

**Background Information on Board Authority and Responsibility in the
Restructuring Act Regarding the Investment Policy**

FINANCE AND RESOURCE MANAGEMENT COMMITTEE

May 23, 2019

In 2005, the Virginia General Assembly passed the Restructured Higher Education Financial and Administrative Operations Act (Restructuring Act). This Act provided restructuring benefits and allowed all Virginia institutions of higher education to have more responsibility for their financial and operational activities.

For Virginia Tech, the Act also provided the opportunity to apply for additional “Level 3” authority and responsibilities. In 2005, Virginia Tech entered into a Management Agreement with the Commonwealth of Virginia under the Restructuring Act, offering increased management autonomy in exchange for high level accountability in several performance areas.

The Management Agreement became effective on July 1, 2006. The chapter of the Management Agreement governing Financial Operations and Management includes a section regarding the investment policy. This language creates the requirement for the investment policy and the Board of Visitors role in this policy. The relevant narrative from the Management Agreement is provided below.

XI. INVESTMENT POLICY

It is the policy of the University to invest its operating and reserve funds solely in the interest of the University and in a manner that will provide the highest investment return with the maximum security while meeting daily cash flow demands and conforming to the Investment of Public Funds Act (§ 2.2-4500 et seq. of the Code of Virginia). Investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Endowment investments shall be invested and managed in accordance with the Uniform Management of Institutional Funds Act, §§ 55-268.1 through 55-268.10, and § 23-76.1 of the Code of Virginia.

The Board of Visitors shall periodically review and approve the investment guidelines governing the University’s operating and reserve funds.

POLICY GOVERNING THE INVESTMENT OF UNIVERSITY FUNDS

VIRGINIA TECH

May 23, 2019

1.0 Purpose

The purpose of this policy is to set forth a comprehensive framework for the effective management of all of the university's financial resources through a comprehensive investment program. This includes the key principles for all phases of the investment program from the initial identification and allocation of financial resources to the investment program through the allocation of income generated from such investments. Further, this policy identifies the major processes in place to execute the comprehensive investment program. This policy applies to the investment of all university operating funds, gifts, local funds, and nongeneral fund reserves, bond proceeds, and separately managed investment funds.

As authorized as a part of the Commonwealth's Restructured Higher Education Financial and Administrative Operations Act of 2005, Virginia Tech's Level 3 Management Agreement became effective on July 1, 2006. The Financial Operations and Management chapter of the Management Agreement requires the development and approval and oversight of an investment policy by the Board of Visitors. This revised investment policy reflects the university's action in response to this requirement, and upon approval by the Board of Visitors, constitutes the university's authoritative investment policy.

2.0 Policy

2.1 Policy Statement and Governing Legislation

The Code of Virginia provides Virginia Tech with the authority to invest university resources in a wide spectrum of investments. Prudent investment of university funds expands the university's capacity to achieve both its strategic goals, including assistance in minimizing increases in tuition and fees, as well as key operating priorities.

The university's investment policy is to develop and execute resource allocation decisions and investment strategies that will maximize investment returns within the guidance and constraints described in this policy. The university's investment program shall operate in compliance with all applicable federal, state, and other legal requirements.

The following Code of Virginia sections provide Virginia Tech with the authority to invest its public funds:

- Operating funds are invested in accordance with the Investment of Public Funds Act in Sections 2.2-4500 of the Code; and,

- Funds invested in accordance with Section § 23.1-2604 of the Code authorize the Board of Visitors to invest and manage endowment funds, endowment income, gifts, all other nongeneral fund reserves and balances, and local funds held by the university in a broader array of investments.

2.2 Management and Execution of the Investment Program

The Vice President for Finance and CFO shall have the authority to oversee the management and execution of the investment program in accordance with this investment policy. This oversight encompasses all activities and phases of the investment program, from the initial identification and allocation of available resources through the annual or periodic allocations of investment earnings to university programs and/or the reinvestment of such funds into the investment program.

The Vice President for Finance and CFO is authorized to make temporary exceptions to the investment policy in the event of a significant market instability or a credit event that would require the university to make a significant reallocation of the portfolio in order to protect the safety and/or liquidity of the investment portfolio. Any such exception will be reported immediately to the Rector and the Chair of the Finance and Resource Management Committee of the Board of Visitors. Any temporary exception to the investment policy will remain in place until no later than the next Board of Visitors meeting at which time the Vice President for Finance and CFO will recommend a course of action with regards to the policy and seek input on and approval of such action by the Board.

2.2.1 Annual Management Oversight

To carry out the oversight responsibilities, the CFO is charged to evaluate and approve strategies that will maximize investment returns within the risk constraints described in this policy, including the preservation of capital, liquidity, and market risk. Key actions to execute these responsibilities include:

- The establishment of an Investment Management Team comprised of the University Treasurer, Assistant Vice President for Finance and University Controller, and the Associate Vice President for Budget and Financial Planning. The Investment Management Team will be responsible for development of recommendations regarding the university's overall investment strategies and to provide ongoing monitoring, assessment, and adjustments to the investment program during the fiscal year to achieve the university's overall investment strategies. This Team will, in turn, call upon other members of university management to work with and advise the Team on specific issues as they arise.
- The CFO will hold an annual meeting early in each fiscal year with the Team regarding the overall investment strategy. The Team will bring forward recommendations for maintenance of the existing investment strategies or for modifications as needed to enhance overall investment performance. Other such meetings may occur during the fiscal year as needed.

The university's investment program will be designed to allocate funds into two categories: a) assets held for investment within the university, primarily for operating activities, and b) remaining assets available for allocation to long-term investment strategies with opportunities for greater return. Accordingly, the annual approval of the investment strategies will also include a review of the changes in funds available for investment, and the determination of the appropriate allocation of university funds to the operating activities investment category and to the long-term, higher return investment opportunities. Specific information regarding these investment categories is delineated in subsequent sections of this policy.

Based on general economic trends and the university's current financial position, the Investment Management Team will also be responsible for conducting an annual review of the targeted amount of operating funds needed to achieve a prudent level of liquidity. This review will, as a result, also identify the type and amount of remaining resources above the targeted operating liquidity threshold that are available for long-term investment opportunities. Based on this work, the Team will make recommendations to the CFO regarding the allocation of funds needed for targeted liquidity and the amount of funds available for long-term investment.

The result of these activities and discussions will be the confirmation of the university's overall investment strategy through the approval by the CFO.

- The CFO will ensure the Senior Vice President for Operations and Administration (SVPOA) is fully informed regarding these actions and the investment program, and SVPOA will be engaged in the responsibilities of carrying out this policy to the extent needed.
- The CFO will ensure that other elements of this policy, such as periodic and annual reporting and accountability and the utilization of investment returns, are carried out in accordance with the policy.

2.2.2 Annual Investment Activities

The University Treasurer or designee(s) shall be authorized to invest all university funds on behalf of the university in accordance with the university's strategies as described in section 2.2.1. In carrying out these responsibilities, the Treasurer may also engage the support services of outside professionals regarding the university's investment program, including the Virginia Tech Foundation (VTF) through an agency agreement dated August 31, 2009, as long as the outside professionals are registered investment advisors under the Investment Advisers Act of 1940, or they are exempt from registration.

The Treasurer is also responsible for establishing internal controls and written policies and procedures for the investment of all university funds and for maintaining appropriate benchmarks for the monitoring of investment performance. The Treasurer will engage the University Controller in the establishment and maintenance of appropriate internal controls and

policies and procedures related to the investment activities and will obtain concurrence regarding the adequacy of the internal control environment.

2.3 Standards of Care

Prudence: The standard shall be the “prudent person” standard, except as may otherwise be prescribed by applicable laws or regulations now or in the future. Under the “prudent person” standard investments shall be made with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Ethics and Conflicts of Interest: The university’s officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions or otherwise be in violation of state law and/or university policy.

2.4 Investment of University Operating Funds and Related Funds

2.4.1 Working Capital Funds

As described in section 2.2.1, the university makes an annual assessment of the amount of working capital needed during the fiscal year to fund current operations and assure that sufficient liquidity is available. This section provides an overview of the assessment of working capital fund needs and resulting investment activities.

Enabling Authorization

University operating funds shall be invested in instruments as set forth in the Investment of Public Funds Act, Chapter 45 (§ 2.2-4500 et seq.). The university maintains a set of guidelines and procedures to comply with the Investment of Public Funds Act. These guidelines and procedures are consistent with the university’s general practices in prior years and are described in detail in Appendix A to this policy.

Investment Objectives

Operating funds consist of the university’s generated cash flow to be used to meet its day-to-day financial obligations. Except for cash in certain legally restricted and special accounts, the university will consolidate cash and reserve balances to optimize university-wide liquidity management and to increase efficiencies of investment pricing, custody/trust, and administration. These funds include unrestricted current funds (e.g., income funds, designated funds, and auxiliary enterprise funds), restricted current funds, loan funds, plant funds, endowment funds, and agency funds.

The primary objective for the management of the university’s operating funds is to provide the highest investment return at defined levels of risk, while providing both safety of principal and sufficient liquidity to meet the university’s daily cash flow needs.

Liquidity

The Office of Investments and Debt Management (IDM) is responsible for managing the daily cash position of the university, as established in the *Virginia Tech Liquidity Management Procedures*. IDM monitors daily and monthly cash balances and provides reports to a liquidity management working group. The university's total operating liquidity includes both internal operating balances and external bank lines of credit, and the targeted amount of operating liquidity is reviewed at least annually by the Investment Management Team, as described in section 2.2.1., and in accordance with the *Liquidity Management Procedures*.

2.4.2 Investment of Bond Proceeds

Enabling Authorization

Bond proceeds will be invested in accordance with the applicable bond documents and state and federal regulations, including but not limited to the Investment of Public Funds Act, Chapter 45 (§ 2.2-4500 et seq.) of Title 2.2 of the Code of Virginia, as amended; and the Government Non-Arbitrage Act, Chapter 47, Title 2.2, of the Code of Virginia, 1950, as amended. Generally, tax-exempt bond proceeds will be invested in the Virginia State Non-Arbitrage Program whereas taxable proceeds will be invested with an existing university money manager.

Investment Objectives

Preservation of capital is the primary objective for bond proceeds. Allowable investments for construction funds include those permitted through the Investment of Public Funds Act, which include applicable investments for sinking funds.

2.4.3 Separately Managed Invested Funds

In certain instances, funds under the control of the university may be required to be invested separate from the operating or endowment funds, such as the university's Land Grant funds. Such funds will be invested in accordance with the terms and conditions of the applicable fund.

Separately invested funds will be subject to the same investment guidelines as other comparable funds, but the asset allocation and maturity structure may vary contingent upon the fund's underlying objective(s).

2.5 Investment of Assets Available for Long-term Investment Strategies

Within the constraints of annual working capital (operating) needs, the university will seek to maximize the funds available for investment strategies providing opportunities for greater returns. These funds may be available from two primary categories:

- a. Funds recommended for university management and approved by the Board of Visitors as quasi-endowment funds.
- b. A range of other sources within the university, including gifts, local funds, and nongeneral fund resources from various university operating units or functions.

At the current time, the university believes that the best available strategy for the investment of these long-term resources is the VTF's consolidated endowment.

Key principles governing university assets invested through the VTF include:

- All these funds, including all investment earnings, represent agency funds within the VTF and remain university assets.
- Other than the transfer of approved quasi-endowments as described in a. above, the funds transferred are not endowment funds but rather represent the university's long-term investment pool.
- The VTF manages these funds in its pooled endowment fund, and the endowment's normal payout will be paid quarterly to the university.
- As university agency funds, there will be no applicable gift fee or hold-back of the endowment payout.
- The university also retains the right to pull resources back from the VTF at any time upon 90 days advance notice before the end of a financial quarter, as outlined in the liquidity management procedures.

Enabling Authorization

Legislation enabled in 2009 within § 23.1-2604 of the Code of Virginia provides Virginia Tech with the flexibility to invest and manage endowment funds, endowment income, gifts, and all other nongeneral fund reserves and balances and local funds held by the university in a broader array of investments.

All gifts, local funds, and nongeneral fund reserves and balances that the university determines appropriate, and that are permitted by law, may be invested in the VTF's endowment fund through the agency agreement with the VTF that was approved by the Board of Visitors on August 31, 2009.

Investment Objectives

The primary investment objective for the management of the university's quasi-endowments and long-term investment funds is to maximize investment performance over time within defined risk parameters to support the purposes for which the endowment was established, while preserving the purchasing power of the funds. These endowment funds shall be governed by the Virginia Uniform Prudent Management of Institutional Funds Act and managed within the VTF's *Consolidated Endowment Fund Statement of Spending and Investment Policy*, as approved and reviewed annually by the VTF's Investment Committee. The investments inherently carry a higher level of risk in comparison with the operating funds invested under the Investments of Public Funds Act, while offering the opportunity to earn a higher return.

3.0 Accountability and Monitoring

The following section summarizes ongoing accountability and monitoring processes for ensuring compliance with the investment program and evaluating performance in terms of achieving the goals of the investment policy.

- IDM is responsible for the execution of the investment program for operating funds, as described in Appendix A to this policy, and it carries out the primary responsibility for review and monitoring of investments of operating funds.
- IDM is responsible for managing the daily cash position of the university, as outlined in the liquidity management procedures.
- VTF's investment personnel are responsible for monitoring the endowment portfolio to ensure compliance with VTF's Statement of Spending and Investment Policy.
- The University Treasurer, who also serves as VTF's Associate Vice President for Finance, is responsible for monitoring the university's funds managed within the VTF's endowment pool through monthly and quarterly reports and for attending quarterly VTF Investment Committee meetings.
- The university's Senior Vice President for Operations and Administration (SVPOA) and Vice President for Advancement each serve as an Executive Vice President of the VTF. They provide an important accountability function through the receipt and monitoring of monthly and quarterly endowment reports from the VTF. This objective is also achieved through the participation in all the VTF Investment Committee meetings, where investment strategy and performance are discussed.
- The Vice President for Finance and CFO and the SVPOA receive monthly and quarterly investment performance reports to monitor performance at the policy level for both investments of Virginia Tech operating funds and its quasi-endowments and long-term investment pool.
- The Finance and Resource Management Committee provides an important accountability role through the approval of this *Policy Governing the Investment of University Funds* and the review of the annual report on the overall investment program.

4.0 Reporting

Reporting activities follow the location of the investment activities as well as providing overall reports on investment performance. Key elements of the reporting processes include the following activities:

Virginia Tech Operating Funds Investments:

- IDM provides monthly reports detailing the investment balances of all cash, short- and intermediate-term operating balances and the investment performance of the individual funds to the Vice President for Finance and CFO, SVPOA, University Treasurer, University Controller, VTF Endowment Chief Investment Officer, Assistant Treasurer, and Treasury Manager.
- The Treasury Manager provides daily and monthly reports to various liquidity management working group members (as defined in the *liquidity management procedures*) detailing the internal, external, and total liquidity available to the university.
- The University Controller's office provides a quarterly report of unspent bond proceeds to the University Treasurer and Assistant Treasurer, who shall monitor the expenditure of bond proceeds.
- Monthly and quarterly reports on investment activities are provided to the Controller's Office, the Office of Budget and Financial Planning, and other offices as needed to carry out the university's finance and budgeting operations.

Virginia Tech Long-term Funds Invested Through its VTF Agency Agreement

The VTF provides monthly and quarterly reports to the Vice President for Finance and CFO, the SVPOA, the Vice President for Advancement, the University Treasurer, and the University Controller's Office in order to assist these officers in carrying out their accountability and monitoring responsibilities.

Reporting on Entity-wide Investment Activities

- The Office of the CFO will utilize reports provided by the University Treasurer and the VTF for the development and distribution of quarterly reports to the CFO and the SVPOA.
- As a part of the report on the university's annual financial statements during the Board's winter meeting, the university shall provide to the Finance and Resource Management Committee investment information regarding the university's overall cash position, investments, and earnings performance as displayed in the financial statements.
- The university will provide a comprehensive annual report to the Finance and Resource Management Committee in November of each fiscal year on the overall investment balances, performance, allocations, utilization of investment income, and compliance with this investment policy.

5.0 Allocation and Reinvestment of Available Investment Returns

The strategic investment of university resources described in this policy is expected to generate recurring supplemental revenue streams to advance university goals. The university has developed two sets of principles regarding the use of these funds that are consistent with state guidance and accounting principles, while maximizing support for university programs.

The overarching commitment of this process is to first allocate investment earnings back to the programs from which the principal came, to pursue current and future activities in those areas, and second, where the funds are more like unrestricted resources, to create revolving set of resources generating an annual, recurring revenue stream to make one-time or limited recurring investments to pursue the university's strategic goals.

The first set of principles relate to the overarching goal to support VT programs and the structure of its investments. Those principles are:

- The earnings from investments will be allocated to pursue major goals such as offsetting or reducing the need for increases in tuition and fees, the building of adequate operating reserves, investment in strategic academic programs and initiatives, and, where critical, investment in other operating priorities.
- Investment earnings from VT operating funds and related activities are more modest and focus more on the preservation of capital and capacity to support daily operating needs. As a result, the university budgets these funds to the targeted activities to the full amount of earnings available.
- Investment earnings from long-term investments in the VTF follow the endowment strategy of having an approved spending rate, with the remainder of the earnings reinvested into the investment to preserve the purchasing power of the investments over time.
- While the university has established the ability to withdraw funds from its long-term investments, such withdrawals are not anticipated and, in principle, would occur only in the face of a significant operating emergency in the university or needed investments into a strategic academic program initiative of such a magnitude that the university could not otherwise fund the initiative.

The second set of principles relate to the appropriate allocation of investments based on the restrictions on funds in the investments or the lack thereof. Those principles apply to both VT operating funds and long-term investments and are:

- Where the invested funds are restricted or are generated through a quasi-endowment, the proportionate earnings will be allocated to those funds for the restricted purpose.
- Where the invested funds are allocated from either resources or VT units that have operating or state funding restrictions, the allocation of earnings to those resources or

activities is proportionate to the activities invested funds. A prime example for this principle is an auxiliary enterprise.

- Where the invested funds are clearly identified to an operating activity or funding source that operates separately in the university's program structure, the proportionate share of earnings will be attributed to that activity.
- Where the invested funds are, in general, unrestricted, such as instructional program reserves or research activities reserves, the earnings will be allocated to a resource pool available to be allocated broadly to initiatives within the funding category. For resources generated in this investment category:
 - a. The university will deploy the earnings to act as a revolving set of resources generating an annual, recurring revenue stream to make one-time or limited recurring investments to pursue strategic institutional goals and objectives. These funds are available for operating needs, and in some cases, may be available to support capital needs as well.
 - b. If necessary, the university will deploy a portion of these earnings to address a strategic university goal or activity to produce ongoing support until that strategic activity generates other revenue streams to support the activity. This should be a last resort option since such expenditures will reduce the university's ability to provide support new initiatives described in a. above.

The allocation of all the investment earnings described in this section will enter the university's budget processes through the activities of the Office of Budget and Financial Planning, as it carries out the university's budget processes. The Budget Office will be responsible for allocations of restricted earnings and for making recommendations regarding the allocation of earnings available for unrestricted purposes.

The Vice President for Finance and CFO shall approve budget allocation recommendations and will execute the allocation of earnings through the university budget process. The CFO will engage the SVPOA in the budget allocation process to ensure these decisions are consistent with the goals of the SVPOA and University leadership.

RECOMMENDATION:

That the Finance and Resource Management Committee approve the Policy Governing the Investment of University Funds.

June 3, 2019

Appendix A

General Guidelines and Authorized Investments for University Operating Funds

June 3, 2019

This appendix provides the General Guidelines and Procedures used to carry out the investment of university operating funds, **as an element of the university's Policy Governing the Investment of University Funds.**

General Guidelines

The University Treasurer of Virginia Polytechnic Institute and State University, or designee(s), shall be authorized to invest all operating funds of the university. The Treasurer may also engage the support services of outside professionals regarding the university's investment program. Any firm hired to provide advice or assistance with the investment program shall be a registered investment advisor under the Investment Advisers Act of 1940 or exempt from registration. Investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

The primary objective for the management of the university's operating funds is to provide the highest investment return at defined levels of risk, while providing both safety of principal and sufficient liquidity to meet the daily cash flow needs of the university. The university's operating funds shall be invested in instruments set forth in the *Investment of Public Funds Act* of the Commonwealth, as summarized below.

The Treasurer will review this policy at least annually, and any changes will be reviewed and approved by the Board of Visitors. Also, any findings of non-compliance will be reported to the Board of Visitors, as well.

Account Structure for the Management of University Operating Funds

In order to meet the objectives of the university, investments will be divided into two major allocations: a Primary Liquidity allocation and an Extended Duration allocation. The Primary Liquidity allocation is to be the major source for the disbursement requirements and operational needs of the university. Liquidity and safety of principal at the expense of return on investment are the foremost objectives of the Primary Liquidity allocation.

The objective of the Extended Duration allocation is to generate an investment return, over the long-term, higher than the Primary Liquidity allocation. To generate higher investment returns, it is recognized that additional interest rate risk and credit risk, within prudent constraints, must be assumed in the management of the Extended Duration allocation. Investment strategies evolve as market conditions and interest rates change. Accordingly, the Extended Duration may consist of a combination of short, intermediate and longer-term portfolios. However, in seeking higher investment returns, the portfolio managers will

be cognizant of the university's objectives of liquidity and safety of principal. Securities lending is prohibited.

Asset Allocation Mix

The Primary Liquidity and Extended Duration target allocations are as follows:

	Target Allocation	Minimum Allocation	Maximum Allocation
Primary Liquidity	45%	15%	60%
Extended Duration	55%	40%	85%

The intent of the Asset Allocation Mix is to increase the overall average maturity and duration of the university's investment portfolios to enhance the returns over the long term. Deviations from the Asset Allocation Mix may be made by the University Treasurer when economic conditions or liquidity needs warrant, or when it is determined that the aggregate deviation does not constitute a material departure from the spirit of the target allocation and the intent of the university. The target allocations and guidelines shall be reviewed at least annually.

Authorized Investments and Credit Quality

Authorized investments for qualified public entities are set forth in the "Investment of Public Funds Act" in Sections 2.2-4500 et seq. of the *Code of Virginia*. A qualified public entity is defined as any state agency or institution having an internal or external public funds manager with professional investment management capabilities. As a qualified public entity, the following securities are authorized for the investment of university funds:

1. Obligations issued or guaranteed by the U.S. Government, an agency thereof, or U.S. Government sponsored enterprises. This includes Agency Mortgage-Backed Securities. These securities can be held directly, in the form of repurchase agreements collateralized by such debt securities, or in the form of registered money market or mutual funds provided that the portfolio is limited to such evidences of indebtedness.
2. Dollar denominated bonds and other obligations issued, guaranteed or assumed by the International Bank for Reconstruction and Development, the Asian Development Bank or the African Development Bank having a maturity of no longer than five years and a credit rating of at least "AAA" by Standard & Poor's and "Aaa" by Moody's Investors Service.
3. Non-negotiable certificates of deposit and time deposits of Virginia banks and savings institutions federally insured to the maximum extent possible and collateralized under the Virginia Security for Public Deposits Act, Sections 2.2-4400 et seq. of the *Code of Virginia* and having a maturity of no longer than five years.
4. Negotiable certificates of deposit, negotiable bank deposit notes, and bankers acceptances of domestic banks and domestic offices of foreign banks with a rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service for

maturities of one year or less. For maturities over one year and not exceeding five years, a rating of at least "AA" by Standard & Poor's and "Aa" by Moody's Investors Service is required.

5. Repurchase agreements collateralized by securities that are approved for direct investment as stated herein. The collateral on overnight or open repurchase agreements is required to be at least 100% of the value of the repurchase agreement. Longer-term repurchase agreements are required to have collateralization in excess of 100% and be marked-to-market on a daily basis.
6. Prime quality commercial paper issued by domestic corporations. "Prime quality" shall be as rated by at least two of the following: Standard & Poor's within its rating of "A-1", Moody's Investors Service within its rating of "P-1", Fitch Investor's Services within its rating of "F-1", Duff and Phelps within its rating of "D-1", or by their respective corporate successors, provided that at the time of any such investment the corporation meets the criteria specified in Section 2.2-4502 of the *Code of Virginia*.
7. Corporate notes and bonds having a credit rating of at least "A" or better by two nationally recognized rating agencies, one of which must be either Standard & Poor's or Moody's Investors Service. This includes all levels of the "A" rating.
8. Money market and other open-end investment funds provided that they are registered under the Securities Act of the Commonwealth of Virginia or by the Federal Investment Company Act of 1940, and that the investments by such funds are restricted to investments otherwise permitted by qualified public entities within the Commonwealth of Virginia.
9. Taxable and tax-exempt municipal securities of the following provided that at the time of any such investment the municipal security meets the criteria specified in Section 2.2-4501 of the *Code of Virginia*, including: (i) of any state of the United States (ii) of any county, city, town, district, authority or other public body of the Commonwealth of Virginia, and (iii) of any city, county, town or district situated in any one of the states of the United States provided that they are the direct legal obligations of the city, county, town or district, and the city, county, town or district has power to levy taxes on the taxable real property therein for the payment of such obligations without limitation of rate or amount. The municipal securities should be rated "A" or better by two nationally recognized rating agencies, one of which must be Standard & Poor's or Moody's Investors Service. This includes all levels of the "A" rating.
10. Asset-backed and non-agency mortgage-backed securities with a duration of no more than five years and rated no less than "AAA" by at least two nationally recognized rating agencies, one of which must be Standard & Poor's or Moody's Investors Service. Authorized mortgage-backed investments include Commercial Mortgage-Backed Securities (CMBS), Agency and Private Label Mortgage-Backed Securities (MBS & RMBS) including pass-throughs, Collateralized Mortgage Obligations (CMOs) and Planned Amortization Classes (PACs).

Prohibited Investments

1. Inverse floaters, Credit Default Swaps (CDSs), Collateralized Debt Obligations (CDOs), Collateralized Loan Obligations (CLOs), and Interest Only (IO), Principal Only (PO) and Z-tranche securities.
2. Futures, options, options on futures, margin buying, leveraging and commodities. Forward trades are permitted as long as they are procured during normal “when issued” periods for individual markets and as long as cash is reserved or a security will mature to cover the purchase at the time of settlement.
3. Securities with the ability to defer interest, securities with the ability to convert to perpetual maturities, and 144A securities.

In the event a security is downgraded to a level that ceases to meet Policy credit quality guidelines, the external manager will notify the university’s investment staff within one business day of the downgrade. The security must then be sold within 30 days unless the manager’s reasoning to continue to hold the security is approved in writing by the University Treasurer.

Diversification

Each individual portfolio within the primarily liquidity or extended duration allocations will be diversified so that no more than three percent of the value of the respective portfolios will be invested in the securities or individual trusts of any single issuer. The limitation shall *not* apply to securities of the U.S. Government, an agency thereof, U.S. Government sponsored enterprises, securities fully insured or fully guaranteed by the U.S. Government, or money market funds.

At the time of purchase, the maximum percentage in each eligible security type for the university’s overall Primary Liquidity allocation shall be maintained as follows:

Primary Liquidity

U.S. Treasury and Agency Securities	100%
Non-Negotiable Certificates of Deposit (CDs)	5%
Overnight/Open Treasury/Agency Repurchase Agreements	100%
Overnight/Open non-Treasury/Agency Repurchase Agreements	50%
Term Repurchase Agreements	20%
Bankers Acceptances	40%
Negotiable CDs and/or Negotiable Bank Deposit Notes	20%
Commercial Paper	35%
Corporate Notes	25%
Money Market Funds	35%
Municipal Securities	10%
Asset-Backed Securities	25%

At the time of purchase, the maximum percentage in each eligible security type for the university’s overall Extended Duration allocation shall be maintained as follows:

Extended Duration

U.S. Treasury and Agency Securities	100%
Non-Negotiable Certificates of Deposit	0%
Repurchase Agreements	0%
Bankers Acceptances	0%
Negotiable CDs and/or Negotiable Bank Deposit Notes	20%
Commercial Paper	0%
Corporate Bonds/Notes	40%
International Development Bank Obligations	5%
Municipal Securities	10%
Asset-Backed Securities	50%
Combined Agency MBS, Agency/Private CMOs, CMBS, RMBS, PACs	50%
Agency Mortgage-Backed Securities (MBS)	50%
Agency CMOs (including PACs)	10%
Commercial Mortgage-Backed Securities (CMBS)	10%
Private Label Residential Mortgages (including CMOs & PACs)	5%
Money Market Funds	10%

Duration and Maturity Limitations

The maximum maturity on any negotiable certificate of deposit or negotiable bank deposit note may not exceed five years.

Within the overall Primary allocation, the maximum duration for any single asset-backed security at the time of purchase may not exceed one year. Within the overall Extended allocation, the maximum duration for any single asset-backed or mortgage-backed security at the time of purchase may not exceed five years. In the event the duration of the individual security within either allocation subsequently exceeds its respective limit, the external manager shall notify the university's investment staff who shall determine whether the security should be sold.

The target duration (in years) for the Primary Liquidity allocation and the Extended Duration allocation are as follows:

	<u>Target</u>	<u>Minimum</u>	<u>Maximum</u>
Primary Liquidity:	.15	.05	.25
Extended Duration:	Per Applicable Benchmark		

Account Benchmarks

Primary Liquidity	BofAML 91 Day Treasury Bills Index, One Month LIBOR Index or other benchmark(s) that more appropriately reflects the manager(s) style within this particular allocation.
Extended Short Duration	BofAML 1-3 Year Treasury Index, Barclays 1-3 Year Government Bond Index, BofAML 1-3 year Gov/Corp

Index or other benchmark(s) that more appropriately reflects the manager(s) style within this particular portfolio.

Extended Intermediate Duration Barclays U.S. Treasury Intermediate Index, Barclays U.S. Intermediate Government Index, Barclays U.S. Intermediate Gov/Credit Bond Index or other benchmark(s) that more appropriately reflects the manager(s) style within this particular portfolio.

Extended Long Duration Barclays U.S. Aggregate Treasury Index, Barclays U.S. Aggregate Government Index, Barclays U.S. Aggregate Bond Index, or other benchmark(s) that more appropriately reflects the manager(s) style within this particular portfolio.

Effective Date: June 3, 2019

Policy Governing the Investment of University Funds

*DWIGHT SHELTON, VICE PRESIDENT FOR FINANCE AND
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JOHN CUSIMANO, UNIVERSITY TREASURER

JUNE 3, 2019



Purpose and Scope

- Virginia Tech's Restructuring Management Agreement requires the development, approval, and oversight of an investment policy by the Board of Visitors
- The purpose of this policy is to set forth a comprehensive framework for the effective management of all university financial resources
- The investment policy is to develop and execute resource allocation decisions and investment strategies that will maximize investment returns within the guidance and constraints described in the policy.
- Key Elements of the Policy:
 - Key Principles regarding identification of resources for the Investment Program and Establish processes to manage and execute the Investment Program
 - Establish clear roles and responsibilities for monitoring and reporting
 - Accountability
 - Principles directing the allocation of investment income generated from the Program

Purpose and Scope - Continued

- This policy applies to the management of:
 - university operating funds
 - gifts
 - local funds
 - nongeneral fund reserves
 - bond proceeds
 - separately management funds

Investment Program: Management

- VP for Finance and CFO shall have authority for the overall management and execution of the Investment Program in accordance with the Investment Policy
- Establishes the Investment Management Team:
 - Responsible for recommending investment strategies, ongoing monitoring, assessment, and adjustments to investment program
- CFO will ensure SVPOA is fully informed regarding the investment strategies implemented under the Program
- University Treasurer or designee shall be authorized to invest all university funds in accordance with the university's investment strategies

Investment Program

The university's investment program allocates funds into two categories:

- Assets held within the university for investments compliant with the Investment of Public Funds Act:
 - Working capital
 - Bond proceeds
 - Separately managed funds
- Assets available for allocation to long-term investment strategies compliant with the Uniform Prudent Management of Institutional Funds Act
 - Managed by the Virginia Tech Foundation
 - Governed by the Foundation's Consolidated Endowment Spending and Investment Policy

Investment Objectives

- University Operating Funds:
 - Consist of university's generated cash flow to meet its day-to-day financial obligations
 - Primary objective to provide highest investment return, while maintaining safety of principal and sufficient liquidity

- Assets Available for Long-Term Investment:
 - Consist of funds recommended by management and approved by the Board as quasi-endowment funds
 - Other sources such as gifts, local funds, and nongeneral fund sources
 - Primary objective is to maximize investment performance over time within defined risk parameters to support the endowment's purpose, while preserving the purchasing power

Guidelines and Authorized Investments of University Operating Funds

Section 2.4.1 Working Capital Funds:

- Two recommended changes to the operating funds investment guidelines:
 - Decrease the primary liquidity target balance from 50% to 45%
 - Increase the allowable allocation of asset-backed securities within the extended duration portfolio from 40% to 50%
 - These securities provide better risk-adjusted returns, and
 - Must be rated “AAA” by at least two nationally recognized rating agencies

Accountability

- The Finance and Resource Management Committee of the Board of Visitors is responsible for approval of Investment Policy
- The university's SVPOA and VP for Advancement each serve as an Executive Vice President of the VTF. They provide accountability function through monitoring of endowment reports and participation in VTF investment committee meeting.
- The university will provide to the Committee:
 - Report on university's overall cash position, investments, and earnings performance as part of annual financial statement presentation
 - A comprehensive annual report on the overall investment balance, performance, allocations, utilization of investment income, and compliance with this investment policy

Allocation of Investment Returns

- Investment earnings will be allocated to pursue major goals:
 - Reducing the need for tuition and fee increases
 - Building operating reserves
 - Strategic academic programs and initiatives and operating priorities
- The strategic investment of university resources described in the policy is expected to generate recurring supplemental revenue streams to advance university initiatives
- The allocation of investment earnings include:
 - Allocate earnings back to the programs from which the principal came
 - For unrestricted resources, create a recurring revenue stream to make one-time or limited investments to pursue university strategic goals

Investment Policy Approval

RECOMMENDATION:

That the revised Policy Governing the Investment of University Funds be approved.

June 3, 2019