, including changes or modifications, to the President for approval by the Board of Trustees;
 - iii. Invest and reinvest the proceeds of the investment portfolio(s);
 - iv. Review and evaluate the University's investment performance by reviewing and approving monthly investment reports and quarterly endowment portfolio reports as prescribed for the Board of Trustees;
 - v. Approve the distribution of investment earnings.
 - vi. Contract with independent professional investment advisors and/or managers for the University;
 - vii. Approve and/or ratify University investment actions;
 - viii. Sign Public Treasurer assertion on reports;
 - ix. Supervise the daily investment program operation;
 - x. Approve University investments except as delegated to external investment managers;
 - xi. Meet quarterly, or as needed, with the Board of Trustees to review investment performance.
- 4. Investment Advisory Committee shall include the following members as appointed by the Board of Trustees and President:
 - a) The Public Treasurer;
 - b) The Vice President for Finance and Administration (if not appointed as Public Treasurer);
 - c) One (1) Board of Trustees member appointee, who serves as Chair;



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- d) Up to four (4) additional Presidential appointees, of which at least one (1) appointee shall be a qualified investment management professional.
 - e) The Investment Advisory Committee shall:
 - i. Monitor performance of internal and independent investment advisors and/or managers;
 - ii. Review the University's current investment portfolio and investment performance;
 - iii. Review the University's current investment strategy and recommend investment strategy to be employed for the future;
 - iv. Recommend appropriate revisions to investment policies and guidelines;
 - v. Recommend to the Public Treasurer the engagement, termination or continuation of independent investment advisors and/or managers;
 - vi. Forward committee recommendations for investment actions to the Public Treasurer.
 - vii. Consider all other items referred to the committee by the Public Treasurer;
 - viii. Meet at least quarterly or as often as may be necessary to fulfill its function.
5. Internal Investment and Accounting Personnel shall assist the Public Treasurer in managing the operational activities of the investment portfolio(s), including recording, reporting, the execution of investment strategies, and due diligence oversight. These individuals are generally not members of the Investment Advisory Committee, but may attend meetings as needed as support staff.

VI. POLICY

- A. Authority to Manage Public Funds:

The authority to manage the University's public funds, subject to limitations required by paragraph V.C, is delegated to the Public Treasurer or designee. If specifically approved by the Public Treasurer, the authority to invest public funds may also be delegated to independent investment advisors and/or managers, but in no way reduces the role of the Public Treasurer's responsibility for full compliance with the Money Management Act or rules



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of the Money Management Council (see Rule 19.5.2 of the Rules of the Money Management Council).

- B. Approval of Investment Decisions:
Entering into repurchase agreements, the purchase of money market funds, redemption of securities, and the sale of securities donated to the University, must be approved by one of the following University officials:
- a) President of the University
 - b) Chair of the Investment Advisory Committee
 - c) Public Treasurer
 - d) Vice President of Finance and Administration (if not designated as Public Treasurer)

All other investment purchases must be approved by two of the above listed University officials. No person may engage in investment transactions on behalf of the University except as provided under the terms of this policy.

- C. Investment Pools
1. Ordinarily, funds will be pooled for investment purposes.
 - a) Specific investment pools or portfolios may be established to:
 - i. Ensure compliance with specific provisions of the State Money Management Act and rules of the State Money Management Council or UPMIFA.
 - ii. Ensure compliance with any legal restrictions, such as bond covenants or trust agreements.
 - iii. Ensure compliance with donor instruments relating to gifts or bequests.
 - iv. Meet investment objectives of groups of similar accounts.
 - v. Provide liquidity to meet operating need of the University.
 - b) Investment pools may be established only upon approval of the Public Treasurer after consultation with the Investment Advisory Committee.
 - c) Guidelines for the operation and management of each investment pool will periodically be reviewed by the Investment Advisory Committee.

- D. Distribution of Pooled Investment Income:
Investment income will be distributed to all eligible accounts that provide



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funds for investment income distribution. Rates will be recommended by the Public Treasurer and approved by the Investment Advisory Committee. Eligible accounts include endowment, quasi-endowment, or reserve accounts as approved by the President or Public Treasurer. Investment income attributable to other types of accounts shall be credited to the President's discretionary earnings account.

E. Reporting Requirements:

1. The Public Treasurer shall submit monthly investments reports of all investment pools, funds managed by external managers, funds separately invested, endowment trusts, and bond reserve funds to the Board of Trustees.
2. All reports shall include the Public Treasurer's assertion that, to the best of the Public Treasurer's knowledge, the institution is in compliance with the Utah State Money Management Act and the rules of the Money Management Council and UPMIFA.
3. The Public Treasurer shall submit a monthly investment performance report to the Secretary of the Board of Trustees within 45 days of the end of each month for inclusion in the agenda of the next Board of Trustees' meeting. Within 30 days of Board of Trustees approval, the University shall submit to the Board of Regents, a copy of the reports submitted to the Board of Trustees.
4. The Public Treasurer shall submit quarterly reports of the endowment portfolio to the Secretary of the Board of Trustees within 45 days of the end of the quarter for inclusion in the agenda of the next Board of Trustees meeting.
5. Semiannually, the University shall submit to the Money Management Council, in form provided by the Council, a written report of investments held at June 30 and December 31 on or before July 31 and January 31 of each year, respectively.
6. Annually, the University shall submit, on forms provided by the Office of the Commissioner of Higher Education, a summary report of all investments under its jurisdiction.
7. The University, through its internal auditors or independent auditors, shall annually audit its institutional investments and shall send the completed audit report to the Board of Regents Audit Manager by January 15 of each year. These audits shall be conducted using generally accepted auditing standards.
8. The Board of Trustees shall submit an annual report to the Governor and the Legislature summarizing all investments under the



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University's jurisdiction.

F. **Internal Controls:**

The University shall establish a system of internal controls which shall be evaluated by University internal auditors and independent external auditors annually. The controls include, but are not limited to the segregation of the investing and recording duties, investing and reporting responsibilities, as well as compliance review, and shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by University employees and officers.

VII. INDEPENDENT INVESTMENT ADVISORS

A. The University may use the services of qualified independent investment advisors to conduct investment transactions on behalf of the Public Treasurer as permitted by the State Money Management Act, Rules of the Money Management Council, and University Policy. Due diligence in the selection of any investment advisor and monitoring compliance with these statutes, rules, and policies, and the performance of investment advisors is the responsibility of the Public Treasurer.

B. **Independent Investment Advisors shall:**

1. Act in accordance with fiduciary responsibilities and applicable statutes, rules and policies;
2. Comply with guidelines and procedures established by the Board of Trustees and/or the Investment Advisory Committee regarding the prudent investment of public funds under the University's jurisdiction;
3. Provide guidance to the Investment Advisory Committee on matters pertaining to the investment of assets;
4. Communicate promptly with the Public Treasurer and/or designated internal investment personnel regarding all significant matters, including but not limited to operational, financial, regulatory, and legal matters, or modifications to the existing investment advisory agreement;
5. Recommend appropriate changes to the investment policies, guidelines, and objectives;
6. Monitor and communicate capital market trends, asset mix and allocation strategies, and strategic rebalancing;
7. Execute timely reallocation of assets, as necessary;
8. Measure, evaluate, and report on the performance of investments and



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- investment managers;
9. Deliver securities to the University's custodial bank(s) on a delivered versus payment methodology;
 10. Provide additional recommendations, support, and advice as required.

VIII. QUALIFIED DEPOSITORIES AND SECURITIES CUSTODIANS:

- A. Qualified depositories as defined by the State Money Management Act include securities custodians who hold public funds for investment purposes.
- B. Qualified depositories act in the fiduciary status for the University and for public funds held in behalf of the University. As such, they shall:
 1. Communicate promptly with the Public Treasurer and/or designated internal investment and accounting personnel regarding all significant matters, including but not limited to operational, financial, regulatory, and legal matters, or modifications to the existing qualified depository agreement;
 2. Provide safekeeping of public funds and securities, which include the collection of dividends and interest payments, cash disbursements, and cash flow management as directed;
 3. Issue complete and accurate monthly statements of account balances, security holdings, and positions priced in accordance with industry standards, including income and cash flows received.

IX. ETHICS AND CONFLICTS OF INTEREST:

The Public Treasurer, University officials, Investment Advisory Committee members, and independent investment advisors and/or managers involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which might impair their ability to make impartial investment decisions. Investment officials shall disclose confidentially to the University President and to University Counsel, any material financial interests in financial institutions that conduct business with the University, and any large personal financial/investment positions that may affect performance of investment duties or the performance of the University's portfolio.

X. INVESTMENT GROUPINGS AND GUIDELINES

- A. Cash Management Investment Pool
 1. Consists of available cash in excess of estimated daily operating requirements from all University and agency funds.
 2. Funds in this pool may only be invested in investments that meet the criteria of the Utah State Money Management Act and Rules of the



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- State Money Management Council.
3. Net earnings (realized gains/losses, dividends, and interest [net of expenses]) will be distributed to the fund groups, sub-fund groups, and to specific restricted fund accounts (when required by contractual agreement) that participate in the investment pool. The method of allocation will be based on the average daily cash balance.

B. Endowment Pool

1. The endowment pool (Pool) consists of endowment funds that are not restricted by donors as to the type of investment.
2. Investment of these funds are conducted under the total return concept of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), whereby “net appreciations, realized and unrealized, in the fair value of assets of an endowment fund” may be appropriated for expenditure. UPMIFA was adopted into state law under Utah Code Section 51, Chapter 8.
3. The Pool has a long-term investment horizon in excess of ten years and essentially in perpetuity with the primary objective of growth of principal over time. Principal growth should ensure that the real purchasing power of the Pool is maintained after inflation, costs, and spending are considered. A long-term average annual return of 4% above inflation, as measured by the Consumer Price Index (CPI) is reasonable. Hence, the Pool will provide a stable source of financial support for the needs of the University.
4. In order to meet the long-term investment goals of the Pool, it is recognized by the Board that risk is necessary, returns will fluctuate, and market volatility is evident. As such, the Pool will be managed in a manner that seeks to minimize principal fluctuations consistent with the stated objectives over the long-term. Asset allocation will be a major determinant of investment performance. Risk will be minimized through diversification of assets, including international investments. Tolerance for volatility and risk could include declines in the value of the portfolio as great as 20% in any given year and losses as often as four out of ten years to achieve maximum returns. Historical performance is not a guarantee of future performance.
5. These Operating Guidelines will designate how the Pool shall be managed. Once approved by the Board, the Public Treasurer shall have the authority to manage the Pool within these Guidelines without further authorization from the Board.
 - a) Asset Allocation: The Public Treasurer shall invest the Pool



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using an asset allocation that is designed to meet the Pool's long-term goals based on the state objectives of the Pool. Decisions are based upon the current economic and market environment as well as historical performance of asset classes.

- b) Illiquid Investments: Investments in and commitments to illiquid investment strategies are outside of standard practices. As such, alternative investment strategies are to be executed with professional investment manager funds. Strategies outside of these criteria shall be analyzed and discussed by the Investment Advisory Committee separately for approval.
- c) Targets and Ranges: Target allocations and ranges for each investment strategy will be set forth by the Investment Advisory Committee. Deviations from target allocations will occur due to market fluctuations, as well as the necessity for extended period of time to fully implement the asset allocation plan.
- d) Rebalancing: To ensure the Pool does not incur undue risks from deviations from the policy portfolio, an asset class analysis will occur on a quarterly basis. As such, asset classes with greater than a 5 percent deviation from the target allocation will be adjusted.
- e) Standard of Conduct: In managing and investing the Pool, the University shall:
 - i. Act as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowment. In satisfying this standard, the University shall exercise reasonable care, skill, and caution;
 - ii. Investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the endowment portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the endowment;
 - iii. Consideration of the following factors, if relevant, should be followed:
 - General economic conditions;
 - The possible effect of inflation or deflation;
 - The role that each investment or course of



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- action plays within the overall portfolio;
 - The expected total return from income and the appreciation of capital;
 - Needs for liquidity, regularity of income, and preservation or appreciation of capital; and
 - An asset's special relationship or special value, if any, to the purposes of the endowment or to one or more of the beneficiaries.
- iv. Make a reasonable effort to verify facts relevant to the management and investment of the Pool;
- v. Incur only costs that are reasonable and appropriate in relation to the assets, the University purposes, and the skills available to the University.
- f) Delegation: The Public Treasurer, upon advice from the Investment Advisory Committee, and in accordance with Section VII, paragraph A above, may delegate to an external Investment Advisor the investment of all or part of the Pool, subject to any specific limitation set forth in a gift instrument. This delegation, through exercise of reasonable care, skill, and caution ensures that the scope and terms of the delegation are consistent with the purposes of the University and the Pool, as well as ensuring periodic review of actions to ensure that high standards of fiduciary duty are met in compliance with applicable laws and regulations.
- g) Fund Manager Selection: The Public Treasurer, or external advisor(s) as delegated, shall conduct a due-diligence process for selection of fund managers which includes both a qualitative and quantitative evaluation. This process ensures that the recommended fund manager(s) performance and investment style aligns with the University's investment objectives and risk profile as outlined.
- i. Qualitative Evaluation: These factors include, but are not limited to:
- Investment management process, including theory and implementation;
 - Operational capabilities, including personnel, scalability, communication, service, and compliance;
 - Education and professional designations;
 - Industry experience, technical knowledge, and



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- application;
 - Organizational stability and integrity;
 - Investment vehicle structure including inception date, total assets, and expense ratios or fees;
 - Investment research capability, including economic factors;
 - Audited performance measures;
 - Conflicts of interest.
- ii. Qualitative Evaluation: Performance will be measured on a short-term (1-3 years) and longer-term basis (full market cycle) considering positive and negative market cycles. Manager(s) must show top-quartile performance that outperforms their respective benchmark. In addition, manager(s) should have a 5-year track record and at least \$50 million in assets under management.
- h) Fund Manager Removal: Evaluation of managers occurs on a periodic basis. Managers failing to meet the following factors are subject to additional review (Watch Status), with the potential removal from the portfolio:
- i. Portfolio manager turnover;
 - ii. Significant asset size changes, including large inflows and outflows;
 - iii. Performance issues, which may include and are not limited to the following:
 - Underperforming their specific index on a cumulative total rate of return basis;
 - Lagging performance on a 3-year and 5-year basis in comparison to their respective index (benchmark);
 - Falling below top-quartile performance over a full market cycle.
 - iv. Investment philosophy and/or style deviations from the original selection criteria;
 - v. Significant organizational changes, including but not limited to management changes, ownership changes, and legal issues.
- i) Proxy Voting: Proxies shall be voted on for the exclusive benefit of the participants and beneficiaries of the Pool. Unless specific direction is provided from the Public



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- Treasurer and/or Investment Advisory Committee, then Investment Advisor(s) and Manager(s) shall vote proxies in accordance with this Guideline.
- j) Security Trade Execution: Purchase and sale of securities should be done in a manner designed to receive the combination of best price and execution, regardless of whether the trade is placed by the Public Treasurer or a designated external advisor(s).
 - k) Liquidity: The Pool shall be managed to maintain at least 70% of its assets in highly marketable securities that can be liquidated at market prices if needed.
6. The following Investment Strategies, Guidelines and Restrictions should be followed:
- a) The Pool will be diversified by asset class and within asset classes to mitigate the disproportionate impact that one security or asset class can have on overall performance. For instance, concentration of holdings in individual issues, corporations, or industries will be limited.
 - b) As a general rule, not more than 5 percent of the outstanding shares of any one security may be held. Fixed income securities, excluding U.S. Treasury and federal agency debt will not exceed 5 percent of the total bond portfolio, while not more than 10 percent of the total stock portfolio may be invested in stock of a single issuer. Investments in individual mutual funds will be limited to 15 percent. Aggregate investments in mutual fund families will be limited to less than 30 percent of the Pool. Investments in securities of issuers representing a single major industry shall not exceed 10 percent of the Pool's total market value. Investments in Alternative Investments shall not exceed 10 percent of the Pool's total market value. Quarterly balancing will occur, as necessary.
 - c) Spending:
 - i. Policy spending rate: The policy spending rate for the Pool shall be determined annually by the Investment Advisory Committee, but a spending rate of 4 percent is desirable.
 - ii. Spending formula: The policy spending rate will be applied each fiscal year to the rolling average of the



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- previous 12 quarters' ending-period endowment value amount (or shorter period where there is not 12 previous quarters) to determine the annual appropriation.
- iii. Special appropriation and decisions not to spend: The Board of Trustees will approve, with proper notice, any special appropriation or decision not to spend the amount indicated by the spending formula.
- iv. Standard of conduct: Subject to the intent of a donor expressed in a gift instrument, the University may appropriate for expenditure or accumulate so much of the Pool as the Board determines to be prudent for the uses, benefit, purposes, and duration for which each of the separate endowments of the Pool is established. The University shall act in good faith, care, and prudence as an ordinary person would in making a determination to appropriate or accumulate. The following factors, if relevant, would guide the decision:
- The purposes of the University and the investment;
 - General economic conditions;
 - The possible effect of inflation or deflation;
 - The expected total return from income and the appreciation of investments;
 - The duration and preservation of the Pool;
 - Other resources of the University; and
 - University's investment policy.
- d) Equity Securities: This asset class includes domestic and international common stock, American Depository Receipts (ADRs), preferred stock, and convertible stock which meet the total return objectives of the Pool. Their purpose is to provide capital appreciation, growth of income, and current income. Equity holdings shall be restricted to quality, readily marketable securities of actively traded corporations on the major U.S. and International exchanges. For the purpose of reporting, balanced funds, real estate investment trusts (REITs), and pooled or commingled investment funds without a clear primary purpose are also categorized as equity investments.
- e) Fixed Income Securities: This asset class includes, but is not



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limited to, U.S. Treasury, federal agencies, U.S. government guaranteed obligations, non-U.S. dollar denominated securities, public and private corporate debt, mortgages and asset-backed securities, and non-investment grade debt. Also included are money market instruments such as commercial paper, certificates of deposit, time deposits, bankers' acceptances, repurchase agreements, and U.S. Treasury and agency obligations. Fixed income investments shall be quality, readily marketable securities where credit quality, sector, duration and issuer concentrations are considered. Their purpose is to provide a current income stream, reduce overall Pool volatility, and provide appropriate hedges for deflation or inflation, as needed. Active management of fixed income securities is preferred to capitalize on opportunities arriving from mergers or acquisitions, credit rating changes, interest rate volatility, spread changes, or other abnormalities.

- f) Cash and Equivalents: This asset class includes high quality commercial paper (A-1, P-1 or higher, maturing in 360 days or less), repurchase agreements, U.S. Treasury Bills, certificates of deposit, and money market funds. Their purpose is to act as a depository for income distributions, temporary hold funds for further investment, spending or expense needs, and preserve the Pool's principal value. Cash reserves will be kept at a minimum.
- g) Alternative Investments: This asset class consists of the below permitted investments for the Pool, subject to the Guidelines set forth in each section:
 - i. Marketable Alternative Strategies: Investments may include, but not limited to domestic and international equity-oriented or market-neutral hedge funds.
 - ii. Private Capital: Investment allocations may include venture capital, private equity and international private capital investments. Such investments are typically held in the form of professionally managed pooled limited partnerships and must be purchased through professional investment manager funds.
 - iii. Energy & Natural Resources: Investments may include oil, gas, commodity-based, and timber investments. Such investments are typically held in the form of professionally managed pooled limited



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- partnerships and must be purchased through professional investment manager funds.
- iv. Private Equity Real Estate: Investments may include income producing commercial and residential property exclusive of professionally managed pooled real estate investment funds (REITs).
 - v. Distressed Debt: Investments may include the debt securities of companies undergoing bankruptcy or reorganization. Such investments must be purchased through professionally managed funds.
 - vi. Derivatives and Derivative Securities: Derivatives are contracts or securities whose market value is related to the value of another security, index, or financial instrument. Investments in derivatives include, but are not limited to futures, forwards, options, options of futures, warrants, and interest-only and principal-only strips. Derivative investment strategies are appropriate for hedging market, interest rate, or currency risk, adjusting duration, as well as maintaining or gaining cost-effective exposure to a desired asset class. Counterparty risk, investment manager(s) experience, applicable internal controls, and the strategy and nature of the investment are important considerations. Speculative derivative investments are not permissible.
 - vii. Lending: Loans of Quasi-Endowment funds may be executed with approval from the Investment Advisory Committee, as a method to provide capital inflows for institutional purposes as the endowment continues to generate income. These loans are not included in the existing spending policy. Loan documentation is required, as well as applicable revenues to ensure payback within a reasonable timeframe. Loans are executed at prevailing market interest rates in a fixed and/or variable fashion. Securities lending is also a permissible form of generating income for the Pool. A separate written agreement and appropriate custody of assets is required.
 - viii. Investment Restrictions: The Investment Advisory Committee may modify or waive any of the restrictions or guidelines as a result of a



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comprehensive review of an investment manager(s) or strategy. As such, an addendum which supports these actions and reporting to the Board of Trustees at the next scheduled meeting is required.

C. Separately Invested Funds:

These are separate investments (non-pooled) generally consisting of donor restricted investments, investments under annuity agreements with donors, investments of agency funds, endowment and other trusts, or other separate investments recommended by the Investment Advisory Committee. Dividends, interest, realized gains or losses, and any associated expenses are recorded directly upon receipt of payment to the individual fund.

D. Trust Funds:

These funds are separate investments consisting of monies managed by an external trustee as part of a specific funding agreement. Investments are made pursuant to the funding agreement. Investments of Trust Funds are reviewed and discussed by the external trustee and the Public Treasurer to assure the maximum possible earnings are attained.



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I. PURPOSE: To establish University policies and procedures-guidelines related to the investment of public funds and gifts and the reporting of such investments in accordance with applicable statutes or rules.

II. SCOPE: This policy applies to all funds owned, held, or administered by the University regardless of the source from which these funds are derived.

III. REFERENCES:

A. Southern Utah University Policy 5.7 *Conflicts of Interest Policy* (SUU Policy 5.7)

B. Utah Administrative Code R628 *Rules of the State Money Management Council*

A-C. Utah Code 51-7 *State Money Management Act, Section 5, Chapter 7* (Utah Code 51-7)

B-D. Utah Code 51-8 *Uniform Prudent Management of Institutional Funds Act, Section 51, Chapter 8* (UPMIFA) (Utah Code 51-8)

E. Utah State Board of Regents Policy R541 *Management and Reporting of Institutional Investments*

C.A. ~~Conflicts of Interest Policy (SUU Policy 5.7)~~

D. ~~Investment Guidelines and Investment Groupings~~

IV. DEFINITIONS:

A. State Money Funds:— Monies Public money raised by operation of law for the support and operation of the state government, such as from legislative appropriations for the support and operation of the University.

B. Public Funds:— State money funds and all other money, funds, and accounts, regardless of the source, which are owned, held or administered by the University.

C. Donated Funds:— Funds acquired by gift, devise or bequest to the University, by gift, devise or bequest.

D. Public Treasurer:— A University employee who has been designated by the Board of Trustees as the University's Public Treasurer as defined in the State Money Management Act, and who has the responsibility for the safekeeping and investment of any public funds.

E. Investments:— As used in this policy, "investments" refers to all funds held



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by the University under provisions of the State Money Management Act or UPMIFA.

V. GENERAL PROVISIONS:

A. The investment of public funds by the University shall comply with applicable statutory provisions, including the State Money Management Act, the rules of the State Money Management Council, the Uniform Prudent Management of Institutional Funds Act, and with the policies of the State Board of Regents and the Southern Utah University Board of Trustees. ~~The President of the University shall recommend for appointment by the Board of Trustees, an employee of the University to serve as the University's Public Treasurer and employees to serve as the Treasurer's designees. These nominees shall possess demonstrated skills and capabilities in the management of institutional cash and investments.~~

B. University Objectives:— The University shall manage its cash flow in a manner that will maximize cash available for investment. Available funds shall be invested in accordance with the following objectives:

1. Protection and safety of the principal
2. Liquidity and term of investment which will provide funds for anticipated expenditures in a timely manner
3. Investment of funds recognizing the needs of both operating accounts and endowed funds
4. ~~Conformity to~~ with state law, pertinent bond resolutions or indentures, or other pertinent legal restrictions
5. Maximize the rate of return consistent with the foregoing objectives

B.C. Investments Administered on an Individual Basis

1. The following types of funds and investments shall be administered on an individual basis in accordance with their terms, restrictions, and/or governing policies:
 - a) Funds held in trust by others, the income of which accrues to the University
 - b) Investments of the State Land Board and any other State agencies administered on behalf of the University
 - c) Investments of funds restricted by donor agreements
 - d) Bond reserve investments in compliance with bond agreements
 - e) Funds approved for individual investment by the Investment



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Advisory Committee.

C.D. Delegation of Responsibility:

1. Board of Trustees
 - a) The State Board of Regents has delegated to each institutional Board of Trustees full responsibility to manage and report institutional investments in compliance with Regents Policy R-541.
 - b) The Board of Trustees has investment oversight responsibilities and shall ~~adopt institutional~~ approve the investment policy ~~and procedure regarding investments, and designate a Public Treasurer, and approve the format of reports submitted for its review.~~
 - c) The Board of Trustees shall review and approve monthly investment reports ~~of portfolio activity~~ and quarterly ~~performance~~ reports of the institution's endowment portfolio.
 - d) The Board of Trustees shall require institutional compliance with the State Money Management Act Rules of the Money Management Council and UPMIFA.
 - e) The Board of Trustees shall approve external professional investment advisor(s) and manager(s) for the University.
 - f) The Board of Trustees shall designate one member as Chair of the Investment Advisory Committee.

2. President of the University
 - a) Recommend University investment policies, including changes or modifications, to the Board of Trustees for approval.
 - b) Review and evaluate the University's investment performance through approval of monthly investment reports and quarterly endowment portfolio reports.
 - c) Make recommendations to the Board of Trustees regarding external professional investment advisor~~(s)~~s and/or manager~~(s)~~s for the University.
 - d) Recommend to the Board of Trustees an employee to serve as Public Treasurer ~~and other employees to serve as designees.~~
 - e) Appoint up to four (4) individuals to serve on the Investment Advisory Committee at least one (1) of which shall be a qualified investment management professional.



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3. Public Treasurer

- a) The Public Treasurer is appointed by the Board of Trustees. If a specific appointment of a Public Treasurer by the Board of Trustees has not been made, the Vice President of Finance and Administration is considered appointed.
- b) The Public Treasurer shall have:
 - i. Demonstrated investment knowledge and experience through professional endeavors and/or through obtaining financial certifications;
 - ii. Integrity and strong moral character;
 - iii. The ability to build relationships with investment, banking, and other personnel;
 - iv. Possess financial acumen with proven ability to educate others on investments.
- c) The Public Treasurer, in accordance with advice from the Investment Advisory Committee shall:
 - i. Develop and submit investment policies, guidelines, operating procedures, and asset allocation changes to the Investment Advisory Committee for review;
 - ii. ~~and~~ Recommend investment policies, including changes or modifications, to the President for approval by the Board of Trustees;
 - a)iii. Invest and reinvest the proceeds of the investment portfolio(s);
 - b)iv. Review and evaluate the University's investment performance by reviewing and approving monthly investment reports and quarterly endowment portfolio reports as prescribed for the Board of Trustees;
 - i.v. Approve the distribution of investment earnings.
 - e)vi. ~~Make recommendations to the President regarding external~~ Contract with independent professional investment advisor(s) and/or manager(s) for the University;
 - d)vii. Approve and/or ratify University investment actions;
 - e)viii. Sign Public Treasurer assertion on reports;
 - f)ix. Supervise the daily investment program operation;
 - g)x. Approve University investments except as delegated to external investment managers;



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- ~~h) — Prepare an annual presentation of Investment Performance for the Board of Trustees.~~
- ~~i)xi. Meet quarterly, or as needed, with the President's Council Board of Trustees to review investment performance.~~
- ~~j) — Supervise the preparation of the transmittal letter for the President's signature transmitting applicable reports to the State Board of Regents.~~
- ~~k)xii. Approve quasi-endowment account requests to the Public Treasurer.~~

4. Investment Advisory Committee shall include the following members as appointed by the Board of Trustees and President:

- ~~a) The Public Treasurer;~~
- ~~a)b) The Vice President for Finance and Administration (if not appointed as Public Treasurer);~~
- ~~b)c) Two (2) One (1) Board of Trustees member appointees, one who serves as Chair;~~
- ~~e)d) Up to four (4) additional Presidential appointees, of which at least one (1) appointee shall be a qualified investment management professional.~~

~~At least two (2) committee members must be qualified investment management professionals.~~

~~5-e) The Investment Advisory Committee shall:~~

- ~~a)i. Monitor performance of internal and external investment managers independent investment advisors and/or managers;~~
- ~~b)ii. Review the University's current investment portfolio and investment results performance;~~
- ~~e)iii. Review the University's current investment strategy and recommend investment strategy to be employed for the future;~~
- ~~d)iv. Recommend appropriate revisions to investment policies and guidelines;~~
- ~~e)v. Recommend to the Board of Trustees Public Treasurer the engagement, termination or continuation of external mangers and investment advisors independent investment advisors and/or managers;~~
- ~~f)vi. Forward committee recommendations for investment actions to the Public Treasurer.~~



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- i.vii. Consider all other items referred to the committee by the Public Treasurer;
- viii. Meet at least quarterly or as often as may be necessary to fulfill its function.

6.5. Internal Investment and Accounting Personnel shall assist the Public Treasurer in managing the operational activities of the investment portfolio(s), including recording, reporting, the execution of investment strategies, and due diligence oversight. These individuals are generally not members of the Investment Advisory Committee, but may attend meetings as needed as support staff.

VI. POLICY

- A. Authority to Manage Public Funds:-
The authority to manage the University's public funds, subject to ~~investment-transaction-approvals~~ limitations required by paragraph V.BC, is delegated to the ~~University's~~ Public Treasurer or designee. If specifically approved by the ~~Board of Trustees~~ Public Treasurer, the authority to invest public funds may also be delegated to independent investment advisors and/or manager(s), but in no way reduces the role of the Public Treasurer's responsibility for full compliance with the Money Management Act or rules of the Money Management Council (see Rule 19.5.2 of the Rules of the Money Management Council).
- B. Approval of Investment Decisions:-
Entering into repurchase agreements, the purchase of money market funds, redemption of securities, and the sale of securities donated to the University, ~~in accordance with paragraph IV.C,~~ must be approved by one of the following University officials:
 - a) President of the University
 - b) Chair of the Investment Advisory Committee
 - c) Public Treasurer or designee
 - e)d) Vice President of Finance and Administration (if not designated as Public Treasurer)

All other investment purchases must be approved by two of the above listed University officials. No person may engage in ~~an~~ investment transactions on behalf of ~~Southern Utah~~ the University except as provided under the terms of this policy.



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C. Investment Pools

1. Ordinarily, funds will be pooled for investment purposes.
 - a) Specific investment pools or portfolios may be established to:
 - i. Ensure compliance with specific provisions of the State Money Management Act and rules of the State Money Management Council or UPMIFA.
 - ii. Ensure compliance with any legal restrictions, such as bond covenants or trust agreements.
 - iii. Ensure compliance with donor instruments relating to gifts or bequests.
 - iv. Meet investment objectives of groups of similar accounts.
 - v. Provide liquidity to meet operating need of the University.
 - b) Investment pools may be established only upon approval of the ~~President or the~~ Public Treasurer after consultation with the Investment Advisory Committee ~~and the Chair of the Board of Trustees~~.
 - c) Guidelines for the operation and management of each investment pool will periodically be reviewed by the Investment Advisory Committee.

D. Distribution of Pooled Investment Income:—

Investment income will be distributed to all eligible accounts that provide funds for investment income distribution. ~~rates~~ Rates will be recommended by the ~~Investment Advisory Committee~~ Public Treasurer and approved by the ~~Public Treasurer~~ Investment Advisory Committee.

Eligible accounts include endowment, quasi-endowment, or reserve accounts as approved by the President or Public Treasurer. Investment income attributable to other types of accounts shall be credited to the President's discretionary earnings account.

E. Reporting Requirements:—

1. The Public Treasurer shall submit monthly investments reports of ~~the Cash Management~~ all Investment ~~investment Pool~~ pools, funds managed by external managers, funds separately invested, endowment trusts, and bond reserve funds monthly to the Board of Trustees.
2. All reports shall include the Public Treasurer's assertion that, to the best of the Public Treasurer's knowledge, the institution is in



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- compliance with the Utah State Money Management Act and the rules of the Money Management Council and UPMIFA.
3. The Public Treasurer shall submit a monthly investment performance report to the Secretary of the Board of Trustees within 45 days of the end of each month for inclusion in the agenda of the next Board of Trustees' meeting. Within 30 days of Board of Trustees approval, the University shall submit to the Board of Regents, a copy of the reports submitted to the Board of Trustees.
 4. The Public Treasurer shall submit quarterly reports of investment-the endowment portfolios to the Secretary of the Board of Trustees within 45 days of the end of the quarter for inclusion in the agenda of the next Board of Trustees meeting.
 5. ~~The University shall submit to the Board of Regents a copy of the reports submitted to its Board of Trustees within 60 days of~~ Semiannually, the University shall submit to the Money Management Council, in form provided by the Council, a written report of investments held at June 30 and December 31 on or before July 31 and January 31 of each year, respectively.
~~submission to the Board of Trustees. Reports submitted to the Board of Regents shall be accompanied by a transmittal letter to the commissioner of the Utah System of Higher Education indicating that the President has reviewed the reports.~~
 6. Annually, the University shall submit, in the format determined on forms provided by the Office of the Commissioner of Higher Education, a summary report of ~~its money management activities for the prior fiscal year~~ all investments under its jurisdiction. The report shall include the University's internal auditor's opinion regarding: (1) the fairness of the report in accordance with generally accepted accounting principles, and (2) compliance with the applicable state statutes, in particular, the State Money Management Act, rules of the Money Management Council, the Uniform Prudent Management of Institutional Funds Act, or policies of the Board of Trustees and the State Board of Regents.
 7. The University, through its internal auditors or independent auditors, shall annually audit its institutional investments and shall send the completed audit report to the Board of Regents Audit Manager by January 15 of each year. These audits shall be conducted using generally accepted auditing standards.
 - 6.8. The Board of Trustees shall submit an annual report to the Governor and the Legislature summarizing all investments under the University's jurisdiction.



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F. Internal Controls:—

The University shall establish a system of internal controls which shall be evaluated by University internal auditors and independent external auditors annually. The controls include, but are not limited to the segregation of the investing and recording duties, investing and reporting responsibilities, as well as compliance review, and shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by University employees and officers.

VII. INDEPENDENT INVESTMENT ADVISORS

A. The University may use the services of qualified independent investment advisors ~~for to conduct~~ investment ~~consultation and performance review~~ transactions on behalf of the Public Treasurer as permitted by the State Money Management Act, Rules of the Money Management Council, and University Policy. Due diligence in the selection of any investment advisor and monitoring compliance with these statutes, rules, and policies, and the performance of investment advisors is the responsibility of the Public Treasurer. Any such qualified advisor will be required to submit quarterly performance review reports to the Public Treasurer and Investment Advisory Committee. The qualified advisor must possess knowledge of the Utah State Money Management Act, the Rules of the Money Management Council, and the Uniform Prudent Management of Institutional Funds Act.

B. Independent Investment Advisors shall:

1. Act in accordance with fiduciary responsibilities and applicable statutes, rules and policies;
2. Comply with guidelines and procedures established by the Board of Trustees and/or the Investment Advisory Committee regarding the prudent investment of public funds under the University's jurisdiction;
3. Provide guidance to the Investment Advisory Committee on matters pertaining to the investment of assets;
4. Communicate promptly with the Public Treasurer and/or designated internal investment personnel regarding all significant matters, including but not limited to operational, financial, regulatory, and legal matters, or modifications to the existing investment advisory agreement;
5. Recommend appropriate changes to the investment policies, guidelines, and objectives;
6. Monitor and communicate capital market trends, asset mix and allocation strategies, and strategic rebalancing;



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7. Execute timely reallocation of assets, as necessary;
8. Measure, evaluate, and report on the performance of investments and investment managers;
9. Deliver securities to the University's custodial bank(s) on a delivered versus payment methodology;
10. Provide additional recommendations, support, and advice as required.

VIII. RELATIONSHIPS WITH FINANCIAL INSTITUTIONS QUALIFIED DEPOSITORIES AND SECURITIES CUSTODIANS:

- A. Qualified depositories as defined by the State Money Management Act ~~shall be selected and retained in accordance with Regents Policy R-543~~ include securities custodians who hold public funds for investment purposes.
- B. Qualified depositories act in the fiduciary status for the University and for public funds held in behalf of the University. As such, they shall:
 1. Communicate promptly with the Public Treasurer and/or designated internal investment and accounting personnel regarding all significant matters, including but not limited to operational, financial, regulatory, and legal matters, or modifications to the existing qualified depository agreement;
 2. Provide safekeeping of public funds and securities, which include the collection of dividends and interest payments, cash disbursements, and cash flow management as directed;
 3. Issue complete and accurate monthly statements of account balances, security holdings, and positions priced in accordance with industry standards, including income and cash flows received.

IX. ETHICS AND CONFLICTS OF INTEREST:

The Public Treasurer, University officials, ~~and~~ Investment Advisory Committee members, and independent investment advisors and/or managers involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which might impair their ability to make impartial investment decisions. Investment officials shall disclose confidentially to the University President and to ~~the~~ University Counsel, any material financial interests in financial institutions that conduct business with the University, and any large personal financial/investment positions that may affect performance of investment duties or the performance of the University's portfolio.

X. INVESTMENT GROUPINGS AND GUIDELINES ~~AND INVESTMENT GROUPINGS~~

- A. Purpose: Cash Management Investment Pool



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~~To establish University guidelines and groupings related to the investment of all funds within the control of the University.~~

- ~~1. Consists of available cash in excess of estimated daily operating requirements from all University and agency funds.~~
- ~~2. Funds in this pool may only be invested in investments that meet the criteria of the Utah State Money Management Act and Rules of the State Money Management Council.~~
- ~~3. Net earnings (realized gains/losses, dividends, and interest [net of expenses]) will be distributed to the fund groups, sub-fund groups, and to specific restricted fund accounts (when required by contractual agreement) that participate in the investment pool. The method of allocation will be based on the average daily cash balance.~~

B. ~~References:~~ Endowment Pool

- ~~1. Utah State Board of Regents Investment Policy, R-541~~ The endowment pool (Pool) consists of endowment funds that are not restricted by donors as to the type of investment.
- ~~2. State Money Management Act, Section 51, Chapter 7~~ Investment of these funds are ~~invested~~ conducted under the total return concept of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), whereby “net appreciations, realized and unrealized, in the fair value of assets of an endowment fund” may be appropriated for expenditure. UPMIFA was adopted into state law under Utah Code Section 51, Chapter 8.
- ~~3. Rule of the State Money Management Council~~ The Pool has a long-term investment horizon in excess of ten years and essentially in perpetuity with the primary objective of growth of principal over time. Principal growth should ensure that the real purchasing power of the Pool is maintained after inflation, costs, and spending are considered. A long-term average annual return of 4% above inflation, as measured by the Consumer Price Index (CPI) is reasonable. Hence, the Pool will provide a stable source of financial support for the needs of the University.
- ~~4. Uniform Prudent Management of Institutional Funds Act (UPMIFA), Section 51, Chapter 8.~~ In order to meet the long-term investment goals of the Pool, it is recognized by the Board that risk is necessary, returns will fluctuate, and market volatility is evident. As such, the Pool will be managed in a manner that seeks to minimize principal fluctuations consistent with the stated objectives over the long-term. Asset allocation will be a major determinant of investment performance. Risk will be minimized through diversification of assets, including international investments. Tolerance for volatility



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and risk could include declines in the value of the portfolio as great as 20% in any given year and losses as often as four out of ten years to achieve maximum returns. Historical performance is not a guarantee of future performance.

5. These Operating Guidelines will designate how the Pool shall be managed. Once approved by the Board, the Public Treasurer shall have the authority to manage the Pool within these Guidelines without further authorization from the Board.
- a) Asset Allocation: The Public Treasurer shall invest the Pool using an asset allocation that is designed to meet the Pool's long-term goals based on the state objectives of the Pool. Decisions are based upon the current economic and market environment as well as historical performance of asset classes.
 - b) Illiquid Investments: Investments in and commitments to illiquid investment strategies are outside of standard practices. As such, alternative investment strategies are to be executed with professional investment manager funds. Strategies outside of this criteria shall be analyzed and discussed by the Investment Advisory Committee separately for approval.
 - c) Targets and Ranges: Target allocations and ranges for each investment strategy will be set forth by the Investment Advisory Committee. Deviations from target allocations will occur due to market fluctuations, as well as the necessity for extended period of time to fully implement the asset allocation plan.
 - d) Rebalancing: To ensure the Pool does not incur undue risks from deviations from the policy portfolio, an asset class analysis will occur on a quarterly basis. As such, asset classes with greater than a 5 percent deviation from the target allocation will be adjusted.
 - e) Standard of Conduct: In managing and investing the Pool, the University shall:
 - i. Act as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the endowment. In satisfying this standard, the University shall exercise reasonable care, skill, and caution;
 - ii. Investment and management decisions respecting individual assets must be evaluated not in isolation



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- but in the context of the endowment portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the endowment;
- iii. Consideration of the following factors, if relevant, should be followed:
- General economic conditions;
 - The possible effect of inflation or deflation;
 - The role that each investment or course of action plays within the overall portfolio;
 - The expected total return from income and the appreciation of capital;
 - Needs for liquidity, regularity of income, and preservation or appreciation of capital; and
 - An asset's special relationship or special value, if any, to the purposes of the endowment or to one or more of the beneficiaries.
- iv. Make a reasonable effort to verify facts relevant to the management and investment of the Pool;
- v. Incur only costs that are reasonable and appropriate in relation to the assets, the University purposes, and the skills available to the University.
- f) Delegation: The Public Treasurer, upon advice from the Investment Advisory Committee, and in accordance with Section VII, paragraph A above, may delegate to an external Investment Advisor the investment of all or part of the Pool, subject to any specific limitation set forth in a gift instrument. This delegation, through exercise of reasonable care, skill, and caution ensures that the scope and terms of the delegation are consistent with the purposes of the University and the Pool, as well as ensuring periodic review of actions to ensure that high standards of fiduciary duty are met in compliance with applicable laws and regulations.
- g) Fund Manager Selection: The Public Treasurer, or external advisor(s) as delegated, shall conduct a due-diligence process for selection of fund managers which includes both a qualitative and quantitative evaluation. This process ensures that the recommended fund manager(s) performance and investment style aligns with the University's investment objectives and risk profile as outlined.



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- i. Qualitative Evaluation: These factors include, but are not limited to:
 - Investment management process, including theory and implementation;
 - Operational capabilities, including personnel, scalability, communication, service, and compliance;
 - Education and professional designations;
 - Industry experience, technical knowledge, and application;
 - Organizational stability and integrity;
 - Investment vehicle structure including inception date, total assets, and expense ratios or fees;
 - Investment research capability, including economic factors;
 - Audited performance measures;
 - Conflicts of interest.
- ii. Qualitative Evaluation: Performance will be measured on a short-term (1-3 years) and longer-term basis (full market cycle) considering positive and negative market cycles. Manager(s) must show top-quartile performance that outperforms their respective benchmark. In addition, manager(s) should have a 5-year track record and at least \$50 million in assets under management.
- h) Fund Manager Removal: Evaluation of managers occurs on a periodic basis. Managers failing to meet the following factors are subject to additional review (Watch Status), with the potential removal from the portfolio:
 - i. Portfolio manager turnover;
 - ii. Significant asset size changes, including large inflows and outflows;
 - iii. Performance issues, which may include and are not limited to the following:
 - Underperforming their specific index on a cumulative total rate of return basis;
 - Lagging performance on a 3-year and 5-year basis in comparison to their respective index (benchmark);
 - Falling below top-quartile performance over a



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- full market cycle.
- iv. Investment philosophy and/or style deviations from the original selection criteria;
 - v. Significant organizational changes, including but not limited to management changes, ownership changes, and legal issues.
 - i) Proxy Voting: Proxies shall be voted on for the exclusive benefit of the participants and beneficiaries of the Pool. Unless specific direction is provided from the Public Treasurer and/or Investment Advisory Committee, then Investment Advisor(s) and Manager(s) shall vote proxies in accordance with this Guideline.
 - j) Security Trade Execution: Purchase and sale of securities should be done in a manner designed to receive the combination of best price and execution, regardless of whether the trade is placed by the Public Treasurer or a designated external advisor(s).
 - k) Liquidity: The Pool shall be managed to maintain at least 70% of its assets in highly marketable securities that can be liquidated at market prices if needed.
6. The following Investment Strategies, Guidelines and Restrictions should be followed:
- a) The Pool will be diversified by asset class and within asset classes to mitigate the disproportionate impact that one security or asset class can have on overall performance. For instance, concentration of holdings in individual issues, corporations, or industries will be limited.
 - b) As a general rule, not more than 5 percent of the outstanding shares of any one security may be held. Fixed income securities, excluding U.S. Treasury and federal agency debt will not exceed 5 percent of the total bond portfolio, while not more than 10 percent of the total stock portfolio may be invested in stock of a single issuer. Investments in individual mutual funds will be limited to 15 percent. Aggregate investments in mutual fund families will be limited to less than 30 percent of the Pool. Investments in securities of issuers representing a single major industry shall not exceed 10 percent of the Pool's total market value. Investments in Alternative Investments shall not exceed 10 percent of the Pool's total market value. Quarterly balancing will occur, as



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- necessary.
- c) Spending:
- i. Policy spending rate: The policy spending rate for the Pool shall be determined annually by the Investment Advisory Committee, but a spending rate of 4 percent is desirable.
 - ii. Spending formula: The policy spending rate will be applied each fiscal year to the rolling average of the previous 12 quarters' ending-period endowment value amount (or shorter period where there is not 12 previous quarters) to determine the annual appropriation.
 - iii. Special appropriation and decisions not to spend: The Board of Trustees will approve, with proper notice, any special appropriation or decision not to spend the amount indicated by the spending formula.
 - iv. Standard of conduct: Subject to the intent of a donor expressed in a gift instrument, the University may appropriate for expenditure or accumulate so much of the Pool as the Board determines to be prudent for the uses, benefit, purposes, and duration for which each of the separate endowments of the Pool is established. The University shall act in good faith, care, and prudence as an ordinary person would in making a determination to appropriate or accumulate. The following factors, if relevant, would guide the decision:
 - The purposes of the University and the investment;
 - General economic conditions;
 - The possible effect of inflation or deflation;
 - The expected total return from income and the appreciation of investments;
 - The duration and preservation of the Pool;
 - Other resources of the University; and
 - University's investment policy.
- d) Equity Securities: This asset class includes domestic and international common stock, American Depositary Receipts (ADRs), preferred stock, and convertible stock which meet the total return objectives of the Pool. Their purpose is to provide capital appreciation, growth of income, and current



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income. Equity holdings shall be restricted to quality, readily marketable securities of actively traded corporations on the major U.S. and International exchanges. For the purpose of reporting, balanced funds, real estate investment trusts (REITs), and pooled or commingled investment funds without a clear primary purpose are also categorized as equity investments.

- e) Fixed Income Securities: This asset class includes, but is not limited to, U.S. Treasury, federal agencies, U.S. government guaranteed obligations, non-U.S. dollar denominated securities, public and private corporate debt, mortgages and asset-backed securities, and non-investment grade debt. Also included are money market instruments such as commercial paper, certificates of deposit, time deposits, bankers' acceptances, repurchase agreements, and U.S. Treasury and agency obligations. Fixed income investments shall be quality, readily marketable securities where credit quality, sector, duration and issuer concentrations are considered. Their purpose is to provide a current income stream, reduce overall Pool volatility, and provide appropriate hedges for deflation or inflation, as needed. Active management of fixed income securities is preferred to capitalize on opportunities arriving from mergers or acquisitions, credit rating changes, interest rate volatility, spread changes, or other abnormalities.
- f) Cash and Equivalents: This asset class includes high quality commercial paper (A-1, P-1 or higher, maturing in 360 days or less), repurchase agreements, U.S. Treasury Bills, certificates of deposit, and money market funds. Their purpose is to act as a depository for income distributions, temporary hold funds for further investment, spending or expense needs, and preserve the Pool's principal value. Cash reserves will be kept at a minimum.
- g) Alternative Investments: This asset class consists of the below permitted investments for the Pool, subject to the Guidelines set forth in each section:
 - i. Marketable Alternative Strategies: Investments may include, but not limited to domestic and international equity-oriented or market-neutral hedge funds.
 - ii. Private Capital: Investment allocations may include venture capital-, private equity and international



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- private capital investments. Such investments are typically held in the form of professionally managed pooled limited partnerships and must be purchased through professional investment manager funds.
- iii. Energy & Natural Resources: Investments may include oil, gas, commodity-based, and timber investments. Such investments are typically held in the form of professionally managed pooled limited partnerships and must be purchased through professional investment manager funds.
- iv. Private Equity Real Estate: Investments may include income producing commercial and residential property exclusive of professionally managed pooled real estate investment funds (REITs).
- v. Distressed Debt: Investments may include the debt securities of companies undergoing bankruptcy or reorganization. Such investments must be purchased through professionally managed funds.
- vi. Derivatives and Derivative Securities: Derivatives are contracts or securities whose market value is related to the value of another security, index, or financial instrument. Investments in derivatives include, but are not limited to futures, forwards, options, options of futures, warrants, and interest-only and principal-only strips. Derivative investment strategies are appropriate for hedging market, interest rate, or currency risk, adjusting duration, as well as maintaining or gaining cost-effective exposure to a desired asset class. Counterparty risk, investment manager(s) experience, applicable internal controls, and the strategy and nature of the investment are important considerations. Speculative derivative investments are not permissible.
- vii. Lending: Loans of Quasi-Endowment funds may be executed with approval from the Investment Advisory Committee, as a method to provide capital inflows for institutional purposes as the endowment continues to generate income. These loans are not included in the existing spending policy. Loan documentation is required, as well as applicable revenues to ensure payback within a reasonable timeframe. Loans are



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executed at prevailing market interest rates in a fixed and/or variable fashion. Securities lending is also a permissible form of generating income for the Pool. A separate written agreement and appropriate custody of assets is required.

4.viii. Investment Restrictions: The Investment Advisory Committee may modify or waive any of the restrictions or guidelines as a result of a comprehensive review of an investment manager(s) or strategy. As such, an addendum which supports these actions and reporting to the Board of Trustees at the next scheduled meeting is required.

C. Definitions: Separately Invested Funds

Cash funds— all available cash from all University and agency funds. These are separate investments (non-pooled) generally consisting of donor restricted investments, investments under annuity agreements with donors, investments of agency funds, endowment and other trusts, or other separate investments recommended by the Investment Advisory Committee. Dividends, interest, realized gains or losses, and any associated expenses are recorded directly upon receipt or payment to the individual fund.

Reserve funds— Cash in excess of funds needed for operations that the Public Treasurer has authorized to be invested to earn a return on investment.

Endowment funds— as used in these guidelines, “endowment funds” include true endowment funds, term endowment funds, and quasi-endowment funds.

True endowment funds— as used in these guidelines, “true endowment funds” are institutional funds with respect to which a donor has stipulated, as a condition of the gift, that the gift is to be maintained inviolate and in perpetuity. True endowment funds are to be invested for the purpose of producing present or future income that may, also by donor stipulation, be expended or reinvested with the original gift. The principal, or corpus of the true endowment, must be maintained intact. Income that may be expended according to the donor’s stipulation may be restricted or unrestricted as to the purpose for which it is expended, but rather added to the principal or corpus in



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~~accordance with the donor's stipulation, assumes or takes on the same restrictions as the original gift.~~

~~Term endowment funds—the “term endowment funds” are similar to true endowments, except that, upon passage of a stated period (or time) or the occurrence of a particular event, all or part of the donation may be expended. True and term endowments are commonly referred to as donor restricted endowments.~~

~~Quasi-endowment funds—“quasi-endowment funds” are gifts, bequests, or designated institutional funds that are retained and managed like an endowment. Principal and interest of these funds may be utilized in accordance with the terms of the quasi-endowment agreement.~~

- D. Investment Groupings and Investment Pool Procedures Trust Funds:
These funds are separate investments consisting of monies managed by an external trustee as part of a specific funding agreement. Investments are made pursuant to the funding agreement. Investments of Trust Funds are reviewed and discussed by the external trustee and the Public Treasurer to assure the maximum possible earnings are attained.
1. ~~Cash Management Investment Pool~~
 - a) ~~Consists of available cash in excess of estimated daily operating requirements from all University and agency funds.~~
 - b) ~~Funds in this pool may only be invested in investments that meet the criteria of Section 51-7-11 and 51-7-17 of the Utah State Money Management Act.~~
 - c) ~~This pool will not be managed on a unit (market value) method.~~
 - d) ~~Net earnings (realized gains/losses, dividends, and interest [net of expenses]) will be distributed to the fund groups, sub-fund groups, and to specific restricted fund accounts (when required by contractual agreement) that participate in the pool. The method of allocation will be based on the average daily cash balance. Net earnings distributed to the Endowment and Loan groups will be distributed annually to the individual funds participating in the pool.~~
 - e) ~~A management fee may be assessed up to 2% using the average daily cash balance method of allocation on all quasi-endowment reserve funds invested in the pool.~~
 - f) ~~This pool will be managed by University personnel.~~



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~~2. Endowment Pool~~

- ~~a) The endowment pool consists of endowment funds that are not restricted by donors as to the type of investment.~~
- ~~b) Investments of these funds are invested under the total return concept of the Uniform Prudent Management of Institutional Funds Act, whereby “net appreciation, realized and unrealized, in the fair value of the assets of an endowment fund” may be appropriated for expenditure. UPMIFA was adopted into state law under Utah Code 13-29 and is the governing regulation for the University’s endowment funds.~~
- ~~c) This pool will be operated on a unit (market value) method.~~
- ~~d) The investment return objective of this pool will be to achieve a total rate of return, over a ten year period, which exceeds the spending allocation rate plus the advancement/management fee by 2% per year on average.~~
- ~~e) The risk objective of this pool will be to construct an investment program that offers a high probability of achieving the stated investment return objective while keeping the frequency and magnitude of temporary declines at acceptable levels. A strategic asset allocation program will facilitate controlling downside volatility within acceptable ranges over a period of time.~~
- ~~f) The following asset allocation targets, in accordance with Regents policy R541-6.2.2 will guide the long term investment activities for this pool:~~

<u>Asset Class</u>	<u>Allocation Range</u>
Equities	25%-100%
Fixed Income	0%-75%
Alternatives	0%-10%

~~The Public Treasurer, with the advice of the Investment Advisory Committee, will manage the asset allocation mix within the above Strategic Allocation targets and Allocation Ranges. It is expected that the asset allocation mix will be diversified among asset classes and designed to meet the rate return and risk objectives.~~

- ~~g) Rebalancing:~~
 - ~~i. Asset allocation ranges will be reviewed on a semi-annual basis.~~
 - ~~ii. The actual percentage allocations may vary as much as~~



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~~+/- 5% before rebalancing to the Allocation Ranges is required.~~

- ~~iii.i. The Public Treasurer, with the advice of the Investment Advisory Committee, shall determine initial weighting and rebalancing parameters for allocation to the asset classes and within the asset class. The Public Treasurer may also accept advice from the University's investment advisor regarding asset allocation strategies.~~
- ~~iv. The funds in this pool may be managed and invested by:~~

- ~~• Qualified external managers~~
- ~~• Professional managers of commingled investment funds or mutual funds~~
- ~~• University personnel managing the Cash Management Investment Pool~~

- ~~v. In order to ensure a stable and predictable level of spending from year to year, fluctuations in annual investments will be "smoothed" by using a 12-quarter moving average of an endowment's market unit value for the three preceding fiscal years. More specifically, each endowment will be allocated an amount of spending up to 5 percent of the average of endowment account balances over the most recent three year period. In the case of new endowments, the most recent one, two, or three year periods will be used. It is possible, particularly in the case of new endowment accounts, for the annual return to be less than the spending allocation in the short term. Should any endowment account market value fall below its corpus value, spending on said endowment may be suspended and/or reduced to the amount of actual earnings.~~

~~Taking actual investment returns, inflation, and the advancement/management fee into consideration, the actual spending rate will be determined one year prior to the start of the fiscal year in which funds are to be expended. Portfolio returns in excess of the annual spending allocation (including realized/unrealized gains or losses, interest and dividends) shall be retained by the endowment in order to protect its value in real terms.~~



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~~vs. inflation, and to grow the endowment's historical value over time. The spending allocation amount will be distributed to the individual accounts using the unit method.~~

- ~~vi. The University may withdraw an advancement/management fee from the endowment pool. This fee will be determined based upon a budget approved by the President and will not exceed 2 percent of the 12-quarter moving average of the portfolio fair-market unit value for the three preceding fiscal years, with a budget lead time of one year.~~
- ~~vii. Cash inflows and outflows will be allocated in accordance with the Asset Allocation Guidelines.~~
- ~~viii. Special investment opportunities may necessitate an amendment to the Investment Guidelines and Investment Groupings.~~

~~3. Separately Invested Funds—~~

~~These are separate investments (non-pooled) generally consisting of donor restricted investments, investments under annuity agreements with donors, investments of agency funds, endowment and other trusts, or other separate investments recommended by the Investment Advisory Committee. Dividends, interest, gains or losses, and any associated expenses are recorded directly upon receipt or payment to the individual fund.~~

~~4. Bond Trust Funds—~~

~~These funds are separate investments consisting of monies managed by an external trustee as part of a bond funding agreement. Investments are made pursuant to the bond funding agreement. Investment of Bond Trust Funds are reviewed and discussed by the external trustee and the Public Treasurer to assure that the maximum possible earnings are attained.~~

~~E. Eligible Endowment Pool Investments—~~

~~1. Equities~~

- ~~a) The equity segment may be diversified across a spectrum of market capitalizations by allowing investments in small, medium, and large capitalization stocks.~~
- ~~b) The equity segment may be diversified across multiple regions,~~



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~~including the United States, developed foreign markets, and emerging markets.~~

~~e)b) Equity holdings should be readily marketable and diversified by issue, industry, and sector.~~

~~d) Equity managers may invest in short-term commercial paper, money market mutual funds, or other money market investments, and short-term bond investments as a surrogate for cash reserves on occasion. The intent is to have the investment manager remain fully invested.~~

~~2. Fixed Income~~

~~a) Bond holdings should be diversified by country, issue, sector, coupon and quality and should be readily marketable.~~

~~b) Bond portfolios must have a minimum quality of investment grade or better.~~

~~c) Non-investment grade securities shall be limited to 15% of a manager's portfolio unless otherwise stated in the Investment Manager's guidelines.~~

~~d) Foreign securities shall be limited to 15% of a manager's portfolio, unless otherwise stated in the Investment Manager's guidelines.~~

~~e) Average portfolio duration should not exceed +/- 35% of the stated benchmark index, unless otherwise stated in the Investment Manager's guidelines.~~

~~3. Alternative Investments~~

~~a) In addition to the aforementioned investments, the University may invest in alternate investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, commodities, private real estate assets or absolute return and long/short funds (in "Alternative Investment Fund").~~

~~b) The University may invest up to 10% of available Endowment Pool funds in Alternative Investments.~~

~~c) The alternate investment segment of the portfolio should be diversified among types of investments. The following shall govern the investment of Alternative Investment Funds:~~

Investment

High Yield and Distressed Debt

Range

0%-10%



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~~Private Capital, Natural Resources 0%-10%~~

~~Commodities and Private Real Estate~~

~~Absolute Return and Long/Short Funds 0%-10%~~

~~The above percentages are subject to prudent rebalancing practices.~~

~~4. Unique Situations~~

~~The Public Treasurer and the Investment Advisory Committee may execute alternative investment strategies to take advantage of one-time or unique situations.~~

~~F. Risk Tolerance:~~

~~The following guiding principles and measures shall be followed to control undue portfolio vitality in any Investing Grouping:~~

~~1. The University recognizes that the primary fiduciary obligation regarding the Investment Groupings is to prudently invest the portfolio to meet the investment objectives that will fulfill the purpose of the Investment Grouping.~~

~~2. The University fully recognizes the likelihood of periodic market declines and is willing to accept the possibility of some short-term declines in market value in order to achieve potentially higher long-term investment returns.~~

~~3. Assets of each Investment Grouping are to be diversified to protect against large investment losses and to reduce the probability of excessive performance volatility.~~

~~4. Diversification of assets is to be achieved by:~~

~~a) Allocating monies to various asset classes and investment styles within asset classes, and~~

~~b) Retaining investment management firm(s) with complementary investment philosophies, styles, and approaches.~~

~~5. Efforts should be made to preserve the principal value of Investment Groupings, but preservation shall not be imposed as a condition on each investment transaction.~~

~~G. Performance Evaluation and Review Process:~~

~~The Public Treasurer and the Investment Advisory Committee will evaluate~~



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~~the investment performance on a periodic basis, including but not limited to the following:~~

- ~~1. The overall performance of each Investing Grouping.~~
- ~~2. The overall performance of each investment manager's performance to the objectives of the Investment Grouping.~~
- ~~3. The Investment Groupings asset allocation mix to its Investment Guidelines and capital markets outlook.~~
- ~~4. The extent to how each investment manager has managed his or her portfolio consistent within that manager's stated investment philosophy and style.~~
- ~~5. The extent to how the investment manager adhered to these guidelines.~~
- ~~6. The risk and return profiles of each investment grouping and each investment manger to determine whether the Investment Grouping's goals and objectives are being met.~~
- ~~7. A reasonable time horizon for evaluating the Investment Grouping's investment performance relative to the selected benchmark on a long-term basis (five to ten years).~~

~~H. Review of Investment Guidelines and Investment Groupings:~~

~~The Public Treasurer and the Investment Advisory Committee will review the Investment Guidelines and Investment Groupings periodically to determine that they continue to serve the investment needs of the University and our appropriate in view of changes with State and Federal regulations, the University, the Investment Groupings, and the capital markets.~~