
PURDUE UNIVERSITY



CASH MANAGEMENT INVESTMENT POOL POLICIES AND MANAGEMENT PLAN

Cash Management Investment Policies
Approved by the Board of Trustees on
February 8, 2002

Cash Management Investment Pool Policies

1. STATEMENT OF PURPOSE

The Investment Policies are adopted by the Board of Trustees to direct the prudent investment of the Cash Management Investment Pool (CMIP) in a manner consistent with the objectives stated herein. The CMIP is a fixed income portfolio utilized to manage the operating funds of the University.

2. OBJECTIVES

The primary investment objectives of the CMIP are the preservation of capital, the maximization of earnings within acceptable levels of risk, and managing liquidity requirements. The CMIP shall be managed to earn the highest rate of return for the total University, not for a single group or specific account. The Treasurer, on an exception basis, may authorize specific investments for a single account to address unique situations.

3. STRATEGY

Investments in the CMIP shall be diversified and result in a weighted average maturity of the portfolio between three (3) to seven (7) years with an overall credit rating of "AA" as recognized by a national rating agency. 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.

4. DEFINITION OF DUTIES

Board of Trustees

The Board of Trustees authority to establish investment policy is authorized in Indiana Code 20-12-1-2-10. The Treasurer of the Board of Trustees 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 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 in accordance with these policies.

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.

Investment Committee

The Investment Committee is responsible for managing the CMIP in accordance with the Investment Policies. This responsibility includes the development and implementation of the management plan, selection and termination of the master trustee/custodian, selection and termination of investment managers, monitoring performance of investment managers and the CMIP on a regular basis, assuring compliance of managers with the Investment Policies and submitting periodic reports to the Finance Committee of the Board of Trustees.

The Investment Committee shall consist of the Treasurer (Chairman), Assistant Treasurer, Director of Investments, Assistant Director of Investments, Comptroller, Treasurer and the Investment Officer of the Purdue Research Foundation. The President of the University serves as an ex officio member of the Investment Committee. The Investment Committee shall meet quarterly to advise the Treasurer on investment strategies and specific investment management decisions. The Treasurer may engage an external investment advisor for consultation with the Investment Committee. The Investment Committee will use a combination of investment managers and internal management to meet its stated objectives.

5. SCOPE

The Investment Policies apply to all funds in the CMIP portfolio for which the Investment Committee and the Director of Investments has been given discretionary investment authority. The Investment Policies shall be used by the Investment Committee and the Director of Investments in their duty to manage, monitor, and report on the CMIP.

The CMIP consists of balances accounted for in the current fund, student loan fund, plant fund, endowment fund and agency fund.

Federal Funds, which must comply with the Cash Management Improvement Act, shall be managed and administered under the guidelines of the CMIP.

The CMIP does not include funds which are subject to arbitrage rebate regulations or specifically excluded by law or contractual agreements. Funds specifically excluded from this pool shall be administered by the policies governing the CMIP.

6. FIDUCIARY DUTY

In seeking to attain the investment objectives set forth in the Investment Policies, the Investment Committee and the Director of Investments must act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. All investment actions and decisions must be based solely in the interest of the University. All fiduciaries must provide full and fair disclosure to the Investment Committee of all material facts regarding any potential conflict of interests.

7. PERMISSIBLE INVESTMENTS

The Cash Management Investment Pool shall be invested in fixed income securities and short-term instruments, which maintain the liquidity necessary to meet the University's operating needs. Investments permitted under this policy are defined below:

- A. U. S. Government Obligations, U. S. Government Agency Obligations, and U. S. Government Instrumentality Obligations.
- B. Commercial Paper
Rated A1/P1 or better by a nationally recognized rating agency, at the time of purchase.
- C. Federally Insured Bank Obligations
Rated A or better by a nationally recognized rating agency.

- D. **Tri-Party Repurchase Agreements**
Agreements shall be collateralized at least 100% by securities authorized under this policy and managed through a tri-party custodian.
- E. **Asset Backed Securities**
Rated at least AAA or equivalent by a nationally recognized rating agency, in each case, at the time of purchase.
- F. **Corporate Notes/Bonds Securities**
Rated or anticipated to be rated investment grade by a nationally recognized rating agency at the time of purchase. Corporate notes/bonds purchases shall have liquidity, demonstrated marketability or be traded on either the New York Bond Exchange or the American Bond Exchange.
- G. **Pooled Funds (e.g., mutual funds, common trust funds)**
Permitted, provided that the investment guidelines do not violate the University's Investment Policies.
- H. **High Yield Bonds**
High yield bonds are defined as corporate bonds, with credit ratings below BAA3 as determined by Moody or BBB- as determined by Standard and Poor's, or unrated with yields that correspond to other non-investment grade bonds. Minimum credit quality of BB- / BB3 is required at time of purchase. In the event that the security is downgraded, immediate notification to the Director of Investments is required.

8. DERIVATIVE SECURITIES

Derivative securities may not be used in the Cash Management Investment Pool.

9. ASSET ALLOCATION

The portfolio shall maintain a prudently diversified investment program that is well balanced between assets with shorter maturities to maintain orderly cash flow and longer maturities to enhance return to all participants.

In maintaining a diversified investment program, the Investment Committee will target the following range of duration, with the intent of rebalancing to targets annually, or more frequently if necessary.

<u>Allocation and Duration Target</u>		
	Duration	Allocation Range
Cash and Cash Equivalents	1-90 days	10 – 35%
Short-Term Fixed Income Portfolio	2.5 years (+/- .5)	50-65%
Intermediate-Term Portfolio	4.0 years (+/- .75)	25-40%

10. MANAGEMENT AND REVIEW

- A. The Director of Investments is responsible for the day-to-day management of the CMIP and is accountable to the Treasurer and the Assistant Treasurer. The Director of Investments will meet at least quarterly with the Investment Committee to review the



investment managers' performance and all internally managed holdings. All investments managed internally will be under the constant supervision of the Director of Investments, as delegated by the Treasurer.

- B. Externally managed investments will be under the constant supervision of the investment managers. The Investment Committee shall meet with the investment managers at least every 18 months to review performance. Meetings may be by telephone conferences.
- C. Indexes will be used to monitor the performance of each investment manager in the portfolio, including the internally managed funds. A portfolio benchmark index, comprised of each class index weighted by its allocation, will be used to monitor the performance of the entire portfolio.
- D. An annual report shall be submitted to the Board of Trustees. Investment policies will be reviewed annually with the Finance Committee of the Board of Trustees.
- E. At the discretion of the Treasurer and for an interim period of time pending ratification by 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 immediately to the Finance Committee.
- F. Any expenses incidental to the purchase or sale of a security, including fees for custodial services, investment advisor, and external management fees, will be charged to current income, including the appropriate operating expenses of the Office of Investments.

11. PROXY VOTING

The Director of Investments shall handle the voting of proxies and tendering of shares in a manner consistent with the objectives contained in the Investment Policies and in the best interest of the University for internally managed holdings. The master trustee/custodian shall handle the voting of proxies and tendering of shares in a manner consistent with the objectives contained in the Investment Policies and in the best interest of the University for holdings under management. The master trustee/custodian shall provide a written report to the Director of Investment at least annually. The report shall provide details of corporate action taken.

12. 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.

13. DISTRIBUTION POLICY

Net earnings of the CMIP shall be credited to the general operating fund of the respective campus unless legally restricted or administratively designated by the Executive Vice President and Treasurer or his designee to participate individually or for the benefit of

another account. Net earnings are distributed semi-annually and defined as interest income, dividends, realized gains/losses, less investment expenses and operating expenses of the Office of Investments.

MANAGEMENT PLAN

The assets shall be managed in accordance with the following guidelines:

1. PERMISSIBLE INVESTMENTS

Cash Management Investment Pool

Total Portfolio

<u>Asset Class</u>	<u>Permissible Range February 2002</u>
<u>Cash and Cash Equivalents:</u>	
Commercial Paper	0-15%
Pooled Fund Investments	0-100%
Repurchase Agreements	0-50%
Federally Insured Bank Obligations	0-5%
<u>Non-Cash Obligations:</u>	
U.S. Treasury Bills, Notes, Bonds, U.S. Government Agencies and Agencies Created by Acts of Congress	15-100%
Corporate Bonds, including 144A and Yankee Bonds	0-50%
Rule 144A Securities, with registration rights: 0-20%	
Yankee Bonds: 0-20%	
Mortgage Backed Securities, including TBA's	0-30%
Asset Backed Securities	0-25%
High Yield Bonds	0-5%

A. Guidelines

Cash flow needs of the University for current operations are critical. The maturity structure of the Cash and Cash Equivalents, or short-term portfolio shall be arranged to coincide with cash flow needs.

Securities may be purchased at either a premium or discount. If securities are purchased at other than par value, the discount will be accreted or the premium will be amortized over the life of the investment in compliance with Generally Accepted Accounting Principles (GAAP).

Securities may be sold for more or less than book value if such action would be consistent with the University's investment goals. If sold for less than book value, the loss must be charged to current investment income. If sold for an amount in excess of book value, this amount must be recorded as current income.

2. SERVICES OF MASTER/TRUSTEE CUSTODIAN

The Investment Committee will retain the services of a master trustee/custodian that will:

- A. Provide monthly portfolio transaction reports no later than the tenth business day following month end, and monthly asset reports no later than the tenth business day following month end.
- B. Provide the Investment Committee, its investment managers, and investment advisor special reports as reasonably requested; and
- C. Communicate immediately any concerns regarding portfolio transactions or valuation, or material changes in trustee personnel or procedures.

3. SERVICES OF INVESTMENT ADVISOR

The Investment Committee may retain the services of an investment advisor to assist in the management of external investment managers. The investment advisor will be a primary source of investment manager information. On an ongoing basis the investment advisor will:

- A. Provide the Director of Investments with quarterly performance reports within 45 days following the end of the quarter;
- B. Meet with the Investment Committee at least quarterly, more frequently as needed;
- C. Monitor the activities of each investment manager or investment fund;
- D. Provide the Investment Committee with an annual review of the Investment Policies; and
- E. Provide the Investment Committee with other reports or information as reasonably requested.

4. INVESTMENT MANAGER RESPONSIBILITIES AND REPORTING REQUIREMENTS

GENERAL RESPONSIBILITIES

These responsibilities apply to managers of non-mutual and non-pooled funds, where the investment manager is able to construct a separate, discretionary account on behalf of the University. Although the Investment Committee cannot dictate policy to a pooled/mutual fund investment manager, it is the Investment Committee's intent to select and retain only pooled/mutual funds which operate under policies compatible with the Investment Policies. Each investment manager shall:

- A. Have full investment discretion with regard to security selection consistent with this Investment Policies, and maintain a fully invested portfolio (5% or less in cash);
- B. Immediately notify the Investment Committee in writing of any material changes in the investment outlook, strategy, portfolio structure, ownership or senior personnel;

- C. 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.
- D. The following investment vehicles are not permitted:
 - Options, forward or futures contracts, swaps, short sales or trades on margin;
 - Foreign currencies or non-dollar denominated securities;
 - Convertible securities;
 - Non-marketable securities;
 - CMOs
- E. Bonds rated “BBB” or less may not exceed 20% of the portfolio.
- F. No security of an individual issuer, with the exception of U.S. Treasury and Agencies, shall exceed 5% of the portfolio.

REPORTING

Investment managers will provide the following information at the annual meeting:

- A. A written review of key investment decisions, investment performance and portfolio structure;
- B. An organizational update, including information on any and all changes in organizational structure, investment personnel and process;
- C. A list of new clients and clients that have terminated their services in the investment style for which the manager has been hired;
- D. A review of the manager’s understanding of investment policies and contractual obligations, and offer suggestions to improve the policies or policy or clarify/modify contractual obligations; and
- E. A report on brokerage relationships and soft dollar use:
 - 1) Verify that it complies with the “Required” sections of AIMR’s Soft Dollar Standards;
 - 2) Document and disclose any soft dollar use and its impact on the University’s portfolio; and
 - 3) Disclose any affiliated broker relationships and the materiality of that relationship.

In addition, the investment manager will provide:

- F. Monthly transaction and asset statements to the Director of Investments, investment advisor, and master trustee/custodian, no later than the tenth business day following month end;
- G. Quarterly performance reviews to the Director of Investments and investment advisor; and

- H. Immediate notification to the Director of Investments and its investment advisor of any violations of the Investment Policies or the terms and conditions established in its contract with the University; a recommended plan of action to correct any violations.

5. EVALUATION OF MANAGER PERFORMANCE

The Investment Committee will evaluate the performance of investment managers over a full 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 5-year moving period. Investment returns will be measured net of fees. The Investment Committee may make changes regarding investment managers over a shorter term using the following criteria:

- A. Avoidance of regulatory actions against the firm, its principals or employees;
- B. Adherence to the terms and conditions of the agreement;
- C. Adherence to the stated philosophy and style of management at the time the investment manager was retained by the University;
- D. Continuity of personnel and practices at the firm;
- E. Ability to exceed the return of the appropriate benchmark index; and
- F. Ability to rank at least within the upper one-third of a peer group of managers with similar styles of investing.

The following table summarizes the quantitative performance measures to be used in evaluating managers.

ASSET CLASS	INDEX
CASH & CASH EQUIVALENTS	Merrill Lynch 90 Day T-Bill
SHORT-TERM FIXED INCOME PORTFOLIO	Merrill Lynch 1-5 Year Government/Credit
INTERMEDIATE-TERM PORTFOLIO	50% - Lehman Brothers Government/Credit Intermediate 50% - Lehman Brothers Aggregate Bond