

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

FINANCE AND RESOURCE MANAGEMENT COMMITTEE

October 25, 2023

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.

The most recent previous revision to the investment policy was approved by the Board on June 3, 2019. Those updates focused on changes in responsibilities and the use of the Virginia Tech Foundation endowment pool as the solution for university’s long-term investments. The attached new proposed revision is updated for new titles, new responsibilities, and expanded investment authority for intermediate-term fixed income investments. Consultants from Capital Cities have assisted in developing the recommended changes and if the changes are approved, will assist in the implementation of these changes.

POLICY GOVERNING THE INVESTMENT OF UNIVERSITY FUNDS

VIRGINIA TECH

October 22, 2023

1.0 Purpose

The purpose of this policy is to set forth a comprehensive framework for the effective management of all university financial resources through a comprehensive investment program. This includes the key principles for all phases of the investment program, including initial identification and allocation of financial resources and 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 under 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, preserve capital, provide sufficient liquidity to meet operational needs, maintain university credit ratings, and manage risks 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 needed for Educational & General programs (primarily funded by general fund appropriations and tuition and fees) must be invested in accordance with the Investment of Public Funds Act in Sections 2.2-4500 of the Code; and,

- All other operating funds or reserve balances including Endowment funds, Endowment income, gifts, all other nongeneral fund reserves and balances, and local funds held by the university may be invested in a broader array of investments in accordance with Section § 23.1-2604 of the Code.

Consistent with these provisions, the university's investment program will assign Funds into three categories:

- **Educational and General Funds:** State appropriations and educational and general tuition and fees held for funding the university's primary activities;
- **Working Capital:** Non-general funds reserved to meet operational and liquidity needs; and
- **Strategic Investments:** remaining non-general funds (gifts, local funds, and non-general fund reserves) available for higher return opportunities.

2.2 Management and Execution of the Investment Program

The Executive Vice President and Chief Operating Officer (EVP&COO) has responsibility for the strategic oversight of the investment program.

Under the guidance of the EVP&COO, the Vice President for Finance and CFO (VPF) 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 VPF in conjunction with the EVP&COO 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 EVP&COO 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 VPF 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, provision of liquidity, management of market risk, and preservation of the university's credit rating. Key actions to execute these responsibilities include:

- The establishment and leadership of an internal Investment Advisory Committee (Committee) comprised of the VPF, the Assistant Vice President for Finance and Associate Treasurer (AVPF&AT), Associate Vice President for Finance and University Controller, and the Associate Vice President for Budget and Financial Planning. The Committee will be responsible for the 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 Committee will, in turn, call upon other members of university management, Virginia Tech Foundation investment professionals, and externally hired investment consultants to work with and advise the Committee on specific issues as they arise.
- The VPF will meet at least annually early in each fiscal year with the Committee to review the overall investment strategy. The Committee 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 overarching 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 further allocations among these investment categories is delineated in subsequent sections of this policy.

Based on general economic trends and the university's current financial position, the Committee will also be responsible for conducting ongoing reviews of the targeted amount of operating funds needed to achieve a prudent level of liquidity. These reviews will, as a result, also identify the type and amount of remaining resources above the targeted operating liquidity thresholds that are available for long-term investment opportunities. Based on this work, the Committee will make recommendations to the VPF 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 VPF.

- The VPF will ensure the EVP&COO is fully informed regarding these actions and will obtain their approval before implementing significant changes to the investment program. The EVP&COO will be engaged in other responsibilities of carrying out this policy to the extent needed.

- The VPF 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

In conjunction with the VPF, the AVPF&AT or others designated by the EVP&COO 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. As discussed in more detail in Section 3.0, the VPF 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 AVPF&AT 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 VPF will engage the Associate Vice President & 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

As described in section 2.2.1, the university makes an annual assessment of the amount of operating funds 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, consistent with the investment tiers outlined in Section 2.1.

2.4.1 Tier I a - Educational & General (E&G) Funds

E&G funds are the component of operating funds needed to fund the daily operations of the primary mission programs of the university. These operating funds are predominantly composed of state general funds appropriations and tuition and fee revenues.

Enabling Authorization

University E&G 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. The terms and conditions of the contracts with the investment managers will specify the investment style and allowable investments, objectives, risk tolerance, portfolio diversification, applicable performance benchmarks, etc. for these managers.

Investment Objectives

E&G 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.

The primary objective for the management of the university's E&G funds is to provide daily liquidity, limited volatility, and the preservation of capital. The investment strategies should be limited to Cash and Ultra Short Fixed Income investments.

Liquidity

The target liquidity balance is 10 days cash on hand, which is calculated by dividing the annual budget by 365 to determine the cash needed for each day of operation. The AVPF&AT is responsible for managing the daily cash position of the university, as established in the *Virginia Tech Liquidity Management Procedures*. The AVPF&AT monitors daily and monthly cash balances and provides reports to the Committee and others who manage liquidity. 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 Committee, as described in section 2.2.1., and in accordance with the *Liquidity Management Procedures*.

2.4.2 Tier I b – Lines of Credit

In June 2018 the Board of Visitors authorized the establishment of lines of credit for up to \$200,000,000 for the purpose of providing a source of back-up liquidity to support the general operations of the university. These lines of credit are intended to provide alternatives to liquidating intermediate or longer-term investments at a loss or to provide temporary funding

until less liquid investments can be converted to cash. Therefore, they are an essential component of risk mitigation for intermediate and longer-term investments.

Generally, it is expected that these lines of credit will be used to supplement the liquidity needs of the E&G funds and therefore are anticipated to be invested according to the Investment of Public Funds Act and meet the other requirements listed in section 2.4.1.

2.4.2 Tier II – Working Capital Funds

As outlined in Section 2.1, Working Capital funds are the nongeneral fund balances and reserves that will be used to fund non-E&G activities operations such as auxiliary enterprises, sponsored programs, etc. and to supplement the liquidity needs of the E&G funds needed to support the daily operations of the primary mission programs of the university. The ability for the university to accumulate nongeneral fund reserves allows these investments to be in intermediate term opportunities for the Working Capital funds or in long-term opportunities described in section 2.5. These operating nongeneral funds are primarily composed of balances from recovered facilities & administrative costs (overhead), auxiliary enterprise activities, and related funds such as restricted current funds, loan funds, plant funds, and agency funds.

Enabling Authorization

Working Capital Funds will be invested in a broader array of fixed income instruments in accordance with Section § 23.1-2604 of the Code titled Investment of Endowment funds, Endowment Income, etc. These guidelines and procedures are consistent with the university's general practices in prior years for fixed income investments, however they will also include more moderate risk opportunities such as higher yield bonds. Investment in equities will be prohibited. 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. The terms and conditions of the contracts with the investment managers will specify the investment style and allowable investments, objectives, risk tolerance, portfolio diversification, applicable performance benchmarks, etc. for these managers.

Investment Objectives

Working Capital funds consist of the university's generated cash flow to be used to meet non-E&G 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.

The primary objective for the management of the university's Working Capital funds is to provide liquidity reserves to supplement daily liquidity, low to moderate volatility, and higher yields measured under a Total Return strategy. The investment strategies will include a broad array of fixed income investments.

Liquidity

The target liquidity balance is 35 days cash on hand, which is calculated by dividing the annual budget by 365 to determine the cash needed for each day of operation. The AVPF&AT is responsible for managing the daily cash position of the university, as established in the *Virginia Tech Liquidity Management Procedures*. The AVPF&AT monitors daily and monthly cash balances and provides reports to the Committee and others who manage liquidity. 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 internal Investment Advisory Committee, as described in section 2.2.1., and in accordance with the *Liquidity Management Procedures*.

2.5 Tier III - Strategic Investments Funds

Within the constraints of annual operating funds (E&G and Working Capital funds) needs, as described in section 2.2.1, the university will seek to maximize the funds available for investment strategies providing opportunities for greater returns for all other nongeneral fund balances. These funds may be available from two primary categories:

- a. Funds approved from time to time by the Board of Visitors as quasi-endowment funds upon recommendation by university management.
- b. Nongeneral funds in excess of 45 days (the combination of Tier 1a and Tier 2 funds) 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.

2.6 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.

2.7 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).

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.

- The VPF and the AVPF&AT are responsible for the execution of the investment program for operating funds, as described in Appendix A to this policy, and they carry out the primary responsibility for review and monitoring of investments of operating funds.
- The AVPF&AT 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 VPF 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 EVP&COO and the Senior Vice President for Advancement each serve as members of the Board 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 VPF may hire consultants to assist in developing the overall investment strategies to help maximize investment returns, within the university's risk tolerance, while meeting liquidity needs and maintaining the university's credit rating. They will also assist in the hiring, oversight, and performance assessment of investment managers, and to assist in crafting the terms and conditions which specify the investment style and allowable investments, objectives, risk tolerance, portfolio diversification, applicable performance benchmarks etc. for these managers. Additionally, the consultants will coordinate and consolidate quarterly reporting from these managers, assist in negotiating fees, and analyzing market and economic conditions.
- The VPF and the EVP&COO 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:

- The AVPF&AT 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 VPF, the EVP&COO, and the Committee.
- The Treasury Analyst provides daily and monthly reports to the Committee and 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 VPF and the AVPF&AT, who shall monitor the expenditure of bond proceeds.
- Monthly and quarterly reports on investment activities are provided to the University 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 VPF, the EVP&COO, the Senior Vice President for Advancement, and the Office of the Associate Vice President and University Controller in order to assist these officers in carrying out their accountability and monitoring responsibilities.

Reporting on Entity-wide Investment Activities

- The AVPF&AT will utilize reports provided by the Treasury Analyst, the investment consultants, and the VTF for the development and distribution of quarterly reports to the VPF and the EVP&COO.
- 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 to 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 Office of Budget and Financial Planning will be responsible for allocations of restricted earnings and for making recommendations regarding the allocation of earnings available for unrestricted purposes.

The VPF shall approve budget allocation recommendations and will execute the allocation of earnings through the university budget process. The VPF will obtain approvals from the EVP&COO and Executive Vice President & Provost in the budget allocation process to ensure these decisions are consistent with the goals of executive university leadership.

RECOMMENDATION:

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

November 6, 2023

Appendix A**General Guidelines and Authorized Investments for
University Operating Funds**

October 23, 2023

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

Under the guidance of the Vice President for Finance (VPF) the Assistant Vice President for Finance and Associate Treasurer (AVP&AT) of Virginia Polytechnic Institute and State University, or designee(s), shall be authorized to invest all operating funds of the university. The AVP&AT 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 contained in— Educational and General funds (Tier Ia) shall be invested in instruments set forth in the *Investment of Public Funds Act* (Section 2.2-4500 of the Code of Virginia) The nongeneral fund operating funds contained in the Working Capital funds (Tier II) will be invested in a broader array of fixed income investments as authorized by Section § 23.1-2604 of the Code of Virginia titled Investment of Endowment Funds, Endowment Income, etc.

The VPF will review the investment 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 three major allocations: an Educational & General funds allocation, a Working Capital funds allocation, and a Strategic Investment funds allocation. The Tier Ia Educational & General funds 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 these funds. The Tier II Working Capital funds allocation are the nongeneral fund income and reserves that will be used to fund non-Educational & General activities operations such as auxiliary enterprises, sponsored

programs, etc. and to supplement the liquidity needs of the Educational & General funds needed to fund the daily operations of the primary mission programs of the university.

The objective of the Tier III Strategic Investment Funds allocation is to generate an investment return, over the long-term, higher than the Tiers Ia and II allocations. 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 Tier III Strategic Investment funds allocation. Investment strategies evolve as market conditions and interest rates change. Accordingly, the Tier III Strategic Investment funds may consist of a combination of short, intermediate, and longer-termed 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 target allocations are as follows:

Allocation Category	Minimum Target Days of Liquidity *	Objective
Tier I a - E&G Funds	10 days	Primary Liquidity
Tier II - Working Capital	35 days	Secondary Liquidity
Subtotal Internal Liquidity	45 days	
Tier I b - Lines of Credit	45 days	Secondary Liquidity
Subtotal External Liquidity	45 days	
Total Liquidity Target	90 days	
Tier III - Strategic Investments	45 days	Excluded from Liquidity Target
* A day of liquidity is calculated by dividing the total university budget by 365		

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 VPF 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. The specific requirements of this code section, which includes authorized investments, credit quality, and diversification requirements, will be in the written contract with investment manager(s) hired to invest and manage the funds in the Educational & General funds (Tier Ia) portfolio. Since daily liquidity and preservation of assets are the primary objectives of this fund generally investments would be in cash and cash equivalents and Active Cash style portfolios.

In the event a security is downgraded to a level that ceases to meet credit quality guidelines specified in the contract, 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 VPF.

Diversification

Each individual portfolio within all three tiers' allocations will be diversified as specified in the contracts with each investment manager. 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.

Duration and Maturity Limitations

The maximum maturity and duration limits will be specified in the terms and conditions of the contract with each investment manager.

Account Benchmarks

For the Educational & General funds (Tier Ia) and Working Capital funds (Tier II) appropriate benchmarks will be determined in consultation with the investment consultants and be consistent with each portfolio's underlying investments. The selected benchmark will also be incorporated into each investment manager's written contract to ensure performance accountability.

Benchmarks for the Strategic Investment funds (Tier III) will be determined by the Board of the Virginia Tech Foundation.

Effective Date: November 6, 2023

Summary of Proposed New Tier Structure

October 23, 2023

	Tier Ia - Educational & General Funds	Tier II - Working Capital Funds	Tier III - Strategic Investment Funds
Applicable VA Code	2.2-4500 Investment of Public Funds Act	23.1-2604 Investment of Endowment funds, NGF, etc. & UPMIFA	23.1-2604 Investment of Endowment funds, NGF, etc. & UPMIFA
Funding Source	Educational & General	Nongeneral Funds	Nongeneral Funds
Primary Objective	Daily Liquidity	Total Return	Total Return
Secondary Objective	Preservation	Liquidity Reserves	Additional Liquidity Reserves
Investment Strategy	Cash / Ultra Short Fixed Income	Broader Array of Fixed Income	VTF endowment pool *
Risk Tolerance	Limited Volatility	Low/Moderate Volatility	Moderate/Higher Volatility
Liquidity Detail	10 days internal liquidity	35 days internal liquidity	Not subject to specific liquidity needs
<p>Note: Tier Ib is for the lines of credit * Additional options for long-term investments will be explored in the next phase of this project, but are not part of the current changes</p>			