

Investment Policy – Treasury Portfolio

University Operations – Financial Activities

EWU Policy 202-02

Authority: EWU Board of Trustees

Effective June 22, 2011

Proponent: Vice President for Business and Finance

Purpose: This policy prescribes standards for managing investments within the treasury portfolio of Eastern Washington University.

History: This publication is a revision to the EWU Investment Policy, which was approved by the EWU Board of Trustees on December 3, 1999. This revision was adopted by the Board on June 22, 2011.

1. Policy

It is the policy of Eastern Washington University, an institution of higher education in the state of Washington, to invest public funds in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands of the university and conforming to state statutes governing the investment of public funds.

2. Scope of Identification of Funds

This policy applies to all financial assets of the University with the exception of endowment funds and charitable gift annuity contracts. University endowment funds and charitable gift annuity contracts are managed under separate investment policies.

3. Standards of Care

The Vice President for Business and Finance or designee shall perform the investment duties in a manner consistent with this policy. Investments shall be made with judgment and care consistent with the standard of a prudent investor, in light of the purposes, terms, requirements and other circumstances then prevailing as to the assets entrusted to her or him.

In investing, she or he shall exercise reasonable care, skill, diligence and prudence, considering investments not in isolation, but in the context of the portfolio as a whole and of an overall investment strategy. That strategy should incorporate the risk and return objectives set forth in this policy.

4. Objectives

Safety, liquidity and yield are the priorities of University investment management.

The overall objective of the University's investment policy is to construct, from the investments available under section X below, investment portfolios that are optimal or efficient. An optimal or efficient portfolio is one that provides the greatest expected return for a given expected level of risk, or the lowest expected risk of a given expected return.

The University's investments are separated into three portfolios, primarily to manage liquidity risk.

5. Portfolio Composition and Pool Allocation

a. The liquidity portfolio. The objective of this portfolio is to meet the liquidity needs of the University. All daily cash requirements are to be met by assets of this portfolio. It has an expected risk objective of zero liquidity risk. Consistent with that risk objective, it has a benchmark of the effective Fed Funds rate (net of commissions and fees), which is a readily available proxy for the risk-free rate.

b. The intermediate portfolio. While investable balances have proven reasonably predictable, there is always the chance the economic or political environment could change in dramatic and unanticipated ways. The intermediate portfolio is established as a hedge against such unanticipated large changes in projected cash flows. The maximum maturity of investments in the intermediate portfolio is two years.

c. Long term portfolio. The objective of the long term portfolio shall be to provide a flow of financial support to University programs that will grow at least as fast as the rate of inflation. In addition, the portfolio shall provide a source of funds in the very unlikely event the liquidity portfolio and intermediate portfolio are insufficient to meet the day-to-day obligations. This portfolio has a maximum maturity of five years.

d. Pool allocation. The goal of the overall portfolio is to maintain each individual portfolio at a desired target percentage to balance cash flow requirements, safety, liquidity, and yield. Due to changing or unanticipated cash flow requirements it is acceptable to deviate within the policy range to provide flexibility.

PORTFOLIO	TARGET	POLICY RANGE
Liquidity Pool	25%	20-40%
Intermediate Pool	50%	30-60%
Long Term Pool	25%	15-40%

6. Delegation of Authority

The Board of Trustees of Eastern Washington University is vested by statute with responsibility for the management of the properties of the University.

To ensure effective cash management of these public funds the Vice President for Business and Finance, upon delegation of authority by the Board of Trustees, may assign investment responsibilities to individuals who will have the authority to perform these investment duties. A list of individuals authorized to conduct trades for the portfolio will be found in appendix A of this policy, which will be modified, as necessary, to reflect personnel changes.

Delegations related to the management of the University's investment portfolios are as follows:

a. Board of Trustees elects to:

- Delegate the responsibility for overseeing the investment program of the University to the Vice President for Business and Finance.

- Appoint members of the Investment Advisory Committee. The Investment Advisory Committee shall meet quarterly and be composed of the chair of the Board of Trustees Business and Finance Committee and one additional member of the Board and three members with experience in the United States financial industry. The chair of the Business and Finance Committee shall be the chair of the Investment Advisory Committee. The University President, Vice President for Business and Finance, Chief Financial Officer, and Investment Officer shall be ex-officio members of the Investment Advisory Committee.

- Approve investment policies that establish broad guidelines for the management of the of the University's investment portfolios based upon recommendation of the Investment Advisory Committee and the administration.

b. Investment Advisory Committee shall:

- Oversee the University's investment programs within the broad guidelines established by the investment policy. The Committee shall act in an advisory capacity to the Vice President for Business and Finance and Chief Financial Officer.

c. Vice President for Business and Finance shall:

- Sign investment agreements, custody agreements and other investment related documents.

- Provide management oversight of the investment program of the University.

- Establish written investment procedures for the operation of the investment program consistent with this policy.

d. Associate Vice President and Chief Financial Officer shall:

- Provide supervisory oversight of the cash management and investment officers in order to confirm that the performance expectations remain in place.

- Implement and monitor compliance with investment procedures.

7. Investment Procedures

The Vice President for Business and Finance shall establish written investment policy procedures for the operation of the investment program consistent with this policy.

The procedures should include reference to: safekeeping, repurchase agreements, wire transfer agreements, banking service contracts, and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions.

No person may engage in an investment transaction except as provided under the terms of this policy and pursuant to the procedures established by the Vice President for Business and Finance.

8. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Employees and investment officials shall disclose in writing to the Chief Financial Officer and Vice President for Business and Finance any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial or investment positions that could be related to the performance of the University. Such persons will have an ongoing duty to report any changes in this information and to keep the disclosure current.

9. Authorized Financial Institutions

The Vice President for Business and Finance or designee will maintain a list of brokers/dealers and financial institutions authorized to provide investment services to the University. Authorized brokers/dealers and financial institutions will be limited to those that meet one or more of the following:

- Financial institutions approved by the Washington Public Deposit Protection Commission (RCW 39.58); or,

- Primary dealers recognized by the Federal Reserve Bank; or,

- Non-primary dealers qualified under U.S. Securities and Exchange Commission Rule 15C3-1, the Uniform Net Capital Rule, and a certified member of the National Association of Securities Dealers.

Each authorized dealer or institution will regularly submit to the University annual reports, including audited financial statements, and other information as determined by the Vice President for Business and Finance or designee.

10. Eligible Investments

Eligible investments are only those securities and deposits authorized by statute (RCW 39.58, 39.59, 43.84.080 and 43.250). The following is a list of eligible investments and the RCW cites for them:

a. RCW 39.59.020:

- Bonds of any state or local government
 - Bonds must have, at the time of investment, one of the three highest credit ratings of a nationally recognized rating agency.
- Any investments authorized by law for the State Treasurer or any local government of the State
 - Does not include certificates of deposit of banks or bank branches not located in the State of Washington.

b. RCW 35.39.030:

- Utility revenue bonds or warrants of any city or town in the State of Washington.
- Bonds or warrants of a local improvement district must be within the protection of the local improvement guaranty fund
- Bond proceeds subject to the arbitrage provisions of section 148 of the federal internal revenue code may be invested in:
 - Shares of mutual funds that invest in United States government bonds or United States government guaranteed bonds issued by federal agencies with average maturities less than four years, or bonds of state and local governments that have one of the four highest credit ratings of a nationally recognized rating agency;
 - United States government bonds or United States government guaranteed bonds issued by federal agencies with average maturities less than four years, or bonds of state and local governments that have one of the four highest credit ratings of a nationally recognized rating agency;
 - Shares of money market funds that invest in bonds of states and local governments or other issuers authorized by law for investment by local governments, which bonds have one of the two highest credit ratings of a nationally recognized rating agency; or, securities otherwise authorized by law for investment by local governments.

c. RCW 43.84.080:

- Treasury Bills
- Treasury Bonds
- Federal Home Loan Bank Bonds
- Federal Home Loan Bank Discount Notes
- Federal National Mortgage Association Bonds
- Federal National Mortgage Association Discount Notes
- Federal Farm Credit Banks Consolidated System-Wide Bonds

- Federal Farm Credit Banks Consolidated System-Wide Discount Notes
- Federal Home Loan Mortgage Corporation Bonds
- Federal Home Loan Mortgage Corporation Discount Notes
- Government National Mortgage Association Bonds
- Student Loan Marketing Association Bonds
- Student Loan Marketing Association Discount Notes
- Small Business Administration Bonds
- Export-Import Bank Bonds
- Maritime Administration Bonds
- Obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors become eligible as collateral for advances to member banks as determined by the board of governors
- Bankers' acceptances purchased on the secondary market.
- Commercial paper: provided that the Treasurer shall adhere to the investment policies and procedures adopted by the State Investment Board.
 - State, county, municipal, or school district bonds, or in warrants of taxing districts of the state.
 - Such bonds and warrants shall be only those found to be within the limit of indebtedness prescribed by law for the taxing district issuing them and to be general obligations.
- Motor vehicle fund warrants
 - Must be authorized by agreement between the State Treasurer and the department of transportation requiring repayment of invested funds from any moneys in the motor vehicle fund available for state highway construction.

d. RCW 43.250.040

- The Local Government Investment Pool

11. Safekeeping

All security transactions, including collateral for repurchase agreements, entered into by the University shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodian designated by the Vice President for Business and Finance and evidenced by safekeeping receipts.

12. Maximum Maturities

To the extent possible, the University will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the University generally will not directly invest in securities maturing more than five years from the date of purchase.

Reserve funds may be invested in securities exceeding five years if the maturity of such investments is made to

coincide as nearly as practicable with the expected use of the funds. Reserve funds are those funds designated for plant and equipment renewal and replacement and repayment of bonds.

13. Investment Restrictions

• To provide for the safety and liquidity of University cash balances, the investment portfolio will be subject to the following restrictions:

• The final maturity of any security will not exceed five years, except securities used as collateral in repurchase agreements when collateralized as per this policy;

• Purchase of collateralized mortgage obligations will not be allowed.

• Investments in non-government securities, excluding collateral of repurchase agreements, will not exceed the following levels of the total portfolio:

Bankers Acceptances	25%
Commercial Paper	25%
Certificates of Deposit	25%

• Within the portfolio limits set in this section for Certificates of Deposit, Certificates of Deposit may not exceed 5% concentration in any one financial institution

• Repurchase agreements will be conducted only with the University's bank of record and under the terms of a written master repurchase agreement.

• Repurchase agreements with any primary dealer or financial institution will not exceed 20% of the portfolio. Repurchase agreements with any single primary dealer or financial institution with a maturity date past the next business day will not exceed 10% of the total portfolio.

• The maximum term of repurchase agreements will be 30 days.

• Securities delivered as collateral for a repurchase agreement with a maturity date longer than seven calendar days will be priced at least weekly.

• Repurchase agreements utilizing U.S. Treasury, agency or money market securities will be collateralized at 102% of market value, plus accrued interest.

• Only securities authorized in statute for the investment of public funds will be accepted as collateral.

14. Professional Services

The Vice President for Business and Finance or designee may contract for professional services as necessary for the efficient management of investments.

15. Internal Controls

• The Vice President for Business and Finance or designee will maintain internal controls to protect against the loss of public funds arising from negligence, theft or misuse. These controls will include, but not be limited to:

• The execution of all securities transactions on a delivery-versus-payment basis;

• The clear delegation of investment authority;

• The separation of duties, such as the separation of transaction authority from record keeping;

• Supervisory oversight;

• Oversight by the Investment Advisory Committee of the Board of Trustees

The Investment Advisory Committee, Chief Financial Officer, Vice President for Business and Finance, and authorized investment officers will review this policy every three years.

As prescribed by RCW 43.09.050, the state auditor may audit the accounts and inspect the books of the University to determine the compliance of investment activities with state statutes and this policy.

16. Reporting

The Chief Financial Officer will provide monthly compliance and performance reports to the Vice President for Business and Finance.

The Chief Financial Officer will provide quarterly reports on compliance and performance to the President, Vice President for Business and Finance, and Investment Advisory Committee.

Appendix A – Investment Authorities

Individuals authorized to conduct trades for Eastern Washington University are as follows:

a. Liquidity Pool:

- Chuck Roper, Cash Management Officer
- Kathy Sawtells, Investment Officer
- Toni Habegger, Chief Financial Officer

b. Intermediate Pool:

- Chuck Roper, Cash Management Officer
- Kathy Sawtells, Investment Officer
- Toni Habegger, Chief Financial Officer

c. Long Term Pool:

- Kathy Sawtells, Investment Officer
- Toni Habegger, Chief Financial Officer