

# JACKSONVILLE STATE UNIVERSITY

## Manual of Policies and Procedures

**POLICY NUMBER: IV:12**

**DATE: July 2016**

**REVISION/REVIEW DATES: April 2021**

**SUBJECT: Non-Endowment Cash Pool Investment Policy**

**APPROVED: Board of Trustees**

### **PURPOSE**

The purpose of this Investment Policy is to provide a guideline by which the pooled funds (the current, loan, agency, and plant fund groups) not otherwise needed to meet the daily operational cash flows for the Jacksonville State University (JSU) can be invested to earn a maximum return, yet still maintain sufficient liquidity to meet fluctuations in the inflow of funds from revenues, tuition payments and state appropriations.

The policies and practiced hereinafter set forth separate funds into three investment categories:

- Short-term funds
- Intermediate-term funds
- Long-term funds

### **INVESTMENT OBJECTIVES**

The investment objectives for Operational Fund Investments are to maximize current investment returns consistent with the liquidity needs of JSU. In keeping with the investment objectives noted above, it is acknowledged that there are Operational Funds which require short-term, intermediate-term and long-term investment strategies.

It is expected that the maturities of the investments in the Operational Funds will be matched against the cash flow needs to maximize yields consistent with the liquidity needs of JSU.

### **Maintenance of Adequate Liquidity**

The investment portfolio must be structured in such a manner that will provide sufficient liquidity to pay obligations such as normal operating expenses and debt service payments as they become due. A liquidity base will be maintained using securities with active secondary markets, certificates of deposit, or repurchase agreements. These investments could be converted to cash prior to their maturities should the need for cash arise.

### **Return on Investments**

JSU seeks to optimize return on investments within the constraints of each investment objective. The portfolio strives to provide a return consistent with each investment category. The cash pool portfolio rate of return will be compared with the returns of broad indices representing the investment and maturity structure of the Pool.

### **Delegation of Authority**

The Board of Trustees is ultimately responsible for investment policy. By Board Resolution the Board of Trustees is delegating investment authority to the President who may delegate that authority to the Senior Vice President of Finance and Administration and Chief Financial Officer (CFO).

The Investment Policy is established to provide guidance in the management of JSU's Non-Endowment Cash Pool to insure compliance with the laws of the State of Alabama and investment objectives. The Senior Vice President of Finance and Administration and CFO or his designee is accorded full discretion, within policy limits, to select individual investments and to diversify the portfolio by applying their own judgments concerning relative investment values.

### **Implementation of the Investment Policy**

The Senior Vice President of Finance and Administration and CFO or his designee is authorized to execute security transactions for JSU's investment portfolio. Reports of investments shall be presented to the Finance Committee of the Board of Trustees on a quarterly basis.

## Authorized Investment Types

### Short –Term Operational Funds

#### Safety of Capital

Preservation of capital is regarded as the highest priority in the handling of investments for JSU. All other investment objectives are secondary to the safety of capital.

It is assumed that all investments will be suitable to be held to maturity. However, sale prior to maturity is warranted in some cases. For example, investments may be sold if daily operational funds are needed or if the need to change the maturity structure of the portfolio arises.

All investments will be restricted to fixed income securities with the maturity range to be consistent with the liquidity needs of the pooled funds groups. It is essential that cyclical cash flow be offset by liquid investments. Permissible investment instruments may include:

- Checking and Money Market deposit accounts in banks. These funds are subject to full collateralization for the amounts above the FDIC \$250,000.00 coverage limit, or participation by the bank in the SAFE Program, Title 41, Chapter 14A of the Code of Alabama (1975).
- Certificates of Deposit issued by banks and fully collateralized for the amounts above the FDIC \$250,000.00 coverage limit or participation by the bank in the SAFE Program, Title 41, Chapter 14A of the Code of Alabama (1975). Negotiable Certificates of Deposit or Deposit Notes issued by credit worthy U. S. Banks in amounts not to exceed the FDIC \$250,000.00 coverage limit.
- Direct obligations of the United States or obligations unconditionally guaranteed as to principal and interest by the United States.

- Obligations of a Federal Agency (including mortgage-backed securities) or a sponsored instrumentality of the United States including but not limited to the following:
  - Federal Home Loan Bank (FHLB)
  - Federal Home Loan Mortgage Corporation (FHLMC)
  - Federal Farm Credit Banks (FFCB)
  - Government National Mortgage Association (GNMA)
  - Federal National Mortgage Association (FNMA)
  - Student Loan Marketing Association (SLMA)
  - Financing Corporation (FICO)
  - Tennessee Valley Authority (TVA)
  - Government Trust Certificates (GTC)
- Commercial paper of corporate issuers with a minimum quality rating of P-1 by Moody's, A-1 by Standard and Poor's or F-1 rating by Fitch. Corporate bonds will maintain a minimum "A" rating by both Moody's and Standard and Poor's at the time of purchase. No more than ten percent (10%) of the Total Cash and Investments shall be invested in a single corporation for Commercial Paper/Short-term Corporate Bonds and thirty-five percent (35%) per Federal Agency Obligation as described above. There will be no limit on U.S. Treasury Obligations. All such securities must have an active secondary market.

The maturity range of Short-Term Operational Fund Investments shall be consistent with liquidity requirements of the funds category. However, funds established under certain debt instruments may be invested in accordance with the applicable criteria. Typical maturity will range from one year and less.

### **Intermediate-Term Investment of Operational Funds**

Investments for those Operational Funds designated by the Senior Vice President of Finance and Administration and CFO as benefiting from investment over a one- to three-year period.

#### **Authorized Investment Instruments**

Permissible investments are consistent with all investments approved under short-term operational funds within a one-year and three-year investment period. It is expected that the maturities of the investments within the intermediate-term funds will match against the cash flow needs of JSU and to maximize yields consistent with the liquidity needs of the University.

### **Long-Term Investment of Operational Funds**

Investment of those Operational Funds designated by the Senior Vice President of Finance and Administration and CFO as benefiting from a longer-term investment strategy.

Permissible investments are consistent with all investments approved under short-term operational funds with a greater than three-year investment period. Under current market conditions, we do not envision long- term investments currently.

#### **Pass Through or Designated Funds**

This policy shall also cover pass through funds (endowment funds to be forwarded to external endowment fund managers) and any funds managed by JSU and designated for specific purposes and not covered by individual investment restrictions (i.e. endowment funds that may not be co-mingled, bond proceeds during construction, etc.)

#### **Prudence and Ethical Standards**

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing the overall portfolio. Persons performing the investment functions, acting in accordance with these written policies and procedures, and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations and appropriate recommendations to control adverse developments are reported in a timely fashion. The “prudent person” standard is understood to mean:

“Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

### **Procedures**

The JSU procedures for investments are as follows:

1. The Board of Trustees shall receive quarterly reports about the current investment/portfolio.
2. The Controller monitors the investment portfolio.
3. The Controller makes recommendations for investments to the Senior Vice President of Finance and Administration and CFO or his/her designee.
4. The Senior Vice President of Finance and Administration and CFO or his/her designee provides written authorization for investments to the Controller.
5. The Controller executes the investments based on written authorization by the Senior Vice President of Finance and Administration and CFO or his/her designee.
6. The Controller prepares and submits to the Senior Vice President of Finance and Administration and CFO or his/her designee an annual report on JSU's investment performance, which will assert that the investments have been made in accordance with JSU policy and State of Alabama law.

### **RESPONSIBILITY**

This policy is the responsibility of the Jacksonville State University Board of Trustees.

### **EVALUATION**

This policy shall be reviewed at least every five (5) years by Senior Vice President for Finance and Administration and CFO and updated whenever changing market conditions or investment objectives warrant.