

# ASU System Policy

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Effective Date: August 1, 2023

Subject: Investment Policy

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## Purpose

The Investment Policy of the Arkansas State University System is designed to meet the following objectives:

- Preserving and protecting invested principal;
- Providing liquidity for all operating needs;
- Managing interest-rate risk; and
- Maximizing dependable and stable returns, within established constraints.

University endowment funds are invested and managed in accordance with the Arkansas State University Foundation Investment Policy. This policy is not applicable to Foundation funds or funds held in trust by others, as specifically directed by additional documentation.

**All investment decisions shall be made in accordance with applicable state and federal law.**

## Delegation of Responsibility

1. The Vice Chancellor/Chief Financial Officer of each campus of the Arkansas State University System, or his/her designee, is authorized to make investment decisions and activities for his/her respective campus.
2. Each campus shall establish internal controls in support of this policy.
3. Investment Advisor
  - a. The ASU System, or individual campuses, may contract with an investment management firm to provide for management of funds under its control.
  - b. The advisor must certify receipt and review of this policy.
4. Investment Manager
  - a. The ASU System, or individual campuses, may employ external investment managers.
  - b. The manager must certify receipt and review of this policy.
  - c. The System office, or individual campuses, has the responsibility of making a good-faith determination that commissions or fees paid are reasonable and competitive.
5. External custodians are responsible for securities safekeeping, collection of income, settlement of trades, proceeds of maturing securities, daily investment of available cash, monthly statements and reporting, and collateralization of assets.
6. Funds should not be deposited with a financial institution if doing so would cause cash funds on deposit to exceed the capital of the financial institution.

7. Evaluation of external advisors and managers will be based on criteria developed at the time of contracting with such entity.

### **Authorized Investments**

1. United States Treasury Securities
2. United States Agency Securities, issued by an institution below:
  - a. Federal Farm Credit Bank
  - b. Federal Home Loan Bank
  - c. Federal Home Loan Mortgage Corporation
  - d. Federal National Mortgage Association
  - e. Government National Mortgage Association
3. Other Governmental and Municipal Securities must be rated A or the equivalent by Moody's Investor Service or Standard and Poor's Corporation on the date of purchase.
4. Corporate bonds must be rated A2 or higher by Moody's Investors Service and A or higher by Standard and Poor's Corporation on the date of purchase.
5. Commercial Paper must be rated A1 or higher by Moody's Investor Services and P1 by Standard and Poor's Corporation, with a maturity not to exceed one year.
6. Certificates of Deposit must be issued by a state or national bank, a savings bank, or a state or federal credit union domiciled in this state. Certificates of Deposit, which exceed the FDIC insured amount, shall be collateralized in accordance with this policy.
7. Money Market Mutual Funds must be registered under the Investment Company Act of 1940, which states that they: a) are "no-load" (i.e. no commission fee shall be charged on purchases or sales of shares); b) have a constant daily net asset value per share of \$1.00; c) limit assets of the fund to U.S. Treasury securities, Federal Instrumentality securities, repurchase agreements collateralized by U.S. Treasury and Federal Instrumentality securities, and commercial paper; d) have a maximum stated maturity and weighted average maturity in accordance with Federal Securities Regulation 270-2a-7; and e) have a rating at the time of purchase of at least AAA by Standard and Poor's, Aaa by Moody's, or AAA/V1+ by Fitch.
8. All non-cash investment instruments must be held in safekeeping by the ASU campuses' depository banks or an independent third-party custodian. Safekeeping receipts must be sent to the ASU campus for which the investments are being held. The third-party custodian shall be required to issue an original safekeeping trust statement on a timely basis describing the specific instrument, coupon, maturity, par, CUSIP, and other pertinent information.

### **Maturities**

1. To the extent possible, investments shall be matched with anticipated cash-flow requirements.

2. In order to minimize the impact of market risk, it is intended that all investments will be held to maturity. The following guidelines should be used:
  - a. No less than twenty percent (20%) of the portfolio shall be held in short-term investments (maturity not to exceed 12 months).
  - b. Investments may be sold prior to maturity for cash-flow or appreciation purposes. However, no investment shall be made based solely on earnings anticipated from capital gains.

### **Collateralization**

1. Certificates of Deposits held by, or on behalf of, the University must be fully collateralized with such collateral being evidenced by a bonded, third-party custodian. The third-party custodian shall be required to issue an original safekeeping trust statement, on a timely basis, describing the specific instrument, coupon, maturity, par, CUSIP, and other pertinent information.
2. Collateral may be in the form of the following instruments:
  - a. FDIC insurance coverage
  - b. United States Government Securities
  - c. Securities of agencies of the United States
  - d. Irrevocable letter of credit issued by a Federal Home Loan Bank
  - e. Eligible securities defined under A.C.A. §19-8-203.
3. The collateralization level will be maintained at a rate of not less than 105% of the value of principal and accrued interest.
4. All collateral shall be subject to inspection and audit by Arkansas State University.

### **Pooling of Funds**

1. It may be determined that it is in the best interest of ASU to pool funds from all campuses.
2. If funds are pooled, the investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proration their respective average balances bear to the total pooled balance. Interest earnings shall be distributed to the individual campuses on a monthly basis.

### **Conflicts of Interest**

1. Board members are frequently persons of wide-ranging interests. Therefore, a prudent, independent, investment decision-making process may result in investments in firms or organizations with which a board member is affiliated. "Affiliation" shall be interpreted within this section to mean an employee, officer, director, or owner of five percent or more of the voting stock of a firm or organization. The investment staff or an unaffiliated investment manager may invest in such securities. However, the following restrictions shall apply:
  - a. A board member shall not direct or participate in the decision to purchase or sell securities of a firm with which such board member is affiliated; and
  - b. Investments will not be purchased from or sold to a board member.

2. The Chief Financial Officer (CFO) 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 his/her ability to make impartial decisions. The CFO shall disclose any material interests in financial institutions with which he or she conducts business. He or she shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. The CFO shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the University.

## **Prudence**

The standard of prudence to be used by all parties shall be the “prudent-person” standard and shall be applied in the context of managing an overall portfolio. CFOs, acting in accordance with written procedures and this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The “prudent-person” standard states, “Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

## **Legal Compliance**

All investment decisions shall be made in accordance with applicable state and federal law.

(Adopted by the Arkansas State University Board of Trustees on September 15, 2017, Resolution 17-36. Revised August 1, 2023 to comply with Act 411 of 2023.)