



POOLED CASH INVESTMENT POLICY STATEMENT

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I. INTRODUCTION AND DELEGATION OF AUTHORITY

Given the importance and amount of pooled cash balances, the university recognizes that deliberate management of the pooled cash balances is necessary and desirable. This Pooled Cash Investment Policy Statement was adopted by the University of Puget Sound to establish a clear understanding of the philosophy and investment objectives for pooled cash balances.

The Board has delegated authority to the Finance and Facilities committee to approve this policy. It is anticipated that the Investment Subcommittee of the Finance and Facilities Committee will review this policy periodically (typically on an annual basis) and make recommendations for changes, as needed, to the Finance and Facilities Committee. It is expected that members of the Investment Subcommittee, the external management firm (if one is engaged), and staff will propose revisions to this policy any time they believe the policies impede the stated investment objectives. Staff, as directed by the Investment Subcommittee, are responsible for implementation of this policy.

II. POOLED CASH OVERVIEW

The University of Puget Sound's pooled cash consists of the following:

- A. Operating cash without donor restriction
- B. Cash designated or donor-restricted to a specified expendable use, including capital projects
- C. Cash designated or donor-restricted to endowment and loan funds
- D. Agency cash held for others
- E. Other special purpose cash

III. INVESTMENT OBJECTIVE

The primary pooled cash investment objectives are, in order of priority: preservation of capital, maintenance of necessary liquidity, and maximization of investment return within appropriate risk constraints.

IV. INVESTMENT STRATEGY

The university pools the cash balances from its various funds, including those without donor restriction, designated, donor-restricted, and in agency funds to achieve economies of scale necessary for maximizing investment returns and creating internal operating efficiencies.

The university depends on preservation of capital and available liquidity to support its ongoing operations and from time to time to fund specific future capital projects. To ensure this support, the bulk of the pooled cash balance shall be invested in highly liquid, short-term investment vehicles with minimal downside risk. This portion of the pooled cash is referred to herein as “transaction cash.” Transaction cash includes all pooled cash designated or donor-restricted for capital projects, endowment, certain life income agreements, agency funds, loan funds, and other special purposes, as well as the bulk of operating cash. It is recognized that a portion of the operating cash is not required to meet daily, monthly, or annual needs because of built-in float related to upfront collection of tuition payments relative to the spreading of payroll over a twelve-month period, as well as the general practice of spending endowment payout in the year after it is earned and distributed. This portion of the pooled cash is referred to herein as “core cash.” Core cash may be invested in short-to-intermediate fixed income vehicles.

Staff shall regularly analyze the components of cash balances relative to liquidity needs, including liquidity requirements associated with the university’s long-term debt, and shall monitor the adequacy of transaction cash and the appropriate level of core cash.

Note: It is understood that certain cash balances are required to be segregated (including such items as self-insured workers’ compensation reserves) and will not be pooled. These amounts are referred to herein as “segregated cash.”

V. APPROVED INVESTMENTS AND LIMITS

Transaction and Segregated Cash

A. The university may, with approval of the Investment Subcommittee, hire a qualified external management firm to manage short-term investments.

B. Portfolios of transaction cash shall:

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1. maintain an overall weighted-average portfolio rating no less than three notches below the lowest rating assigned to the U. S. government by Standard and Poor's/Moody's/Fitch;
2. assure that the exposure to any one issuer shall not exceed 3% of the total portfolio as measured at market value at date of purchase, except for securities issued by the U. S. government or its agencies. If the issuer exposure should subsequently exceed 5% as measured at market value, the external management firm will notify the university and provide a recommended course of action.

C. The maturity date of any transaction or segregated cash investment shall never be more than twenty-five months from the day of settlement, with the exception of asset-backed securities, providing the weighted average life of each of the portfolio's asset-backed securities does not exceed eighteen months.

D. The following investments are permitted (where split ratings exist, the investment shall be considered to have the lower rating):

- United States Treasury bills, notes, bonds, zero coupon bonds, STRIPs, TIPS;
- Securities issued by federally related institutions (with full faith and credit backing by the U. S. government);
- Securities issued by other federally-related institutions, if rated by at least two of the three rating agencies and those ratings at date of purchase are no less than the rating of securities issued directly by the U. S. government;
- Securities issued by Government Sponsored Enterprises (GSEs—privately owned, publicly chartered entities), if rated by at least two of the three rating agencies and those ratings at the date of purchase are no less than the rating of securities issued directly by the U. S. government;
- Sovereign and supranational notes and bonds, if rated by at least two of the three rating agencies and those ratings at the date of purchase are no less than A3 by Moody's, A- by Standard and Poor's or A- by Fitch;
- Overnight Repurchase Agreements, collateralized with Treasury or Agency securities at 102% or more, with collateral held in third party remote trusts to reduce counterparty risk;
- Commercial paper with an A-1 or P-1 rating;
- Commercial paper with an A-2 or P-2 rating and/or corporate notes and bonds rated no less than Baa2 by Moody's, BBB by Standard and Poor's or BBB by Fitch, up to a maximum of 20% of the portfolio's market value at the time of purchase;
- Master notes with an A-1 or P-1 rating;

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- Corporate notes and bonds, including Yankees, if rated by at least two of the three rating agencies and those ratings at the date of purchase are no less than A3 by Moody's, A- by Standard and Poor's or A- by Fitch;
- Market sector exposure, at the time of purchase, should not exceed 75% finance, 50% industrial and 15% utility.
- Asset backed securities if rated by at least two of the three rating agencies and rated no less than Aaa/AAA/AAA by Moody's, Standard and Poor's and/or Fitch at the time of purchase;
- Taxable and tax-exempt municipal obligations, if rated by at least two of the three rating agencies and those ratings at the date of purchase are no less than A3 by Moody's, A- by Standard and Poor's or A- by Fitch;
- Certificates of Deposit (CDs) at financial institutions with a short-term credit rating of A-1 or P-1 or higher, and within segregated cash with certain high quality, but unrated financial institutions, as evaluated and approved by a financial officer of the university. CDs are limited to \$5 million per financial institution, notwithstanding the concentration limits outlined in Section V.B.2.;
- Certificates of Deposit under a brokered CD program which provides a syndicated method of ensuring FDIC protection for large dollar amounts;
- Money Market funds with Moody's rating of Aaa or Standard and Poor's rating of AAAM.

E. External regulatory restrictions on segregated cash may impose particular investment criteria. In such cases, the university's financial officers (elected by the Board), or their delegates, are authorized to deviate in a prudent manner from the above permitted investments to satisfy external regulatory requirements.

Core Cash

Core cash of up to \$10 million may be invested in short- to intermediate-term fixed income funds approved by the Investment Subcommittee. Although the university cannot dictate policy to pooled/mutual fund investment managers, it will seek to select managers/funds that invest within the following investment guidelines:

- A. The Fund will invest under normal circumstances at least 65% of its total assets in a diversified portfolio of fixed income instruments of varying maturities. The average portfolio duration for the Fund is zero to four years.
- B. The Fund invests primarily in investment grade debt securities but may invest up to 15% of its assets in non-investment grade bonds.
- C. The Fund may invest up to 30% of its total assets in non-dollar denominated bonds.

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- D. The Fund may utilize derivative instruments, such as options, futures contracts, forward contracts or swap agreements, up to 50% of net assets.
- E. The Fund may lend its portfolio securities to brokers, dealers, or other financial institutions to earn income.

VI. EXHIBIT A

University of Puget Sound Guidelines Governing Liquidation of Investments to Meet Requirements of WHEFA 2001 Variable Rate Demand Bonds with University Self-Liquidity Issue Amount: \$10,620,000 million

In order to provide self-liquidity for the university's outstanding variable rate demand bonds (VRDB's), the university must be able to ensure timely payment to bondholders in the event of a failed remarketing. To do this, the university must at all times have sufficient liquid assets to cover the outstanding debt and be able to liquidate these assets within the deadlines specified in the bond documents.

Sufficiency of Liquid Assets

The university presently maintains substantial liquid assets in funds or securities providing same-day or next-day liquidity. Additionally, the university typically carries an on-demand line of credit providing additional same-day liquidity. These sources of liquidity combined are more than sufficient to cover operating needs, scheduled debt service payments, and a tender of the VRDB's.

Throughout the life of the bonds, the university will maintain sufficient liquid investments and/or sources of liquidity acceptable to the rating agencies for maintaining a satisfactory short-term rating. It is understood that sources of liquidity may be modified and/or replaced during the life of the VRDBs. The university will provide the rating agencies with periodic balance reporting as requested by them.

To ensure ongoing sufficiency of liquid assets, the university will:

- A. Assign a staff member to monitor on a regular basis investments having same-day or next-day liquidity to ensure that the combined sources of liquidity are not less than 3 times the outstanding VRDB balance. This responsibility will be included in the assigned staff member's job description.
- B. Make a notation within its investment policies that any action that would reduce sources of liquidity used in the above ratio calculation below the levels defined in A) will require an advance replacement strategy sufficient to maintain a satisfactory short-term rating.

Liquidation of the Assets

In the event of a tender, the bond documents require that the owner of the bonds give the Remarketing Agent and Trustee notice of such tender seven (7) days in advance. Should the Trustee be notified of a tender, the Trustee will in turn notify the university that same day. Because tender notices are anticipated to be infrequent and the university wants to minimize risks associated with moving funds within a very short window of opportunity, the university will initiate liquidation of funds sufficient to cover the tender two days prior to demand date. Such funds will be deposited in the university's checking account one day prior to demand date. Should the tender result in a failed remarketing, the Remarketing Agent will notify the Trustee and the university by 7:00 a.m. Pacific Time (10:00 a.m. Eastern Time) on the demand date. Upon notification, the university will initiate an outgoing wire transfer from its checking account to the Trustee/Paying Agent no later than 10:00 a.m. Pacific Time (1:00 p.m. Eastern Time). Upon satisfactory verification of receipt, the Trustee will initiate a federal wire transfer to DTC by their deadline of 10:30 a.m. Pacific Time (1:30 p.m. Eastern Time) which will ensure that DTC will effect the payoff by their closing time. In the event the tender does not result in a failed remarketing, the university will reinvest the liquidated funds on the demand date.

To ensure that the liquidation process is completed in a timely fashion:

- A. The university will follow-up with each entity providing funds and with its depository bank to ensure that they are acting expeditiously to move liquid funds as required.
- B. The university will follow-up with the Trustee to ensure that they receive the failed re-marketing notice and are prepared to wire to DTC by the deadline on the demand date.
- C. The university will provide the re-marketing agent with contact information for at least three staff members to ensure timely receipt of tender and failed re-marketing notices and will ensure that the necessary steps are being completed timely.

The university will update this document as appropriate and will review it periodically (typically on an annual basis) to ensure that it remains up-to-date throughout the life of the VRDB's.