

**WORKING CAPITAL MANAGEMENT AND INVESTMENT POLICY**

**A Recommendation**

1. **Division and Department:** Finance and Administration Division, Treasury Management Department
2. **Introduction:** Investment market volatility in recent years has injected increased risk into the investment options available under the current Pooled Cash Investment Policy (Attachment A), which has not changed with regard to strategy or investment options since December 2000. This revised Working Capital Management and Investment Policy ("Policy", Attachment B) recommendation adopts the same investment management structure as the Endowment Management and Investment Policy, approved by the Board of Trustees ("Board") in March 2012, whereby the Board appoints an Investment Adviser who works with the Administration to invest and manage the University's Working Capital.  
  
The Policy clearly states the strategic objectives, guidelines, restrictions, and performance evaluation related to Working Capital. The Policy defines the roles and responsibilities of the Board, Investment Advisors, Investment Managers, Custodians, and University Administration.
3. **Previous Board Action:** The current Pooled Cash Investment Policy was approved by the Board on June 9, 2000 with subsequent approval of Investment Managers by the Board on July 11, 2007 and June 29, 2010.
4. **Budget Implications:** Investment income from Working Capital investments supplements University budgets.
5. **Educational Implications:** None.
6. **Personnel Implications:** None.
7. **University Reviews/Approvals:** This Recommendation has been developed by the Treasury Management Department, and reviewed by JPM Asset Management, Commonfund, UBS Wealth Management, the Vice President for Finance and Administration, and President.

**Working Capital Management and Investment Policy**  
**Oakland University**  
**Board of Trustees Formal Session**  
**April 3, 2013**  
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**8. Recommendation:**

WHEREAS, the relevance of the Pooled Cash Investment Policy with regard to Working Capital investment is diminished by modern market conditions; and

WHEREAS, an efficient and timely investment management process is necessary to manage risks and returns associated with Working Capital investment; and


WHEREAS, current best practices have been used in the development of the Working Capital Management and Investment Policy; now, therefore, be it

RESOLVED, that the Board of Trustees adopts the attached Working Capital Management and Investment Policy, effective immediately.


**9. Attachments:**

- A. Pooled Cash Investment Policy
- B. Working Capital Management and Investment Policy

Submitted to the President  
on 3/26, 2013 by

  
\_\_\_\_\_  
John W. Beaghan  
Vice President for Finance and Administration  
and Treasurer to the Board of Trustees

Recommended on 3/29, 2013  
to the Board of Trustees for Approval by

  
\_\_\_\_\_  
Gary D. Russi  
President

## **OAKLAND UNIVERSITY**

### **Pooled Cash Investment Policy**

#### **Investment Objective**

It is anticipated that the maximum amount of available cash in excess of normal operating needs is to be invested in income-bearing instruments to seek the maximum return available within the guidelines specified below. Cash balances in the various funds of the university are to be pooled for the purpose of investing.

#### **Investment Manager**

An investment manager(s) will be appointed to execute this policy. Subject to this policy, the investment manager is accorded full discretion to (1) select individual securities, (2) make periodic adjustments to the structure of the portfolios, and (3) diversify the assets in the pooled cash portfolio.

#### **Investment Guidelines – Short-Term**

The investment objective of the short-term portfolio is to provide the maximum return available at the lowest possible risk. The preservation of principal overrides any consideration of appreciation of principal. It is expected that the annual total return of the short-term portfolio shall exceed the performance of 91-day Treasury Bills.

The following guidelines are to be followed in the selection of financial instruments to be in the short-term portfolio:

- Funds available are to be invested in instruments which are convertible into cash at any time.
- No short-term investments are to have a maturity greater than one year.
- Commercial paper shall have a rating of P-1, A-1 or F-1 (as used by Moody's, Standard & Poor's or Fitch).
- Investments in banks shall have a rating of P-1, A-1 or F-1 (as used by Moody's, Standard & Poor's or Fitch).
- No more than 10% of the total funds available for investment are to be invested in any single issuer. There are no restrictions on instruments issued or guaranteed by the U.S. Government or its agencies.
- The benchmark will be the Merrill Lynch 91-day Treasury Bill return.
- Commingled or mutual funds may be used if they comply with the above guidelines.



## Investment Guidelines – Intermediate Fixed Income

Funds eligible for investment in intermediate fixed income securities have been identified by the university as having at least a three-year investment horizon. The investment objective of the intermediate fixed income portfolio is to provide a total return over a market cycle greater than short-term instruments with some aversion to risk. It is expected that the total return over a three-year moving period shall exceed the return of the Lehman Intermediate Government/Corporate Bond Index.

The following guidelines are to be followed in the selection of financial instruments in the intermediate fixed income portfolio:

- Investments are restricted to U.S. Dollar denominated fixed income securities.
- The maximum maturity of any security shall not exceed fifteen years, and the average maturity of the portfolio shall be between three and six years.
- All securities purchased should be of investment grade as rated by Moody's and Standard & Poor's rating agencies. For money market instruments a minimum rating of A1/P1 is required. The average quality of the portfolio shall be between AA and AAA.
- The following instruments are allowed in the portfolio
  - Debt securities issued by the U.S. Government.
  - Debt securities issued by a U.S. corporation or a governmental entity within the U.S.
  - Certificates of Deposit with U.S. banks or their foreign subsidiaries.
  - Debt securities issued by a foreign subsidiary of a U.S. parent corporation which are guaranteed by the U.S. parent.
  - Debt securities of non-United States issuers, including foreign governments, corporations and supranational agencies.
  - Repurchase agreements with eligible banks and brokers collateralized by cash or other eligible securities equal to at least 102% of the market value of the repurchase agreement.
  - Mortgage-backed and asset-backed securities.
- The maximum investment in any one issuer should not exceed 10% of the portfolio at the time of purchase, with the exception of U.S. Government and Government Agency securities.
- The average modified duration of the portfolio should not be more than 20% shorter or longer than that of the benchmark index, **Lehman Intermediate Government/Corporate Bond Index**.
- Commingled and mutual funds may be used if they comply with the above guidelines.

## **Investment Guidelines-Equity**

The investment objective of the equity portion of the Oakland University Pooled Cash is to provide a total return, over a full market cycle, above the return on high quality short and intermediate fixed income securities. The goal is to improve the return on the total pool on average by 1-2% per year through the use of equity investments.

Funds eligible for investment in equity securities have been identified by the university as having at least a five-year investment horizon. Market values fluctuate over shorter periods and the risk of capital loss does exist. However, historical asset return data suggest that the risk of principal loss over a holding period of at least five years is substantially less than that for shorter periods.

Given the conservative nature of the pooled cash investment policy, the goal is to maintain the volatility of the equity portfolio below that of the equity market as measured by the Standard & Poors 500 index. In addition, it is desirable to limit the impact on the total pool from a negative return from the equity holdings. This is accomplished by limiting the allocation to equities, investing a majority of the equity funds in a less volatile discipline and through diversification of investment styles.

The following guidelines are to be followed in managing the equity portfolio:

All equity investments will be made in readily marketable securities.

Equity holdings in any one company may not exceed 5% of the market value of the equity portfolio or its equivalent representation in the representative market benchmark, whichever is larger.

Equity holdings may not exceed 5% of the outstanding stock of one company.

Equity holdings may not exceed 30% of the total Oakland University Pooled Cash fund.

Individual stocks or mutual funds may be used, providing they are consistent with the investment policy.

The performance objectives are to be viewed over the long term and have been established after full consideration of all factors set out in this Investment Policy Statement. These performance objectives are as follows:

Equities:

- 1) Provide a return over a full market cycle of at least one to two percent average annually above that of short and intermediate fixed income securities.
- 2) Provide a return over a full market cycle above the weighted average of the appropriate benchmarks (Custom Index).
- 3) Provide a return for each equity style above the appropriate benchmark over a market cycle.

The equity benchmarks for each investment discipline included in the Fund are:

Equity Income/Value:	Russell 1000 Value Index
Large Cap Growth:	Russell 1000 Growth Index
International Stocks:	MSCI EAFE Index

Returns will be measured relative to the appropriate index and over the longer-term on a risk adjusted basis using a Sharpe ratio. The predicted variability of the equity portfolio will be maintained below the S&P500.

**Asset Allocation/Equity Portion**

- The following asset allocation is designed to meet the Funds' investment objectives:

<b>ASSET CATEGORY</b>	<b><u>INITIAL TARGET ALLOCATION</u></b>	<b><u>ACCEPTABLE RANGE*</u></b>
Equities		
Value/Equity Income	70%	60-75%
Large Company Growth	15%	10-20%
International	15%	10-30%

\*Range represents the percentage of the equity portion of the Pooled Cash Fund



## **Derivative Policy**

Derivative instruments are not allowed for the purpose of leveraging, shorting securities as a sole investment or entering into swap transactions. Investments in derivative securities are allowed for the purpose of yield enhancement, duration management, yield curve management or sector diversification. Interest-only and principal-only mortgage-backed securities, inverse floating rate securities and interest rate swaps are specifically prohibited.

## **Performance Evaluation**

Performance should be communicated by the manager to the client on a quarterly basis in a mutually agreeable form. The manager is expected to exceed the return of the benchmark index over a market cycle.

## **Communications**

- Investment manager will provide asset statements detailing the Fund holdings at cost and market value on a monthly basis.
- Investment manager will communicate in writing any major changes in investment strategy.
- Investment manager will communicate in writing any significant changes (i.e., personnel, ownership, investment philosophy) in the advisors' firm.
- Each investment manager is expected to meet upon request
- Company will provide investment manager with annual projections of cash flow requirements.

# OAKLAND UNIVERSITY

## WORKING CAPITAL MANAGEMENT AND INVESTMENT POLICY

### GENERAL PHILOSOPHY

In recognition of its fiduciary responsibility, the Oakland University Board of Trustees (Board) has adopted the following Working Capital Management and Investment Policy (Policy) for Oakland University (University) and the University's Working Capital, which includes three principal categories: Short-Term Investments, Intermediate-Term Investments, and Long-Term Investments.

In the course of conducting the business of the University, all cash collections shall be concentrated into a single cash pool and shall be managed and invested as a portfolio.

No University cash collection shall be deposited into any other account unless that action was approved previously by the Treasurer to the Board of Trustees (Treasurer) and affirmed by the President. Separate accounts so approved will be monitored and reconciled by the University Controller's Office and closed immediately after they are no longer needed for the purpose for which they were intended.

### DEFINITIONS

- **Asset Class** – For the purposes of this Policy, Working Capital invested assets shall be grouped into three managed classes as noted in Working Capital Portfolio: Short-Term, Intermediate-Term and Long-Term.
- **Custodian** – Is typically a bank but may be another type of financial institution which has fiduciary custody of the Working Capital investments which are being managed by an Investment Manager. The Investment Manager and the Custodian may, at times, be the same firm.
- **Intermediate-Term Investments** – Investments with an investment horizon of one year to five years.
- **Investment Advisor** - A firm or individual retained by the University to advise on investment strategy, asset allocation, performance monitoring, and investment manager search and selection.
- **Investment Consultant** – An advisor used to guide asset allocation decisions, Investment Manager selection and overall investment strategy.
- **Investment Grade** – Investments holding a credit rating of Baa or better from Moody's Investors' Service, or BBB or better from Standard and Poor's or Fitch Investor's Service. For Short Term investments, investment grade shall be investments holding a credit rating of A-2/P-2 or better from Moody's Investor's Service, Standard and Poor's, or Fitch Investor's Service.



- Investment Manager – An investment firm selected to manage an investment portfolio in a specific investment segment (e.g. large cap equities).
- Long-Term Investments – Investments with an investment horizon greater than five years.
- Short-Term Investments – Investments with an investment horizon of one year or less.
- Total Investment Pool – The average market value for the previous twelve months of the assets in the Working Capital Portfolio.
- Working Capital – All funds held by the University except those held in the endowment pool.
- Working Capital Portfolio (Portfolio) – The investment portfolio used to invest the University's Working Capital.

### STRATEGIC OBJECTIVES

1. Safeguarding the assets in the Portfolio.
2. Assuring the liquidity of the Portfolio is sufficient to meet the operating and capital needs of the University.
3. Earning a reasonable rate of return on the Portfolio while managing risk to a conservative level and adhering to the guidelines contained within this Policy.
4. Managing and investing Working Capital according to current best practices.

### GUIDELINES

1. The Portfolio will be divided into three investment groups: Short-Term Investments, Intermediate-Term Investments, and Long-Term Investments. The Treasurer shall determine how much of the Portfolio will be allocated to each group. However, no more than thirty percent of the Total Investment Pool shall be invested as Long-Term.
2. Short-Term Investments will be immediately available for use. Assets in this pool will all be rated as Investment Grade or better by any one rating agency and have an average maturity of no more than one year.
3. Intermediate-Term Investments will be liquid within five business days or less and will be rated Investment Grade or better by any one rating agency. This Asset Class will have average maturities of no more than five years.
4. Long-Term Investments - Assets will be liquid within 20 business days or less and will be rated Investment Grade or better by any one rating agency. Assets with average maturities of greater than five years are permitted. This Asset Class also includes equities.
5. Derivatives may be used in the Portfolio as hedging strategies but only by Investment Managers where those strategies are appropriate. Derivatives may not be used for speculative purposes.

## RESTRICTIONS

1. The Portfolio may not contain:
  - a. Commodities or commodities futures.
  - b. Direct real estate ownership.
  - c. High risk debt rated below Investment Grade.
  - d. Collectables such as coins, stamps and automobiles.
  - e. Investments that are downgraded to less than Investment Grade by any one rating agency. They must be sold unless the Investment Manager and the Treasurer agree that they can continue to be held.
2. The Portfolio may not purchase debt that is not publicly traded and regulated.
3. The Portfolio may not purchase equity that is not publicly traded or regulated.
4. Investments in any one company, except the United States Government or its agencies, may not exceed five percent (5%) of the Total Investment Pool, nor more than five percent (5%) of the outstanding equity and/or debt of the company.
5. For non-amortizing securities, the maturity of any single debt instrument shall not exceed 15 years.
6. No securities purchases shall be made on margin, or use the University's leverage in a transaction.
7. The Portfolio may not contain more than a 30% allocation to equities managers.

## INVESTMENT ADVISOR, INVESTMENT MANAGER AND CUSTODIAN SELECTION

1. Generally, the University shall utilize professional management services for the management of the Portfolio. This does not preclude direct investment and ownership of securities by the University.
2. The Investment Advisor shall be appointed by the Board upon recommendation by the Treasurer.
3. The Investment Managers shall be appointed by the Treasurer upon advice of the Investment Advisor.
4. The Custodian shall be appointed by the Treasurer.
5. No more than fifty percent (50%) of University equity and bond investments shall be assigned to a single Investment Manager.

## INVESTMENT MANAGER PERFORMANCE EVALUATION

Investment Managers and their performance will be measured over periods of the most recent quarter ending; one-year, three-year and five-year periods; and will be compared to appropriate market indices (benchmarks), or other national reporting standards. Market indices shall include indices that are appropriate for each Investment Manager's specific portfolio. Risk-adjusted benchmarks shall be used when and where appropriate to measure performance. An Investment Manager whose performance falls below the top quartile over a three-year period, or below the median over the period of one year, shall be a candidate for replacement, absent a satisfactory explanation for the level of performance.

All Investment Managers must report their performance in writing each month end, and their portfolio holdings at least quarterly and annually.



The University may utilize an independent performance evaluation service to ensure that all Investment Managers are competitive in the market and that their performance meets the needs and expectations of the University.

### ROLE OF BOARD OF TRUSTEES

The Board:

1. Shall establish investment policies relating to the administration of the University's Working Capital Portfolio.
2. Shall establish investment objectives.
3. Shall appoint an Investment Advisor(s), and specify any investment restrictions deemed appropriate.
4. Shall establish the guidelines and restrictions under which the University may directly invest in and own securities independent of Investment Managers and may authorize such investment.
5. Shall receive periodic reports from the Treasurer on investment results.

### ROLE OF INVESTMENT ADVISOR(S)

The Investment Advisor:

1. Shall annually develop and communicate to the Treasurer and the Board an appropriate strategy to meet investment management objectives.
2. Shall advise the Treasurer regarding searches for an Investment Manager(s) and Custodian(s).
3. Shall provide a monitoring and measurement program which will permit evaluation of the performance of the Investment Manager(s) in comparison with the investment markets and with other managers.
4. Shall provide such other information pertaining to the investment program as may reasonably be required.

### ROLE OF THE INVESTMENT MANAGERS

The Investment Managers:

1. Shall report their performance in writing each month, calendar quarter and year, and report their portfolio holdings at least quarterly and annually to the Investment Advisor and the Treasurer.
2. Is authorized to execute investment transactions in conformity with this Policy, subject to any restrictions established by the Board.
3. Shall report immediately to the Treasurer and the Investment Advisor any major change in the manager's confidence regarding the securities markets or any decline in Portfolio value in excess of ten percent (10%) since the last reporting date.
4. Shall be reasonably expected to provide other necessary information for the development of interim reports and shall meet, as necessary, with the Investment Advisor and the Treasurer.
5. Shall vote all proxies in accordance with instructions received from the University.



## ROLE OF THE CUSTODIAN(S)

The Custodian(s):

1. Shall hold all securities under management by the Investment Managers in an agreed-upon nominee name and form.
2. Shall execute all transactions as directed by the Investment Managers.
3. Shall collect all income pertaining to the securities held and shall temporarily invest such income in cash equivalents until reinvested or remitted to the University.
4. Shall periodically remit accumulated income to the University pursuant to instructions received from the University.
5. Shall provide a full monthly accounting of all transactions, together with a listing of all holdings at cost and market.
6. Shall provide such other information pertaining to the Portfolio as may reasonably be required.

## ROLE OF THE UNIVERSITY ADMINISTRATION, THROUGH THE TREASURER

The University, through the Treasurer:

1. Is responsible for the continuous monitoring and review of: the Investment Advisors', Investment Managers', and Custodians' reports, the actions of the Investment Managers, and the status of the University's Portfolio.
2. Shall maintain communications, as appropriate, between the Investment Advisor, Custodian, and Investment Managers.
3. Shall make recommendations to the Board concerning investment policies, structure, objectives and selection of Investment Advisor(s).
4. Shall periodically invest available funds with the Investment Managers in consultation with the Investment Advisor.
5. Shall direct changes in existing allocations in consultation with the Investment Adviser as necessary.
6. May, in consultation with the Investment Managers and the Investment Advisor, and within the parameters established by this Policy, direct the reallocation of assets between the investment options and funds managed by the Investment Managers.
7. Shall appoint Custodians, monitor their activity and receive, reconcile and account for remitted accumulated income.

## GIFTS OF INVESTMENTS

Certain funds are obtained by the University through donor gifts subject to Donor Restrictions that restrict the form of investment, either directly by specifying qualifying investment vehicles or indirectly by stipulating higher-than-normal distributions. Such Gifts of Investments will be accepted only if the investments can be sold by the University at the first available opportunity, but no later than 30 days after the gift, and the proceeds of the sale be invested in the Portfolio in accordance with the provisions of this Policy.