Investments

**Original Implementation:** April 30, 1996  
**Last Revision:** January 28, 2014

**Policy Statement**

Stephen F. Austin State University invests the public funds in its custody with primary emphasis on the preservation and safety of the principal amount of the investment. Secondarily, investments must be of sufficient liquidity to meet the day to day cash requirements of the university. Finally, the university invests to maximize yield within the two previously indicated standards. All investments within this policy conform to all applicable state statutes and local rules governing the investment of public funds. This policy is promulgated in accord with the Public Funds Investment Act (Government Code, Chapter 2256), and related portions of the Texas Education Code.

**Scope**

This policy establishes rules for the investment of all university funds that are governed by Chapter 2256 of the Government Code. Endowment funds are invested in accordance with a separate policy approved by the Board of Regents. Quasi-endowment funds that are considered to be public funds will be governed by this policy.

**Objectives**

The foremost objective of all investment decisions shall be safety of principal. All investments must be undertaken with the fiduciary responsibility associated with that of a reasonable and prudent person. Investments must be in accord with Texas law. Investment maturity must be diversified to match the university’s liquidity requirements.

Investments shall incur no unreasonable risk in order to maximize potential income.

Investments shall remain sufficiently liquid to meet all reasonably anticipated operating requirements.

Investments may be diversified in order to respond to changing economic and/or market conditions.

No investments within the portfolio or investment practices conducted to effect investment activities shall violate the terms of this policy.
Authorized Investments

All university funds and funds held in trust for others may be invested in the securities listed below and/or pooled with another institution of higher education as authorized in Texas Education Code (TEC) Section 51.0031. Credit rating requirements will be monitored at least monthly for securities that are subject to Chapter 2256 of the Government Code. If or when a rating drops below the established minimum, the investment will be liquidated as soon as prudently possible. Securities authorized by Chapter 2256 of the Government Code include:

A. obligations, including letters of credit, of the United States of America, or its agencies and instrumentalities;
B. direct obligations of the state of Texas or its agencies and instrumentalities;
C. collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States of America, the underlying security for which is guaranteed by an agency or instrumentality of the United States of America;
D. other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the state of Texas or the United States of America or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;
E. obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent;
F. certificates of deposit issued and share certificates by a depository institution that has its main office or a branch office in Texas that is:
   1. guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;
   2. secured by obligations that are described in Authorized Investments section A-E listed above, including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the following nature:
      a. obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgaged-backed security collateral and pays no principal;
      b. obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
      c. collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
      d. collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.
3. In addition to the authority to invest funds in certificates of deposit in Section (F), an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under Subchapter 2256.010:

   a. the funds are invested by an investing entity through a broker that has its main office or a branch office in Texas and is selected from a list adopted by the investing entity as required by Section 2256.025; or
   b. the broker or the depository institution selected by the investing entity under Subsection (a) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, whereverlocated, for the account of the investing entity;
   c. the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;
   d. the investing entity appoints the depository institution selected by the investing entity under Subsection (a), an entity described by Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission (SEC) and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity.

G. fully collateralized repurchase agreements with a definite termination date, secured by a combination of cash and obligations described by Authorized Investments section A-E, requiring the securities being purchased by the entity or cash held by the entity to be pledged to the entity, held in the entity’s name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the entity; and placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state;

H. bankers acceptances having a stated maturity of 270 days or fewer from the date of issuance, to be liquidated in full at maturity, eligible for collateral for borrowing from a Federal Reserve bank, and accepted by a bank organized and existing under the laws of the United States of America or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency;

I. commercial paper that has a stated maturity of 270 days or fewer from the date of its issuance, and is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies or one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States of America or any state;

J. no-load money market mutual funds registered and regulated by the Securities and Exchange Commission, having a dollar-weighted average stated maturity of 90 days or fewer, and including in their investment objectives the maintenance of a stable net asset value of $1 for each share; and no-load mutual funds that conform to Section 2256.014 of the Government Code;
K. guaranteed investment contracts conforming to Section 2256.015 of the Government Code;
L. investment pools conforming to Sections 2256.016 and 2256.019 of the Government Code;
M. cash management and fixed income funds sponsored by organizations exempt from federal
income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section
501(f));
N. negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of
at least 1 or the equivalent by a nationally recognized credit rating agency or that is
associated with a holding company having a commercial paper rating of at least A-1, P-1, or
the equivalent by a nationally recognized credit rating agency;
O. corporate bonds, debentures, or similar debt obligations rated by a nationally recognized
investment rating firm in one of the two highest long-term rating categories, without regard
to gradations within those categories;
P. assets and/or funds reportable within the scope of the university's annual financial report
may not be invested in or used to purchase securities, including obligations, of a private
corporation or other private business entity that owns 10% or more of a corporation or
business entity which records or produces any song, lyrics or other musical work that
explicitly describes, glamorizes or advocates
1. acts of criminal violence, including murder, assault, assault on police officers, sexual
   assault, and robbery;
2. necrophilia, bestiality, or pedophilia;
3. illegal use of controlled substance;
4. criminal street gang activity;
5. degradation or denigration of females; or
6. violence against a particular sex, race, ethnic group, sexual orientation, or religion.

Insurance or Collateral

All depository bank accounts shall be secured by a pledge of collateral with a market value
equal to no less than 100% of the deposits plus accrued interest less any amount insured by the
FDIC and pursuant to Chapter 2257 of the Government Code, -- Collateral for Public Funds.
Evidence of the pledged collateral associated with depository bank accounts shall be maintained
by the director of financial services. Eligible repurchase agreements shall be documented by a
specific agreement noting the collateral pledged in each agreement. Collateral shall be reviewed
monthly by the controller and director of financial services to assure the market value of the
securities pledged equals or exceeds the depository bank balances.
Pledged collateral shall be maintained for safekeeping by a third party depository.

Collateral Defined

The university shall accept only the following securities as collateral:
A. FDIC insurance coverage;
B. United States Treasury, Agency, or Instrumentality securities;
C. Direct obligations of the state of Texas or its agencies and instrumentalities;
D. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States of America;
E. Obligations of states, agencies thereof, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of no less than A or its equivalent;
F. Collateralized mortgage obligations (CMO) directly issued by a federal agency or instrumentality of the United States of America, the underlying security for which is guaranteed by an agency or instrumentality of the United States of America. CMO must have a stated final maturity date of less than 10 years.

**Investment Strategy**

All investments will be made in accordance with the university’s investment policy. Investments may be diversified as needed to provide investment suitability to the university's financial requirements. The preservation and safety of principal is the first priority, however, it is recognized that unrealized losses will occur in a rising interest rate environment, just as unrealized gains will occur during periods of falling interest rates. Investments will be of the type to provide sufficient liquidity and marketability for any operating requirements. The investment portfolio may be diversified with authorized securities to accommodate changing market conditions. Diversification may include investment pooling with another public institution as authorized in TEC 51.0031. An investment decision shall consider yield only after the requirements for principal preservation, liquidity, and marketability have been met.

Investments may be categorized and described as:

A. **Short Term - less than 90 days** Funds needed to meet short term operating requirements normally will be invested in either investment pools or overnight sweep accounts established with banking institutions. The benchmark is the average three month Treasury Bill yield.

B. **Intermediate Term - 90 days to one year** United States Treasury and Agency securities, United States Agency Discount Notes are the primary investment vehicles. United States Treasury securities are preferable because of their low risk and the ease with which they are traded. The benchmark is 95 percent of the average one-year Treasury Bill yield.

C. **Long Term - over one year** United States Treasury and Agency securities are the primary investment vehicles. Normally, investments are laddered so that most principal is returned over a five year period in increments sufficient to meet anticipated operating and capital needs. The 30 Year Treasury Bond rate is the benchmark for long term funds.
D. Maturity - The length of time for investments within this policy will vary according to fund type and will be dependent on funding requirements. As a general rule, funds will be invested for the time periods indicated:

Current Unrestricted and Restricted Funds - 2 days to one year

Plant Funds- 3 months to 3 years

**Delegation of Authority**

The vice president for finance and administration (VPFA) of Stephen F. Austin State University is responsible for investment management decisions and activities. The VPFA delegates the day-to-day management of the investment activities to the director of financial services.

The VPFA shall be ultimately responsible for all transactions undertaken and shall establish a system of controls (Appendix A) to regulate the activities of officials and staff involved in investment transactions.

The VPFA shall develop and maintain written administrative procedures and guidelines for the operation of the investment program which are consistent with and part of this Investment Policy (Appendix B).

The VPFA and director of financial services shall be designated as the university’s investment officers and are responsible for the duties outlined herein. The names and titles of the investment officers shall be filed with the Board of Regents. Changes of names and/or titles must be filed with the Board of Regents as they occur.

The VPFA may establish an investment committee. The committee may review investment reports, monitor investment activity or review and revise qualified investment brokers that are eligible to serve in an investment capacity for the university. The chair of the Board of Regents may designate a board member to serve as a liaison on the investment committee.

The maximum stated maturity date of any security may not exceed ten years, and the weighted average duration of the portfolio shall not exceed five years without approval by the VPFA and ratification by the Board of Regents. No officer or designee may engage in an investment transaction except as provided under terms of this policy as approved by the Stephen F. Austin State University Board of Regents.

**Prudence**

The "prudent person" standard will be used in the investment function and shall be applied in the context of individual transactions as well as management of the overall portfolio.
Accordingly, all 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 the expected income to be derived.

**Internal Controls**

Stephen F. Austin State University has established a system of written internal controls designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the university. These controls are shown in Appendix A of this investment policy. These controls are subject to the review of and recommendations from the university’s Department of Audit Services’ office.

**Investment Authority**

The VPFA or director of financial services shall invest only those funds regulated by this policy and shall purchase only those securities authorized by the Authorized Investments section of this policy. The governing board may contract with institutions to invest all or part of the university’s funds in accordance with TEC 51.0031.

**Authorized Financial Dealers and Institutions**

Investment transactions (bids and offers) will occur only between the university and board authorized broker/dealers or institutions authorized by TEC 51.0031. For funds subject to Chapter 2256 of the Government Code, a written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with Stephen F. Austin State University. The qualified representative of the business organization offering to engage in an investment transaction with Stephen F. Austin State University shall execute a written instrument substantially to the effect that the business organization has (a) received and reviewed the investment policy of the university and (b) acknowledges that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the university and the organization that are not authorized by Stephen F. Austin State University’s investment policy.

Securities may not be bought from any organization whose representative has not provided the university with the acknowledgment required in the above paragraph.

**External Financial Advisor Contract Renewal or Extension**

Pursuant to Chapter 2256 of the Texas Government Code, a contract with an external investment manager may not exceed two years. A renewal or extension of the contract by the board must be made by order, ordinance, or resolution. Disclosure Requirements for Outside Financial Advisors
External financial advisors and service providers shall comply with Texas Government Code Chapter 2263, Ethics and Disclosure Requirements for Outside Financial Advisors and Service providers.

**Disclosure Requirements for Investment Officers**

Pursuant to Texas Government Code Sec. 2256.005, an investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

1. the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns $5,000 or more of the fair market value of the business organization;
2. the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns $5,000 or more of the fair market value of the business organization;
3. the investment officer has acquired from the business organization during the previous year investments with a book value of $2,500 or more for the personal account of the investment officer.

**Diversification**

Investments may be diversified to minimize the risk of loss resulting from unauthorized concentration of assets in a specific maturity, specific issuer, or specific class of securities. The diversification limits by security type and issuer shall be:

<table>
<thead>
<tr>
<th>Category</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>U. S. Treasury securities and securities having principal and interest guaranteed by the U. S. Government</td>
<td>100%</td>
</tr>
<tr>
<td>U. S. Government agencies, instrumentalities and government sponsored enterprises (excluding mortgage backed securities)</td>
<td>50%</td>
</tr>
<tr>
<td>Collateral mortgage backed securities</td>
<td>25%</td>
</tr>
<tr>
<td>Fully insured or collateralized certificates of deposit</td>
<td>100%</td>
</tr>
<tr>
<td>Bankers' acceptances</td>
<td>25%</td>
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<tr>
<td>----------------------</td>
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<tr>
<td>Commercial paper</td>
<td>50%</td>
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<tr>
<td>Repurchase agreements</td>
<td>100%</td>
</tr>
<tr>
<td>Registered money market funds</td>
<td>80%</td>
</tr>
<tr>
<td>Local Government Investment Pool</td>
<td>100%</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>50%</td>
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The VPFA may diversify investment maturity to limit interest rate risk. Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. To the extent possible, investment maturity will be matched with anticipated cash flow requirements. Matching maturity and cash flow requirements will minimize occasions for sale of securities prior to maturity, thereby reducing market risk. However, no provision of this policy shall be interpreted as prohibiting the sale of any security prior to maturity, provided that it is in the university’s financial interest to affect the sale. The weighted average maturity of the entire portfolio shall be maintained at no more than 10 years and shall be reported quarterly to the Board of Regents. Pooled fund groups eligible for university investment shall have a maximum weighted average maturity of 10 years.

Credit risk is the risk that an issuer or counterparty to the investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. To limit credit risk, this policy limits investments in corporate bonds, debentures or similar debt obligation to the two highest long-term rating categories.

**Safekeeping and Collateralization**

All securities transactions, including collateral for repurchase agreements, but excluding mutual funds and investment pools, must be settled on a delivery versus payment basis. Collateral for certificates of deposit shall be held by a third party custodian in the name of the university. The third party custodian shall be required to issue a safekeeping receipt to the university listing the specific instrument, rate, maturity, safekeeping receipt number, and other pertinent information. Any collateral safekeeping receipt shall be clearly marked on its face that the security is "pledged to Stephen F. Austin State University". Collateralization shall be required on certificates of deposit and repurchase agreements. The collateralization level shall be no less than 100% of the market value of the principal and interest due on these instruments. Collateral for certificates of deposit and repurchase agreements shall consist of any of the securities authorized for investment within this policy.
Performance Evaluation

The VPFA and director of financial services shall submit quarterly reports to the Board of Regents through its finance/audit committee and the president of the university in the format prescribed by the Public Funds Investment Act, within a reasonable time after the end of the quarter. The reports must: (A) describe in detail the investment position of the university on the date of the report; (B) be prepared by the investment officer(s) of the university; (C) be signed by the investment officer(s) of the university; (D) contain a summary statement of each pooled fund group that states the: (1) beginning market value for the reporting period; (2) ending market value for the period; and (3) fully accrued interest for the reporting period; (E) state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested; (F) state the maturity date of each separately invested asset that has a maturity date; (G) state the account or fund or pooled group fund for which each individual investment was acquired; and (H) state the compliance of the investment portfolio of the university as it relates to the relevant provisions of the Public Funds Investment Act.

Training

The investment officer(s) will attend training as required by Section 2256.007 of the Texas Government Code. Training for the investment officer(s) will be conducted by an organization or firm that is approved by the Texas Higher Education Coordinating Board.

Audits

In order to comply with the audit requirements of the Texas Public Funds Investment Act, the university’s Department of Audit Services shall conduct audits and reviews of the university’s investment function and report the findings to the appropriate oversight authorities.

Investment Policy Adoption and Certification

Upon adoption by the Stephen F. Austin State University Board of Regents, the university’s investment policy shall be reviewed annually to ensure current applicability and significant modifications thereto submitted to the Board of Regents for approval.


Responsible for Implementation: Vice President for Finance and Administration

Contact for Revision: Vice President for Finance and Administration
**Forms:** None

**Board Committee Assignment:** Finance and Audit

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**APPENDIX A**

**INTERNAL CONTROLS**

The university has prepared an investment policy as of April 12, 1996. The policy was approved by the Board of Regents April 30, 1996. The investment policy will be reviewed and/or updated no less than annually. All pledged securities shall be held by a third party custodian in the name of the university. A safekeeping receipt will be issued to the university listing the specific instrument, rate, maturity, safekeeping receipt number, and other relevant information. The signature of the president, VPFA or director of financial services is required for release of pledged securities from safekeeping. Only changes in the level of collateralization require approval by the president, VPFA or director of financial services. The controller’s office will reconcile the appropriate investment accounts to broker’s statements and other supporting documents monthly.

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**APPENDIX B**

**ADMINISTRATIVE PROCEDURES**

The bursar’s office will maintain a daily list of cash balances held in depository bank accounts. All investment transactions and related cash transfer requests, except for investment "rollovers" as defined, will require two signatures. "Rollovers" are investment transactions whereby an investment of certain type held by an entity matures and the proceeds are then used to purchase an investment of the same type within the same account within the same entity. The controller’s office will record investments in compliance with Governmental Accounting Standards Board (GASB) and state comptroller’s reporting requirements and reconcile the appropriate investment accounts to broker’s statements and other supporting documents monthly. Quarterly investment reports are prepared by the director of financial services and approved by the vice president of finance and administration in accordance with the Performance Evaluation section of this investment policy. The market price of securities will be monitored quarterly using industry published data or appropriate financial publications.