



# Cash Management Investment Pool Investment Policy

CMIP Investment Policy  
Approval by the Board of Trustees of Purdue University  
April 11, 2008

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**Purdue University**  
**Cash Management Investment Pool Policy Introduction**

This policy governs the investment of the Purdue University Cash Management Investment Pool (CMIP), and will be effective until modified by the Board of Trustees as conditions warrant. CMIP consists of balances accounted for in the current fund, student loan fund, plant fund, endowment fund and agency fund. Handling of Federal funds must comply with the Cash Management Improvement Act, and shall be managed and administered under the guidelines of CMIP. CMIP does not include funds that are specifically excluded by law or contractual agreement.

**A. Investment Objective**

The primary investment objectives of CMIP are 1) the preservation of capital, 2) the maximization of returns within acceptable levels of risk, and 3) management of liquidity requirements. CMIP shall be managed to earn the highest rate of return for the total University, not for a single group or specific account. The Purdue University Investment Committee will compare the returns of the total portfolio to an appropriate composite benchmark (Appendix A).

**B. Portfolio Composition and Asset Allocation**

The portfolio shall maintain a prudently diversified investment program.

**Purdue CMIP**  
**Asset Allocation**

Asset Class	Target	Range
Cash and Cash Equivalents (mutual and/or commingled)	15.0%	\$50 M – 100%
U.S. Treasury Bills, Notes, Bonds and all Agencies	30.0	0 – 100
Corporate Bonds	20.0	0 – 50
Mortgage-Backed Securities	25.0	0 – 30
Asset-Backed Securities	5.0	0 – 25
High Yield Bonds, including Bank Loans	5.0	0 – 5

The Executive Vice President and Treasurer, or his designee, will approve the allowable investment products within each asset class for investment and policy compliance purposes.

**C. Guidelines for Investments**

The assets of CMIP shall be invested in accordance with the following guidelines:

1. Investments in CMIP shall be diversified, resulting in a portfolio weighted average duration of between two (2) and five (5) years, with an overall credit rating of “AA” as rated by a nationally-recognized rating agency such as Moody’s or Standard and Poor’s. The portfolio will be positioned to maintain sufficient liquidity to meet the operating needs of the University. Funds not required to meet cash needs will be invested over a longer-term horizon.
2. Bonds rated “BBB” or lower may not exceed 20 percent of the portfolio.
3. No security of an individual issuer, with the exception of U.S. Treasury and Agencies, shall exceed 5 percent of the portfolio.

4. CMIP shall be invested to meet the liquidity needs of the University. All securities discussed herein must be U.S. Dollar-denominated and issued within the United States. Permitted investments are listed and defined below:
  - **U. S. Government Obligations, U. S. Government Agency Obligations, and U. S. Government Instrumentality Obligations.**
  - **Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS):** The investments in Asset-Backed Securities (ABS) and Mortgage-Backed Securities (MBS) shall be rated at least AAA or equivalent by a nationally-recognized rating agency, in each case, at the time of purchase.
  - **Corporate Notes, Corporate Bonds, 144A Bonds and Yankee Bonds:** The investments in Corporate Notes, Corporate Bonds, 144A Bonds and Yankee Bonds shall be rated or anticipated to be rated investment grade by a nationally-recognized rating agency at the time of purchase. Corporate note/bond purchases shall have liquidity and demonstrated marketability.
  - **Pooled Funds:** The Investment Committee may approve investments in commingled investment vehicles, including mutual funds and common trust funds. These investment vehicles may have investment guidelines that are not in strict compliance with the CMIP Investment Policy. In these cases, the Investment Committee will review and authorize the investment guidelines.
  - **High Yield Bonds:** The investments in High Yield Bonds are defined as 1) corporate bonds, with credit ratings below Baa3 as determined by Moody, or BBB- as determined by Standard and Poor's (whichever is lower), or unrated with yields that correspond to other non-investment grade bonds, and 2) Bank Loans, secured senior floating rate financings made by banks and syndicated to investors. Minimum credit quality of Ba3/BB- is required at time of purchase. In the event that the security is downgraded below Ba3/BB-, immediate notification to the Office of Investments is required, along with a review and recommended plan of action.
  - **Purdue University Quasi-Endowment:** The legally available funds of CMIP may be invested as a quasi-endowment in the Purdue University Endowment. The Endowment investment will be governed by the Purdue University Endowment Investment Policy and will not be considered a part of the asset allocation of CMIP for the purpose of compliance testing of this policy.
5. The following investment vehicles are not permitted in the management of the fixed income investments:
  - Derivative securities, including options, forward or futures contracts, swaps and synthetics
  - Short sales or trades on margin
  - Foreign currencies and non-dollar denominated securities
  - Securities convertible into equity

## **D. Delegation of Responsibilities**

### **1. Board of Trustees**

The Board of Trustees' authority to establish investment policy is provided for under Indiana Code 20-12-9-1. The Treasurer of Purdue University is authorized to manage all cash, securities, and related activities of the University under the Bylaws of The Trustees of Purdue University, Article IV, Section 6. The Investment Committee and the Senior Director of Investments are delegated the authority by the

Treasurer to implement and administer all policies on behalf of the University, as approved by the Board of Trustees or the Treasurer, and shall manage all funds in accordance with these policies under the oversight of the Finance Committee of the Board of Trustees.

## **2. Finance Committee**

The Finance Committee of the Board of Trustees has oversight responsibilities for the Investment Committee and will submit an annual report to the Board of Trustees.

## **3. Investment Committee**

- The Investment Committee will consist of the Treasurer of Purdue University as Chairman, the Assistant Treasurer of Purdue University, the Senior Vice President and Treasurer of the Purdue Research Foundation, the Senior Director of Investments, and other members as appointed by the Chairman. The President of the University serves as an ex officio member of the Investment Committee.
- Investment Committee responsibilities include the development of the CMIP Investment Policy, selection and termination of the master trustee/custodian, selection and termination of investment consultants and investment managers, monitoring performance of investment managers and the entire portfolio on a regular basis, maintaining sufficient knowledge about the portfolio and its managers so as to be reasonably assured of their compliance with the CMIP Investment Policy, and submitting periodic reports to the Finance Committee and the Board of Trustees.
- The Investment Committee will establish and modify, as necessary, the appropriate performance benchmarks for the portfolio and the individual managers and monitor performance.
- The Investment Committee will advise the Treasurer on investment strategies and specific investment management decisions. The Treasurer may engage an external investment consultant to advise the Investment Committee.
- The Investment Committee will evaluate the performance of investment managers over a full market cycle for the manager's asset class. The Investment Committee recognizes that not all investment objectives will be attained each year and that, over various time periods, the performance of investment managers may vary significantly from the performance of the benchmark index. Generally, investment returns will be measured over a five-year period. Investment returns will be measured net of fees. The Investment Committee shall evaluate managers subject to, but not limited to, the following criteria:
  - Avoidance of regulatory actions against the firm, its principals, owners or employees.
  - Adherence to the terms and conditions of the investment management agreement between the University and the manager.
  - Adherence to the stated philosophy and style of management at the time the investment manager was retained by the University.
  - Continuity of personnel and practices at the firm.
  - Ability to exceed the return of the appropriate benchmark index.
- The Investment Committee shall submit quarterly reports to the Finance Committee of the Board of Trustees.

- The Treasurer may authorize investment activities which supersede this policy, to facilitate the operations of the University. The Treasurer will report any such investment action to the Finance Committee.
- The Investment Committee will routinely review the CMIP Investment Policy and make recommendations to the Finance Committee and the Board of Trustees as needed.
- The Treasurer, or his designee, on an exception basis, may authorize specific investments for a single account to address unique situations.

#### **4. The Office of Investments**

- The Office of Investments is responsible for managing CMIP investments in accordance with the CMIP Investment Policy under the direction of the Investment Committee.
- The Office of Investments is responsible for oversight and interactions with the investment managers, the preparation of analysis and materials for the Investment Committee, the execution of rebalancing actions as directed by the Investment Committee, management of the custodial relationship, coordination of the annual audit process, performance monitoring and accounting reconciliations.
- The Office of Investments shall meet with the investment managers at least annually to review performance, their investment process, risk controls, and market outlook. Meetings may be by telephone conference.
- The Office of Investments will immediately inform the Investment Committee of any material events that are discovered or reported during the ongoing due diligence process or that are required to be reported by the investment managers to the Office of Investments.

#### **5. Investment Managers**

Each investment manager shall have full investment discretion with regard to security selection, consistent with the CMIP Investment Policy. The following responsibilities apply to all investment managers.

- Provide immediate notification in writing of any material changes in the investment outlook, strategy, portfolio structure, and ownership or senior personnel.
- Provide immediate notification of any noncompliance with any provision of the Investment Policy or the terms and conditions established in its contract with the University, and a recommended plan of action and timetable to correct any violations.
- Seek best price/execution when purchasing or selling securities at all times. Each investment manager must recognize that brokerage is an asset of the University, not the investment manager. Investment Managers must disclose any affiliated broker relationships and the materiality of that relationship.
- Provide quarterly disclosure of any soft dollar use and its impact on the Portfolio.
- Provide verification quarterly that the manager is in compliance with any AIMR, GIPS, SEC, NASD or other regulations and standards, and report any disciplinary action or non-compliance
- Provide the number of new clients and clients that have terminated on a quarterly basis.

- Outperform the relevant benchmark and provide monthly and quarterly performance reports.
- With the approval of the Investment Committee, the Office of Investments may place funds in commingled investment vehicles, including mutual funds. These investment vehicles may have investment guidelines that are not in strict compliance with CMIP Investment Policy guidelines in this section. In these cases, the Investment Committee will review the manager's investment guidelines to ensure compatibility with this Investment Policy.

## **6. Master Trustee/Custodian**

- The master trustee/custodian will provide monthly portfolio transaction reports and monthly asset reports no later than the tenth business day following month end.
- The master trustee/custodian will provide the Investment Committee, the Office of Investments, its investment managers, and investment consultant special reports as reasonably requested.
- The master trustee/custodian will communicate immediately any concerns regarding portfolio transactions or valuation, or material changes in trustee personnel or procedures.

## **E. Miscellaneous Guidelines**

### **1. Securities Lending**

- The University may participate in a securities lending program administered through its custodian. The University may collateralize the proceeds of the securities lending program through the custodian's Securities Lending Temporary Investment Funds or other collateralization in accordance with the Securities Lending Agreement as amended from time to time.

### **2. Distribution Policy**

- The Executive Vice President and Treasurer, or his designee, will establish the distribution policy to meet the strategic needs of the University. The distribution policy will be reviewed at least annually by the Executive Vice President and Treasurer and the Investment Committee, and amended as required.

*Appendix A*  
**Current Asset Class Performance Benchmarks**

Adopted by the Investment Committee on April 11, 2008

The Investment Committee will compare returns of the total fixed income portfolio and the quasi-endowment to an appropriate composite benchmark.

ASSET CLASS	INDEX
<b>Fixed Income</b>	
Cash and Cash Equivalents Duration 1 day – 2 years	Merrill Lynch 90-Day T-Bill
Fixed Income Managers Duration 2 to 3 years	Merrill Lynch 1 to 5 Year Government/Credit
Fixed Income Managers Duration 3 to 5 years	50% - Lehman Brothers U.S. Government/Credit Intermediate 50% - Lehman Brothers Aggregate Bond
<b>CMIP Fixed Income Benchmark</b>	(See Below)

**CMIP Fixed Income Benchmark**

Measures success of tactical asset allocation ( $X$  = Actual asset class percentage)

$X$  percent Merrill Lynch 90 Day T-Bill +  $X$  percent Merrill Lynch 1-5 Year Government/Credit +  $X$  percent 50% - Lehman Brothers U.S. Government/Credit Intermediate/50% - Lehman Brothers Aggregate Bond.