

**ARIZONA BOARD OF REGENTS
POLICY MANUAL**

3-301 University Investments

Revision Dates

6/15/2023 (effective 7/1/2023), 9/27/2018, 4/6/2018 (effective 7/1/2018), 11/17/2017, 9/26/2014, 1/25/2008, 1/21/2000, 4/26/1996, 6/17/1993, 4/25/1986, 10/7/1983, 3/12/1983 (adopted; effective 5/1/1983)

C. INVESTMENTS

- A. It is the intent of the Arizona Board of Regents to provide flexibility for investment of university funds consistent with the scope of the Arizona State Treasurer's investment policy for investment of university funds. ABOR used the Arizona State Treasurer's authorizing statutes and investment policy as a guide for this policy.
- B. Consistent with ABOR Policies 3-102 and 3-103, university officers designated by the president of the university, as certified to the executive director of the board, shall be authorized and empowered, jointly or severally, for and on behalf of the university and/or the Arizona Board of Regents, a body corporate, to purchase, invest in, or otherwise acquire securities through commercial banks or through brokers who are members of the New York Stock Exchange and/or the National Association of Security Dealers, from funds in the accounts of the university and by checks drawn on such accounts, and to sell, possess, transfer, exchange or otherwise dispose of or turn to account of, or realize upon and generally deal in and with any and all forms of securities.
- C. University officers and such other individuals designated by the president of each university as reported to the Board of Regents shall serve as the investment committee for that university. The investment committee shall advise those designated in section B in the exercise of their authority to purchase and sell securities and otherwise invest and reinvest university funds. Committee recommendations for investments and reinvestments will be reported to the president or president's designee.
- D. Each university shall make appropriate arrangements for the safekeeping of securities from a bank or other financial institution approved by the Board of Regents through an approved custodial or similar agreement. University officers designated by the president of the university and approved by the Board of Regents shall be authorized to deposit or withdraw securities from the custodian.

- E. Each university may invest funds as follows:
1. Gift and endowment funds normally received for scholarship and student loan purposes will be invested according to the conditions stipulated by the donor, but if no conditions are imposed, such funds may be invested under the direction of the investment committee of the university in such a manner as to obtain the most favorable rate of return and income stability commensurate with safety of principal.
 2. Except as provided in subsection E.1, university operating funds may be invested in the following instruments in addition to any other instruments as may be permitted by the State Treasurer's investment policy for investment of university funds:
 - a. Obligations issued or guaranteed by the United States or any of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities.
 - i. Repurchase agreements and tri-party repurchase agreements, collateralized at no less than 102 percent by securities or 100 percent by cash, purchased from securities dealers that make markets in those securities listed in subsection E.2.a. Repurchase agreements and tri-party repurchase agreements collateralized by mortgage-backed securities shall be collateralized at no less than 105 percent. In all cases, collateral must be delivered to the university's custody institution, or held in an account for the benefit of the university in an institution meeting the requirements of an eligible depository. In the case of tri-party repurchase agreements, the eligible depository may price and verify collateral but is required to provide a report of pricing and adequacy of collateral to the university within 24 hours of settlement. The university will measure the volatility and make a professional judgment on appropriateness of the collateral.
 - b. Bonds or other evidences of indebtedness of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts which carry as a minimum a BAA (Investment Grade) or better rating of Moody's Investors Service or a BBB (Investment Grade) or better rating of Standard and Poor's Rating Service or Fitch Ratings, or their successors.
 - c. Arizona State Treasurer's warrant notes issued pursuant to A.R.S. §35-185.01 or registered warrants of a county issued pursuant to A.R.S. §11-605, if the yield is equal to or greater than yields on

eligible investment instruments of comparable maturities.

- d. Arizona State Transportation Board Funding Obligations, subject to A.R.S. §35-313(D), delivered pursuant to A.R.S. §28-7678.
- e. Commercial paper rated by at least two nationally recognized statistical rating organizations (NRSO's). The three current NRSO's include Standard & Poor's, Moody's, and Fitch. The ratings assigned by at least two NRSO's must be of the two highest rating categories for short-term obligations. All commercial paper must be issued by entities organized and doing business in the United States.
- f. Bills of exchange or time drafts known as bankers acceptances which are issued by commercial banks chartered and doing business in the United States with ratings as outlined in subsection E.2.e, and/or long-term debt rating of BAA (Investment Grade) or better by Moody's Investors Service or BBB (Investment Grade) or better rating of Standard and Poor's Reporting Service or Fitch Ratings, or their successors.
- g. Negotiable certificates of deposit issued by a nationally or state chartered bank or savings and loan association which carry as a minimum a BAA (Investment Grade) or better rating of Moody's Investors Service or a BBB (Investment Grade) or better rating of Standard and Poor's Rating Service or Fitch Ratings, or their successors.
- h. Bonds, debentures and notes issued by entities which are United States dollar denominated and carry as a minimum, when purchased, a BAA (Investment Grade) or better rating of Moody's Investors Service or a BBB (Investment Grade) or better rating of Standard and Poor's Rating Service or their successors.
- i. Securities of or any other interests in any open-end management type investment company or investment trust including exchange traded funds whose underlying investments are invested in securities allowed by state law, registered under the Investment Company Act of 1940 (54 Stat. 789; 15 United States Code §§80a-1 through 80a-64), as amended:
- j. In the event a university elects to invest in an instrument not specifically identified in section 2.a-i, but as allowed under section 2 because it is permitted under the State Treasurer's investment policy for investment of university funds, the university shall report such an election prior to making such investment to the board's

executive director, who will have delegated authority to authorize the university to proceed with such an investment.

- F. (Intentionally left blank)
- G. Each university may contract to loan securities to the financial or dealer community, through its securities custodian, if the borrower transfers collateral to the university or its custodian in the form of cash or securities specified in subsection E.2. Collateral posted in the form of cash shall be in an amount equal to at least 100 percent of the market value of the loaned securities as agreed. Collateral posted in the form of securities shall be in an amount of no more than 110 per cent of the market value of the loaned securities as established from time to time by the university. The loaned securities shall be valued as to market value daily, and, if necessary, the borrower shall post additional collateral, as agreed, to ensure that the required margin is maintained. The university may collect from the borrower all dividends, interest, premiums, rights and other distributions to which the lender of securities would otherwise be entitled. The university may terminate the contract on not less than 5 business days' notice, as agreed, and the borrower may terminate the contract on not less than 2 business days' notice, as agreed.
- H. It is the intent of this policy to diversify each university's investment portfolio to minimize losses due to various circumstances. The circumstances include, but are not limited to: issuer defaults, market price changes, non-earning assets, technical complications leading to temporary lack of liquidity, risks resulting from an over-concentration of assets in a specific maturity, a specific issuer, a specific geographical distribution, or a specific class of securities. No more than five percent of each university's total investment portfolio (defined as five percent of the prior month's ending amortized book value on the date purchased), or five percent of the issues outstanding, whichever is less, shall be invested in securities issued by a single corporation and its subsidiaries/affiliates. Securities issued by the federal government or its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities and as provided in E.2.i are exempted from this provision.
- I. Each university is specifically prohibited from directly investing operating funds in the following instruments or in similar types of instruments. Securities as provided in E.2.i . are exempt from this provision.
1. Reverse repurchase agreements (unless otherwise authorized under a securities lending agreement with a second party),
 2. Futures, contractual swaps, options,
 3. Inverse floaters,
 4. Interest-only securities,

5. Forward contracts,
 6. Interest-bearing securities that have a possibility of not accruing current income,
 7. Closed-end management type companies,
 8. Securities whose yield/market value is based on currency, commodity, or non-interest indices,
 9. Bearer-form securities.
- J. Each university shall submit annually to the board office a report on the investment of its operating and endowment funds. The board's University Governance and Operations Committee will review and forward to the full board for approval an appropriate reporting mechanism, including a schedule.

Policy History

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| 3/12/1983 | The Policy Manual was adopted by the Board to be effective 5/1/1983. |
| 4/25/1986 | Policy revision approved by the Board on second reading. |
| 6/17/1993 | Policy revision approved by the Board on second reading. |
| 4/26/1996 | Section F of the policy was repealed. |
| 1/21/2000 | Policy revision approved by the Board on second reading. |
| 1/25/2008 | Policy revision approved by the Board on second reading. |
| 9/26/2014 | Policy revision approved by the Board on second reading. |
| 11/17/2017 | Policy revision approved by the Board on second reading. |
| 4/6/2018 | Policy revision approved by the Board on second reading to be effective 7/1/2018. |
| 9/27/2018 | Policy revised to reflect "Executive Director" of the Boad in place of "President." |
| 6/15/2023 | Policy revision approved by the Board on second reading to be effective 7/1/2023. |

Related Information