5.3 Long-Term Investments

Policy Statement
This policy establishes an Investment Committee and also a Long Term Investment Strategy.

I. Role and Responsibilities of the Investment Committee
A. Investment Committee Composition

The Investment Committee (the Committee) will be composed of the following individuals:

- Standing Members
  - Vice President for Finance and Administration
  - Sr. Associate Vice President for Finance & Administration and Budget Director
  - Associate Vice President for University Business & Accounting Services
  - Associate Vice President for Undergraduate Admissions & Enrollment Management
  - Director of Student Financial Aid
  - CFO – University of Georgia Foundation
- Members Serving Two Year Term
  - Two Deans or their representative(s)
  - Faculty Member - preferably a Finance or Public Administration subject matter expert
  - Business Affairs Director - from a School/College

Members serving two year terms may be renewed for up to two additional two year terms (total of six years of service). Members of the Investment Committee will nominate and approve new members for these positions.

The Bursar, Bursar’s Office staff and other Finance & Administration support staff as needed will attend Committee meetings, prepare minutes, complete analyses, coordinate all reporting and administrative functions outlined in this policy, and serve in a support capacity to the Committee.

B. Role and Responsibilities of the Investment Committee

The Committee will have standing meeting in February and September of each year. The Bursar’s Office will prepare quarterly investment performance reports and distribute to the Committee members. The Committee will review investment performance of external consultants or investment managers and based on those reviews, assess the need to add or delete consultants or investment managers. The Committee will be involved in the interview and selection of any consultants or investment managers. The Committee may also call a meeting at any other time. At the February meeting, the Committee will conduct an investment policy review and propose modifications to the Vice President for Finance and Administration. At the September meeting, the committee will review the annual investment report covering the period July 1 to June 30 which is required by the Board of Regents. The report is due by October 31 of each year in accordance with the Board of Regents Investment Policy.
The Committee was established to assist University management in fulfilling its fiduciary investment responsibilities. The Committee shall:

- Review investment goals, objectives, and policy to ensure compliance with Board of Regents requirements and other applicable policies and recommendations.
- Meet with external financial services firms at least twice per year to receive performance reports and monitor performance relative to objectives set forth in investment policy and by comparison by stated benchmarks and other appropriate indices.
- Work with Finance & Administration staff to assess performance of existing firms, review fee structures and other costs, and interview external financial services firms as needed.
- Work with Finance & Administration staff and external financial services firms to review and recommend:
  - Changes and improvements with respect to investment goals, objectives, policy and procedure, including suggestions for the University to bring to the University System of Georgia Investment Committee.
  - Changes and improvements to endowment spending limits and other endowment management matters.

The Committee may call other meetings as needed to conduct the business of the Committee.

The Bursar’s Office will work with investment advisors and managers to obtain and distribute quarterly performance reports to the Committee members.

II. Investment Policy

A. Investment Objectives

- The primary investment objective for loan and endowment funds is preservation of capital with an objective to provide maximum investment return with minimized potential loss of principal.
- Secondarily, emphasis should be placed on long-term appreciation of principal to equal the rate of inflation as measured by the consumer price index. With these objectives, the endowment should be invested in such a manner as to create return, adjusted for inflation, for the perpetuity of the funds.

B. Investment Types

Types of investments will conform to Regents policy and applicable federal and state laws. The assets and general investments maintained in the University’s loan and endowment funds include equities, bonds, notes, other fixed income securities, pooled investments managed by investment managers, land, buildings, student loans, short-term funds/cash/cash equivalents, and long-term loans held as investments in University construction projects as authorized by the Treasurer of the Board of Regents.

Approved investment instruments are listed below:

- Certificates of Deposit through domestic banks.
- Bankers’ Acceptances carrying the highest rating assigned to such investments by a nationally recognized rating agency.
- Commercial Paper and corporate issued by a domestic corporation, providing the corporation has a market capitalization equivalent to $100 million.
- Repurchase agreements and reverse repurchase agreements with authorized dealers and banks having a minimum of $100 million in capital. Repurchase agreements must be collateralized by obligations of the United States and its subsidiary corporations and instrumentalities or entities sanctioned or authorized by the United States government having a market value of at least 102% of the investment.
- Obligations issued by any State of the United States.
- Municipal Bonds/Notes, Auction Rate Certificates, and Daily or Weekly Low Floaters issued by counties, cities, states or other municipal entities.
Common stock of domestic corporations (medium to large cap publicly traded stocks listed on major exchange or a national over the counter market).

- Convertible preferred stock and convertible bonds of domestic corporations.
- Money market funds.
- Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction & Development or the International Financial Corporation (World Bank)

III. Risk Tolerance

Due to the longer time horizon of these funds, risk includes purchasing power risk (the risk that the nominal value of assets fails to keep up with inflation) as well as short-term price volatility. In general losses should not exceed -8% over a three year period or -15% within one year.

IV. Asset Allocation and Diversification

Pooled investment funds managed by external investment managers should be reasonably diversified as to commodity, issue and maturity. Generally, funds should be invested with the following targets and limits by class of assets:

<table>
<thead>
<tr>
<th>Class of Assets</th>
<th>Target Limits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>50-75%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>25-50%</td>
</tr>
<tr>
<td>Cash and Equivalents</td>
<td>10-25%</td>
</tr>
</tbody>
</table>

Target of 70%

Target of 30%

Pooled fund asset subclasses for equities may include domestic medium to large cap stocks. Asset subclasses for fixed income securities may include government, corporate, and convertible bonds. Equities and corporate bonds will be broadly diversified across industry sectors in an attempt to control risk. The asset subclass allocation parameters should be adjusted, if necessary, by the pooled fund investment manager to accommodate shifts in risk tolerance, changes, in the need for income versus long-term growth, and changes in the expected returns from the capital markets.

The maximum portion of the net assets of endowment and loan funds which can be utilized for loans to the University for construction projects, which must be individually approved by the Treasurer of the Board of Regents, will be 20% and 40% of the endowment and loan fund balances, respectively. In general, endowment and loan funds should only be used for these loan purposes when a reasonable repayment source is identified and committed and when the rate of return is at least that which can be earned in the market.

V. Investment Guidelines

A. Rating and Maturity

Emphasis will be on securities of high credit quality. The rating systems of Standard and Poor’s and Moody’s will be used to evaluate credit quality and holdings. At a minimum, holdings must be at least investment grade (“BBB” or higher based on Standard and Poor’s or Moody’s ratings). Any security with a split rating between agencies will be considered as only the lower of the two ratings. The underlying corporate debt ratings should be used in the evaluation of equities. Maturities of fixed income securities should be greater than one year and on average should range between five and eight years. Cash and equivalents should be invested in income-producing accounts at all times and should have maturities of one year or less.

B. Spending Policy

The annual spending rate policy for endowment funds is established to not exceed up to 4% of the average market value of the endowment over the 12 quarters of the three (3) previous calendar years. The total investment return objective is to exceed 4.0% plus the rate of inflation. This approach creates a balance between annual spending and
the expected real return on assets. Each fund must be invested for one full year (as of December 31) before an annual spending limit is calculated.

Endowment and loan funds are assessed annual administrative fees by the University to support administration costs. These fees are assessed based on the June 30 market value of the individual fund and will not exceed the following schedule:

- 0.6% of the first $150,000
- 0.5% of the next 150,000
- 0.4% of the next 300,000
- 0.3% of the next 400,000
- 0.2% of all over 1,000,000

The spending rate and the management fee, in concert with the other parameters of the long-term investment policy is intended to support current and future program needs and allow the endowment value to grow at least equal to annual inflation.

Distributions of earnings from the endowment to support annual expenditures conforming to the spending policy are expected to be equal to or less than actual real returns over the long-term, therefore achieving the financial objective of presenting the value of the fund assets and related revenue stream. Expenditures are supported first from current income and, as required, from realized and unrealized gains.

This spending policy will not apply to specific quasi-endowment funds or loan funds where based on the underlying trust agreement, the expenditure of fund principal is allowed. These funds may utilize a spending limit if requested by the school, college or major unit benefiting from the fund.

Annual spending limits for the next fiscal year (beginning July 1) will be calculated every January and communicated to the chief business officer for each school, college, or major unit benefiting from the fund.

There will be an automatic transfer of income and earnings to principal funds if not used by the school/college in a two year period. Exceptions to this procedure should be requested on a fund-by-fund basis and communicated in writing to the Bursar’s Office.

C. Collateralization

Collateralization of loan and endowment funds is not required. However, all cash or cash equivalents held outside of pooled investment accounts will be collateralized in the same manner as noted in the University’s short term investment policy.

D. Custody/Safekeeping

Notes, equities and other investment instruments held outside of pooled investment accounts will be held in accounts clearly designated as University of Georgia Trust Funds. All investment accounts will be held in the name of the University of Georgia or The Board of Regents of the University System of Georgia, by and on Behalf of The University of Georgia. Investments may be in the University’s name, may be held by the investment’s counterparty in the University’s name or may be held by the investment’s counterparty’s trust department or agent, but not in the University’s name. Book entry securities are preferred to physical delivery securities. Any physical stock certificates, bonds or notes received directly from a donor will be securely stored until such time they can be approved by the Treasurer of the Board of Regents for sale. Proceeds will be placed in the pooled investment fund.

VI. Investment Manager Responsibilities

A. Use of Investment Managers
The University currently uses external investment managers. The following criteria are used in the selection process:

1. Professional background and experience

2. Investment philosophy relative to the institution’s stated investment objectives

3. Organizational structure and overall product line

4. Control with respect to ensuring that individual managers adhere to policy objectives and guidelines

5. Total size of managed assets

6. Record of performance measured against appropriate benchmarks

7. Ability to communicate results effectively and in timely fashion

For investment management or consultant relationships that fall outside of the Georgia Fund 1 and Regents approved pooled funds, the University will formalize any relationships with the respective manager or consultant. This will be accomplished through a contract or memorandum of understanding, signed by the University and the investment manager or consultant and will adequately document the expectations and responsibilities of each entity in the investment relationship.

VII. Policy to Ensure Ethical and Prudent Action

The University understands the importance of establishing an investment policy that fosters sound and prudent judgment and fiduciary responsibility in the management of assets. There can be no guarantees about the attainment of the goals or investment objectives outlined here. Personnel involved in the investment functions will be held to the “prudent person” standard and will be responsible for establishing and maintaining internal controls. Training and education is also a requirement of sound investment management.

Prudent Action

The standard of prudence to be used by University personnel shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. University personnel will act in accordance with written procedures and will exercise due diligence. The “prudent person” standard is understood to mean the following: “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as probably income to be derived.”

Training and Education

The University recognizes the need for periodic training in investments for key individuals in the Bursar’s Office. Examples of training opportunities include courses and seminars offered by the National Association of College and University Business Officers (NACUBO), the Government Finance Officers’ Association, and other organizations specializing in investment and treasury management.

Reason for policy

This investment policy statement:

- Defines the role and responsibilities of the University of Georgia Investment Committee
- Defines and identifies the various pools of funds (i.e. Endowment and Loan Funds),
- Specifies the appropriate investment objectives and time horizons for the pools,
- Identifies the appropriate types of investments for the pools,
- Describes risk tolerance associated with each pool,
o Specifies the target asset allocation and diversification for each pool,
o Establishes investment guidelines including maturities, spending policy, custody, and collateralization,
o Outlines the criteria for performance evaluation, management, reporting and monitoring of the assets,
o Discusses the use of investment managers,
o Outlines University policy and procedure to ensure ethical and prudent action

Procedures
The University strives to eliminate the opportunity for collusion by requiring separation of duties and control of safekeeping of assets, and adequate documentation of investment transactions.

1) Separation of functions –

**Separate the transaction authority from the accounting and record keeping authority.** The Director of the Bursar’s Office will make investment transaction recommendations to the Associate Vice President and Controller or the Vice President for Finance and Administration. Investment transaction approval will be made in writing. Changes in investment policy, investment type, asset allocation, or diversification require approval of the Vice President for Finance and Administration. Once investment transactions are approved, the Director of the Bursar’s Office will initiate the transfer of funds to the approved investment via Wachovia Connection Plus, software provided by Wachovia Bank for initiating the approving funds transfers. Once the transfer has been initiated by the Director of the Bursar’s Office, the transfer must be approved and finalized by the Accounts Payable Manager using Wachovia Connection Plus. The Accounts Payable Manager will not approve the transfer initiated in Wachovia Connection Plus without the signed approval from the Associate Vice President and Controller. Wachovia Connection Plus requires each user to sign on the system with a unique user id and password and the system does not allow the same user that initiated the transfer to also approve it.

The investment accountant in the Bursar’s Office is responsible for the accounting entries to record the investment and investment income. These journal entries are input to the accounting system by the Accounting Department. The Accounting Department also prepares the monthly bank reconciliation and financial statements thus providing another layer of control and review over these transfers.

2) Documentation of Transactions and Strategies –

**Prepare written records of investment transactions.** Due to the potential for errors in telephone transactions, all transactions conducted via phone should be supported by written documentation and approved at the appropriate level. All strategies and information used to develop the transaction should be in writing. An agreement with the bank outlines the various controls and security provisions for making and receiving wire transfers.

**Additional contacts**

Judy Scott

Phone Number: 706-542-2542

**Responsibilities**

**Responsible University Senior Administrator**: Vice President for Finance & Administration

**Responsible University Administrator**: Associate Vice President - Finance Division

**Policy Owner**: Bursar’s Office Division

**Policy Contact**: Judy Scott

**Phone Number**: 706-542-2542
Record Retention

**Description:** Records include but are not limited to reconciliation reports; annual operating statements; schedules of rates; and related correspondence.

**Retention:** 5 years for annual reports, 1 year for monthly and quarterly reports and working papers.

**Related information**

To ensure that policy changes are adequately documented, this policy will be reviewed and updated annually by the University of Georgia Investment Committee. Per Board of Regents Policy, changes to the University’s investment policy must be submitted to the Board of Regents every two years by March 31.

http://www.usg.edu/policymanual/section7/policy/C460/#p7.5.2_investments

Policy Dates

**Effective Date:**

Date Last Updated: 04/17/2017

Date of Last Review:

Date of Approval:

Previous Version of Policy: