

University of Florida Internal Operating Memorandum

Number: 06-15

Date: December 1, 2006 (Supercedes No. 06-14 dated September 8, 2006),
Revised December 8, 2008

Subject: Investment Policy for Funds in Excess of Those Required for the
Benefit of the University of Florida

Authority: Section 1011.42(5) and 218.415, F.S.

1. Purpose and Scope

- A. Purpose - The purpose of this investment policy (Policy) is to govern the investment of funds in accordance with sections 1011.42(5) and 218.415, Florida Statutes.
- B. Scope - This investment policy applies to funds in excess of those required to meet current expenses for the benefit of the University of Florida (University).

2. Investment Objectives

The primary objective is to place the highest priority on the safety of principal and liquidity of funds. The optimization of investment income shall be secondary to the requirements for safety and liquidity.

A secondary objective is to maximize income (book yield) while providing minimal risk of market value volatility and adequate short-term liquidity to meet any cash flow demands. As a tertiary objective, the portfolio seeks to outperform its benchmark on a total return basis.

3. Investment Committee

The Vice President for Business Affairs will appoint an Investment Committee to consist of five to eight persons related to the University and familiar with aspects of the University's cash needs.

The Investment Committee will approve asset allocation decisions based on long and short term cash needs. Actual investment decisions within the approved allocations will be made by the University Controller.

The Investment Committee may engage advisors to assist them in their investment decisions, with approval from the Board. The Investment Committee may select investment manager(s) and is responsible for monitoring the performance of all such manager(s).

4. Performance Measurement

- A. The State Treasury Investment Pool will be used as a benchmark for the current operating funds (short term portfolio.)
- B. For funds with a longer-term investment horizon (long term portfolio) the State Treasury Investment Pool will also be used as well as an index with similar maturity characteristics; specifically defined relative to the specific longer-term funds at the time they are invested.

5. Prudence and Ethical Standards

Investments shall be made in accordance with the “Prudent Person” rule which states the following:

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 from the investment.

Employees and members of the Investment Committee 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. Also, employees involved in the investment process shall disclose to the University any material financial interests in financial institutions that conduct business with the University, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the University’s investment program.

6. Authorized Investments

Investments shall be limited to the following:

- A. U.S. Treasury Bills, Notes, Bonds, and Strips and other obligations whose principal and interest is fully guaranteed by the United States of America or any of its agencies or instrumentalities.

- B. Government Sponsored Enterprises: Federal Farm Credit Bank (FFCB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), Student Loan Marketing Association (SLMA), Financing Corporation (FICO), The Resolution Funding Corporation (REFCO), Farm Credit System Financial Assistance Corporation, the Federal Housing Finance Board and all other government sponsored agencies and enterprises.
- C. Repurchase Agreements: collateralized at 102% by U.S. Treasuries.
- D. Certificates of Deposit in state-certified qualified public depositories.
- E. Mortgage-Backed Pass Throughs guaranteed by the U.S. Government or a Federal agency, including securities collateralized by the same.
- F. Asset-Backed Securities: rated "AAA" by either Standard & Poor's or Moody's at the time of purchase. Thereafter, any security downgraded below AAA by either rating agency will be evaluated for potential divestiture by both the Investment Manager and the University Controller.
- G. Money Market Instruments: securities rated "A1/P1" or the equivalent as a minimum as defined by Standard & Poor's and/or Moody's and all other nationally recognized credit rating organizations (Tier 1 as defined by 2(a) 7 money market funds) at the time of purchase. Included but not limited to commercial paper, time deposits and banker's acceptances.
- H. Corporate Notes rated single A and higher by both Standard & Poor's and Moody's at the time of purchase. Thereafter, any security downgraded below single A by either rating agency will be evaluated for potential divestiture by both the Investment Manager and the University Controller.
- I. Money Market Funds registered with the SEC and only invested in securities as allowed by this policy.
- J. Such investments authorized by this section include those governed by the UFICO Statement of Investment Policy.
- K. Investments as otherwise authorized by the Board of Trustees.
- L. State Treasury Investment Pool.
- M. State Board of Administration Local Government Surplus Fund Trust Fund (SBA Pool).

It should be recognized that certain securities may meet the above definition of an Authorized Investment but their risk characteristics, as created by their structure, may be such that a prudent investor would deem them inappropriate for the University. Securities of this type which are prohibited:

- A. Reverse repurchase agreement
- B. Floating rate securities whose coupon floats inversely to an index or whose coupon is determined based upon more than one index
- C. Tranches of Collateralized Mortgage Obligations (CMO) which receive only the interest or principal from the underlying mortgage securities; commonly referred to as "IO's" and "PO's"
- D. Securities whose future coupon may be suspended because of the movement of interest rates or an index

7. Maturity and Liquidity Requirements

The investment portfolio shall be constructed in such manner as to provide sufficient liquidity to pay obligations as they come due. To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements.

8. Portfolio Composition

Recognizing that market value volatility is a function of maturity, the portfolio shall be maintained as a short-term maturity portfolio. Additionally, it is recognized that proper diversification is considered a prudent investment approach. Specifically, the following restrictions apply in the management and investment of the University Portfolio:

- A. The maximum average duration of the portfolio shall be no greater than 120% of the target benchmark's average duration.
 - 1. The maturity of debt obligations with a call and/or put option(s) shall be considered the date on which it can be reasonably expected that the bond will be called, put or mature.
 - 2. The maturity of mortgage/asset-backed securities shall be considered the date corresponding to its average life. This date reflects the point at which an investor will have received back half of the original principal (face) amount. The average life may be different from the stated legal maturity included in a security's description.

3. The effective maturity of floating rate securities shall be considered the time until the next full reset of the coupon. The maximum effective duration of a floating rate security shall be five (5) years from the date of purchase.
 4. The maximum effective duration of an individual security shall be five (5) years from the date of purchase.
 5. To limit principal fluctuation, no more than 40% shall have an effective duration greater than three (3) years.
 6. In order to provide sufficient liquidity and stability of principal, at least 10% of the Fund shall have an effective duration of one year or less.
- B. A maximum of 5% of the Fund may be invested in securities of any single issuer. U.S. Government, Government Agency and GSE government investment pool securities are not subject to any limitations.
- C. The Fund must maintain a total quality rating of 8.0 or higher on the following scale:

Government Investment Pool	10.0
U.S. Government fully guaranteed:	10.0
Government sponsored enterprises (GSE):	9.0
“AAA”-rated securities:	8.0
“AA”-rated securities:	7.0
“A”-rated securities:	6.0
“BBB”-rated securities	5.0
All others	1.0

9. Risk and Diversification

Investments held shall be diversified, in accordance with the guidelines set above, to the extent practicable to control the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, dealer or bank through which financial instruments are bought and sold. Diversification strategies within these guidelines shall be reviewed and revised periodically, as deemed necessary by the Investment Committee.

10. Authorized Investment Institutions and Dealers

The University Controller will maintain an approved list of investment institutions and/or dealers for the purchase and sale of securities.

11. Third-Party Custodial Agreements

All securities purchased by the University or by its approved Investment Manager under this Policy shall be properly designated as an asset of the University and held in safe keeping by a third party custodial bank or other third party custodial institution. If a bank or trust company serves in the capacity of Investment Manager said bank or trust company could also perform required custodial and reporting services.

No withdrawal of securities, in whole or in part, shall be made from safekeeping except by those designated within the Investment Management and Custodial Agreement between the Custodian and the University.

12. Master Repurchase Agreement

The Investment Manger will maintain a master repurchase agreement and require all approved institutions and dealers transacting repurchase agreements to adhere to the requirements of the master repurchase agreement.

13. Bid Requirement

The University shall require purchases and sales to be executed in a competitive bid environment wherein at least three (3) offers or bids are obtained for each security. Exceptions to this approach may be made when (1) prices for purchases/sales are compared to systems providing current market prices and deemed reasonable, (2) when the security to be purchased is unique to one institution or (3) the security has recently been issued and is trading at the same price by all financial institutions.

14. Internal Controls

The University Controller will establish a system of internal controls and operational procedures, which will be documented in writing. The internal controls will be reviewed by the Investment Committee. The controls will be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of entity.

15. Continuing Education

University staff involved with investments must annually complete eight (8) hours of continuing education in subjects or course of related to investment practices and products.

16. Reporting

Unless otherwise indicated, the following are the responsibilities expected of the University:

- A. Monthly reporting of holdings and transactions occurring in the portfolio. This report is to include at least (1) all assets held by the University by class/type, book value, approximate market value, income earned, accrued income and (2) all transactions occurring in the portfolio during the month.

- B. Quarterly reporting of the portfolio's performance. The University will report the portfolio's total rate of return, which reflects the true earnings of the portfolio and incorporates cash flows, changes in market value and income earned. Calculation of the portfolio's total rate of return will comply with the performance measurement standards as defined by the Association of Investment Management and Research (AIMR).

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