



MIDWESTERN STATE UNIVERSITY

# Operating Policies & Procedures Manual

## University Operating Policy/Procedure (OP)

### OP 14.04: Investment Policy - Operating Funds

<b>Approval Authority:</b>	President
<b>Policy Type:</b>	University Operating Policy and Procedure
<b>Policy Owner:</b>	Vice President for Administration and Finance
<b>Responsible Office:</b>	Controller's Office
<b>Next Scheduled Review:</b>	06/01/2022

#### A. Purpose

The purpose of this investment policy is to establish cash management and investment guidelines for the investment and protection of university operating funds in order to ensure that the university's investments are duly authorized, properly managed, and adequately protected. This policy will be reviewed annually by the Board of Regents. This policy is intended to:

1. Establish prudent investment procedures.
2. Assure that investment assets are adequately safeguarded.
3. Assure that adequate accounts and records are maintained which reflect investment position and results.
4. Assure that a system of good internal controls is maintained.

This policy provides investment guidelines for all operating funds invested by Midwestern State University to ensure compliance with university standards, the Public Funds Investment Act (TX Govt. Code 2256), Texas Education Code 51.0031, and all other state and federal laws.

#### B. Investment Objectives

1. **Safety of Principal:**  
Each investment transaction shall seek to reduce the likelihood of capital losses, whether from security defaults or erosion of market value.

2. **Liquidity:**  
The investment portfolio shall remain sufficiently flexible to enable the university to meet all operating requirements which may be reasonably anticipated in any funds.
3. **Public Trust:**  
In managing the investment portfolio, officials shall avoid any transaction that might impair public confidence in the university. Investments shall be made with precision and care, considering the probable safety of the capital as well as the probable income to be derived. No security shall be purchased that has either a limited or nonexistent secondary market.
4. **Rate of Return:**  
The investment portfolio shall be designed with the purpose of regularly exceeding the average return of three month U.S. Treasury bills and the State of Texas Treasury yield. The investment program shall seek returns above this threshold, consistent with the overall investment policy and other investment objectives.

## C. Investment Fund Administration

1. **Investment Responsibility**  
Investment responsibilities are delegated by the Midwestern State University Board of Regents to the President and the Vice President for Administration and Finance. Each member of the Board shall attend at least one (1) training session relating to the person's responsibilities under the Public Funds Investment Act within six (6) months after taking office. The university's chief financial officer and controller shall attend at least one (1) training session relating to that person's responsibilities within six (6) months after assuming duties and shall attend a training session not less than once in a two (2) year period and prepare a report to the Board of Regents on such training. This training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act (TX Govt. Code 2256.007). The university's chief financial officer shall also provide a report within six months of the end of each legislative session on any changes to the Public Funds Investment Act passed that session.
2. **Day-to-Day Supervision**  
The Controller shall be responsible for the daily supervision and implementation of the investment program and shall be authorized to purchase, sell and invest university funds in accordance with the Public Funds Investment Act and Education Code 51.003 and this investment policy, with approval of the President or the Vice President for Administration and Finance.
3. **Record Keeping**  
Transaction and accounting records shall be complete and prepared on a timely basis with consideration at all times to the adequacy of an audit trail. Internal controls will assure responsible separation of duties and diminish the real and prospective burden on individual employees.

4. **Custody**

Custody of investment assets shall be in compliance with applicable laws and arranged to provide as much security, trading speed, and flexibility as possible.

**D. Investment Strategy - Short-term Operating Funds**

1. The daily cash position will be monitored by the Controller to ensure that non-interest bearing cash is minimized. The collection time of all dividend and interest payments will be accelerated to the extent possible. The university will maintain a minimum of \$1,000,000 available in overnight funds which will be kept in Texpool, Logic, or repurchase agreements. Should balances fall below this amount for any reason they will be replenished at the earliest opportunity from the first available cash receipts.
2. Overnight or short-term (thirty [30] days) funds shall be invested through a competitive bid or offer process as frequently as the market dictates as follows:
  - a. Banks in the local area are to be contacted by telephone or electronic mail to obtain their current certificate of deposit or other interest-bearing banking deposit rates.
  - b. An unaffiliated investment broker is to be contacted to obtain statewide Texas banks' certificate of deposit rates.
  - c. Texpool or LOGIC, or other Board-approved cash investment pools are to be contacted to obtain current overnight rates.
  - d. Funds shall be placed based on the best rate or rates quoted.
3. Transactions to purchase or sell securities shall be entered into on the basis of "best execution," which normally means best realized net price for the security. Settlement of all transactions except investment pool funds must be on a delivery versus payment basis.
4. The goal of the university will be that the portfolio shall be adequately diversified at all times in accordance with these investment guidelines. Specific investment ranges and investment policy limitations are as follows:

	<b>Minimum</b>	<b>Maximum</b>
U.S. Treasury Obligations	0%	100%
Federal Agency Obligations	0%	90%
Federal Agency Mortgage-Backed	0%	25%
Municipal Obligations	0%	50%
Certifications of Deposit (Insured)	0%	20%
Interest-Bearing Banking Deposits (Insured)	0%	50%
Repurchase Agreements (Collateralized)	0%	20%
Mutual Funds	0%	15%
Approved Investment Pools	0%	50%
University System Cash Concentration Pool	0%	90%

5. The university's pooled investment fund is comprised primarily of operating funds, and fund balance equity that carries forward from year to year. At the beginning of each fiscal year, the Controller and Vice President for Administration and Finance will analyze current operating cash needs as well as any cash requirements for capital projects that will occur within the next two (2) years. If the university is not using a University System Cash Concentration Pool arrangement, the university will be required to more closely monitor its investments and maturities. This monitoring and analysis will include a two (2) year time line which clearly identifies any known cash requirements and the approximate month in which the cash must be available. Once an analysis of project needs has been assembled, an analysis of current economic conditions and interest rate levels and projections from third party outside sources should be reviewed. Investment maturities are to be structured in such a way as to maintain a liquid or currently maturing balance for all operating funds budgeted for expenditure during the fiscal year. If interest rates are rising or anticipated to increase these funds may be kept in short-term investment pools such as TEXPOOL. If interest rates are falling or are projected to fall, these funds should be invested to match projected cash needs as determined. Funds in excess of operating funds may be invested, preferably by staggering maturities, for longer than a year.
6. Bond proceeds are to be invested separately and apart from the university's pooled investment fund and maturities are to be structured in such a way as to provide sufficient cash to meet construction expenditures. Bond proceeds will be invested in accordance with the provisions in TX Govt. Code Sec. 2256.0207, if applicable.
7. Endowment funds are to be invested in accordance with the university's separate Investment Policy - Endowment Funds.
8. Investments donated to the university for a particular purpose or for a specific use as specified by the donor may be held in investments other than those identified as authorized investments in this policy. Such investments shall be held apart from the university's pooled investment fund. Those investments shall be subject to all other requirements of this policy.
9. The investment staff shall be responsible for following the "prudent person" standard which shall be applied in the management of the portfolio. 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 possible income to be derived.

## **E. Investment Brokers/Dealers**

1. The Board of Regents and the President may hire independent investment advisors or investment managers to assist university personnel in the execution of their investment responsibilities. All routine investments will be purchased or sold utilizing an established list of qualified firms. The Board of Regents shall annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the

university. Qualified firms must be regulated by the Securities Exchange Commission and be members of the Financial Industry Regulatory Authority (FINRA).

2. A written copy of this investment policy shall be presented to any business organization (investment pool or an investment management firm under contract to manage the entity's portfolio with discretionary authority) offering to engage in an investment transaction with the university. The qualified representative of the business organization shall execute a written instrument substantially to the effect that the business organization has:
  - a. Received and reviewed this investment policy; and
  - b. Acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the university and the organization that are not authorized by the university's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the university's entire portfolio or requires an interpretation of subjective investment standards.
  - c. The investment officer may not acquire or otherwise obtain any authorized investment described in this investment policy from a person who has not delivered the written instrument to the university as described above.
  - d. Nothing in this section relieves the university of the responsibilities of monitoring the investments made by the university to determine that they are in compliance with this investment policy.

## **F. Investment Ethics**

Officers and investment staff involved in the investment process shall refrain from personal business activity, as defined by the Public Funds Investment Act (TX Govt. Code 2256.005), that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. A member of the Board shall not direct nor participate in the decision to purchase or sell securities of a firm with which such member is significantly affiliated. Securities will not be purchased from or sold to a member of the Board. All investment staff must report any personal business relationship or relationship within the second degree of affinity or consanguinity with an individual or another firm or organization to the President and the Internal Auditor. On an annual basis the staff will report the nature and extent of any investments in or business transacted with such firms.

## **G. Investment Guidelines**

Funds must be invested at all times in strict compliance with the Public Funds Investment Act (TX Govt. Code 2256) and other applicable laws, unless invested according to Texas Education Code Section 51.0031 which allows the Board of Regents to contract with another institution under prudent person investment standards.

1. **Authorized Investments.** Authorized investments include the following:
  - a. Obligations of the United States or its agencies and instrumentalities including the Federal Home Loan Bank.
  - b. Direct obligations of the State of Texas or its agencies and instrumentalities.
  - c. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with a maturity of 10 years or less.
  - d. Other obligations, the principal of an interest on which are unconditionally guaranteed or insured by the State of Texas or United States.
  - e. Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent.
  - f. Certificates of deposit issued by state, national, or savings banks having a main office or branch office in this state that are guaranteed or insured by the Federal Deposit Insurance Corporation or secured by a Federal Home Loan Bank letter of credit, or its successors, or collaterally secured by those obligations as listed above in a.-e.
  - g. Interest bearing bank deposits insured by the FDIC or the National Credit Union Share Insurance Fund.
  - h. Fully collateralized repurchase agreements having a defined termination date, secured by obligations described in a. above or any authorized investments as defined in TX Govt. Code Sec. 2256.009, and the securities are pledged to the university, held in the university's name and deposited at the time the investment is made with the university or with a third party selected and approved by the university, and is placed through a primary government securities dealer as defined by the Federal Reserve, or a financial institution doing business in this state. Repurchase agreement means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described in a. above or any authorized investments as defined in TX Govt. Code Sec. 2256.009, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. This term includes a direct security repurchase agreement and a reverse security repurchase agreement. The term of any reverse security repurchase agreement may not exceed ninety (90) days after the date the reverse security repurchase agreement is delivered. Money received by an entity under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

- i. Prime domestic bankers' acceptances with a stated maturity of two-hundred-seventy (270) days or less from the date of issuance and will be liquidated in full at maturity, are eligible for collateral for borrowing from a Federal Reserve Bank, and are accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1, P-1, or the equivalent by at least one nationally recognized credit agency and is fully secured by an irrevocable letter of credit issued by a bank.
  - j. Commercial paper with a stated maturity of three-hundred-sixty-five (365) days or less from the date of its issuance that is rated not less than A-1, P-1, or the equivalent by at least two (2) nationally recognized rating agencies, or is rated at least A-1, P-1, or the equivalent by at least one (1) nationally recognized credit agency and is fully secured by an irrevocable letter of credit issued by a bank.
  - k. SEC-registered, no-load money market mutual funds and no-load mutual funds as described in and limited by the Public Funds Investment Act (TX Govt. Code 2256.014) and in compliance with SEC Rule 2a-7.
  - l. Bond funds that have a duration of less than one year and whose investments are limited to investment grade securities excluding asset-backed securities.
  - m. Guaranteed Investment contracts for bond proceeds as described in the Public Funds Investment Act (TX Govt. Code 2256.015)
  - n. Investment Pools as described in the Public Funds Investment Act (TX Govt. Code 2256.016) including the maximum average dollar-weighted maturity of the pool based on the stated maturity date, with the Weighted average maturity limit not to exceed 90 days for a no-load money market mutual fund, two years for a no-load mutual fund, 90 days for a constant dollar pool, and none for a floating net asset value pool. Corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.
  - o. A contracted arrangement with a university system as defined under Education Code 51.0031 which allows the university to invest its cash into a system's cash concentration pool.
2. **Unauthorized Investments**  
Effective September 1, 1995, in compliance with the Public Funds Investment Act (TX Govt. Code 2256.009b), the following are not authorized investments:
- a. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (interest-only).

- b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (principal only).
- c. Collateralized Mortgage obligations that have a stated final maturity date of greater than ten (10) years
- d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

## H. Performance Measurement

The investment performance of the funds will be measured by an unaffiliated organization with recognized expertise in this field, and compared against the stated performance goals. Measurement will occur at least monthly and will be used to evaluate the results on investment holdings and will include monitoring any rating changes in the university's investments. Prudent measures will be taken to liquidate an investment that fails to maintain the minimum required rating in a given month, as required by TX. Govt. Code 2256.021. Reports will be prepared in compliance with generally accepted accounting principles and will describe in detail the investment position of the university and will include, by individual investment, the book value, market value, accrued interest, maturity dates, any purchases, sales, gains or losses and the fund or pooled account for which each individual investment was acquired. Reports shall be distributed to the President, the Vice President for Administration and Finance, and the Internal Auditor. The Board of Regents shall receive the report no less than quarterly. The reports to the Board of Regents must be prepared and signed by the investment staff of the university and certified as to the portfolio's compliance with these policies and the Public funds Investment Act (TX Govt. Code 2256.023), unless the funds are invested under Texas Education Code Section 51.0031, for which the reporting will be provided by the contracted institution. The university Internal Auditor will perform a compliance audit at least once every two years with results reported to the State Auditor, President, and the Board of Regents not later than January 1 of each even-numbered year on those funds held locally and not invested through contract according to Texas Education Code Section 51.0031.

## I. Interest Rate Risk Measurement

The university will measure on a quarterly basis the interest rate risk of its securities. The university will monitor and be aware of the overall interest rate and market value risk it is taking.

### Responsible Office

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## Revision History

08/06/2020 MSU Policy 4.182 (Investment Policy – Operating Funds is adopted by the MSU Board of Regents as MSU Policy and Procedure. 4.182)

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