

STEPHEN F. AUSTIN

STATE UNIVERSITY

Office of the General Counsel

POLICY SUMMARY FORM

Policy Name: Investments

Policy Number: 3.21

Is this policy new, being reviewed/revised, or deleted? Review/Revise

Date of last revision, if applicable: 2/2/2021

Unit(s) Responsible for Policy Implementation: Vice President for Finance and Administration

Purpose of Policy (what does it do): This policy applies to all Stephen F. Austin State University operating funds, quasi-endowment funds, and bond proceeds that are governed by Chapter 2256 of the Texas Government Code known as the Public Funds Investment Act (PFIA), and certain portions of the Texas Education Code. The policy states the goals and objectives in the investment of these assets and is intended to provide guidance in the management of the assets. Endowment funds are invested in accordance with Investments – Endowment Funds policy (3.20) approved by the Board of Regents (board) annually.

Reason for the addition, revision, or deletion (check all that apply):

- ☒ Scheduled Review ☐ Change in law ☐ Response to audit finding
☐ Internal Review ☐ Other, please explain:

Please complete the appropriate section:

Specific rationale for new policy: N/A

Specific rationale for each substantive revision: Minor changes for clarification.

Specific rationale for deletion of policy: N/A

Additional Comments:

Reviewers:

Judith Kruwell, Interim Vice President for Finance and Administration
Damon Derrick, General Counsel

Investments

Original Implementation: April 30, 1996

Last Revision: February 12, 2022~~4~~

Purpose

This policy applies to all Stephen F. Austin State University operating funds, quasi-endowment funds, and bond proceeds that are governed by Chapter 2256 of the Texas Government Code known as the Public Funds Investment Act (PFIA), and certain portions of the Texas Education Code. The policy states the goals and objectives in the investment of these assets and is intended to provide guidance in the management of the assets. Endowment funds are invested in accordance with Investments – Endowment Funds policy (3.20) approved by the Board of Regents (board) annually.

Definitions

Short-Term investments have a maturity of less than 90 days. Funds needed to meet short-term operating requirements will be primarily invested in either investment pools or overnight sweep accounts established with banking institutions. The benchmark is the average three-month Treasury bill yield.

Intermediate-Term investments have a maturity of 90 days to one year. United States Treasury and Agency securities, or 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.

Long-Term investments have a maturity over one year. United States Treasury and Agency securities are the primary investment vehicles. The 30 Year Treasury Bond rate is the benchmark for long term funds.

Quasi-Endowment Funds are funds for which the governing body of the university, rather than a donor has determined that the corpus is to be retained and invested. Since these funds are internally designated rather than externally restricted, the university has the right to expend principal with approval from the governing body.

***Investment Officers** include the university's vice president for finance and administration, the associate vice president of financial and administrative services, the director of treasury and student business services, and other employees as designated in writing by the university's vice president for finance and administration including an employee temporarily holding one of those positions in an acting or an interim role.*

General

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. Secondly, 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.

Investment 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 and to meet all reasonably anticipated operating requirements. Investments shall incur no unreasonable risk in order to maximize potential income. 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.

Investment Strategy

All investments will be made in accordance with the university's investment policy. Investments may be diversified as needed to support 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 structured to provide sufficient liquidity and marketability to meet operating requirements. The investment portfolio may be diversified with authorized securities to accommodate changing market conditions. An investment decision shall consider yield only after the requirements for principal preservation, liquidity, and marketability have been met.

All securities transactions, including collateral for repurchase agreements, but excluding mutual funds and investment pools, must be settled on a delivery versus payment basis.

An investment strategy may include investment pooling with another public institution as authorized in Texas Education Code Sec. 51.0031. Funds invested with another institution that meets guidelines established by Sec. 51.0031 will be managed in accordance with prudent person investment standards.

Investment Authority

The ~~vice president for finance and administration, the associate vice president of financial and administrative services, and the director of administrative 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 *investment officers* ~~vice president for finance and administration, the associate vice president of financial and administrative services, and the director of administrative services~~ may only invest funds regulated by this policy and purchase securities authorized by this policy.

The board may contract with an investment management firm registered under the Investment Advisers Act of 1940 or with the State Securities Board to provide for the investment and management of public funds under its control.

The board may contract with other institution(s) to invest all or part of the university's funds in accordance with Texas Education Code Sec. 51.0031.

Investment Responsibilities

The vice president for finance and administration is responsible for investment management decisions and activities. The vice president for finance and administration delegates the day-to-day management of the investment activities to the *investment officers*~~associate vice president of financial and administrative services or the director of administrative services~~.

The vice president for finance and administration 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 vice president for finance and administration 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 vice president for finance and administration 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.

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.

Investment Guidelines

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 Sec. 51.0031. The university is not required to liquidate investments that were authorized investments at the time of purchase. For investments exclusive of funds authorized by Sec. 51.0031, credit rating requirements will be monitored at least monthly. If or when a rating drops below the established minimum or when an investment is no longer authorized, that

investment will be liquidated as soon as prudently possible.

Authorized securities include:

- a. obligations, including letters of credit, of the United States, 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, the underlying security for which is guaranteed by an agency or instrumentality of the United States;
- 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 or their respective 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. interest-bearing banking deposits that conform to Sections 2256.009(7) and 2256.009(8) of the Texas Government code;
- g. certificates of deposit and share certificates issued by a depository institution that conforms to Section 2256.010 of the Texas Government Code;
- h. fully collateralized repurchase agreements that conform to Section 2256.011 of the Texas Government Code;
- i. bankers' acceptances that conform to Section 2256.012 of the Texas Government Code;
- j. commercial paper that conforms to Section 2256.013 of the Texas Government Code;
- k. no-load money market mutual funds and no-load mutual funds registered and regulated by the Securities and Exchange Commission and conform to Section 2256.014 of the Government Code;
- l. guaranteed investment contracts that conform to Section 2256.015 of the Government Code;
- m. investment pools that conform to Sections 2256.016 and 2256.019 of the Government Code;
- n. 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));
- o. 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;
- p. 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.

Unauthorized Investments: The following investments are prohibited:

- a. obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-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.

Asset Allocation: 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:

Category	Maximum
U. S. Treasury securities and securities having principal and interest guaranteed by the U. S. Government	100%
U. S. Government agencies, instrumentalities and government sponsored enterprises (excluding mortgage backed securities)	50%
Collateral mortgage backed securities	25%
Fully insured or collateralized certificates of deposit	100%
Bankers' acceptances	25%
Commercial paper	50%
Repurchase agreements	100%
Registered money market funds	80%
Local Government Investment Pool	100%
Corporate Bonds	50%

The vice president for finance and administration 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 sell the security.

The maximum stated maturity date of any security may not exceed ten years, and the dollar-weighted average maturity of the portfolio shall not exceed five years without approval by the vice president for finance and administration 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.

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.

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. Pledged collateral must conform 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 associate vice president of financial and administrative services or the director of administrative services. Collateral shall be reviewed monthly by the [controller][GOI] and the associate vice president of financial and administrative services or the director of administrative 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 an independent third party.

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;
- 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, the underlying security for which is guaranteed by an agency or instrumentality of the United States. CMO must have a stated final maturity date of less than 10 years.

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 Texas Education Code Sec.51.0031. The board shall adopt a list of approved qualified brokers that are authorized to engage in investment transactions with the university. This list shall be reviewed and revised at least annually.

For funds subject to Chapter 2256 of the Texas 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. Funds invested with institutions authorized by Texas Education Code Sec. 51.0031, will be invested pursuant to the qualifying institution's investment policy.

Competitive quotes must be taken from at least three qualifying institutions for all individual security purchases and sales (excluding transactions with money market mutual funds, local government investment pools and when issued securities are deemed to be made at prevailing market rates).

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 Advisor

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.

Performance Evaluation

The vice president for finance and administration and associate vice president of financial and administrative services or director of administrative services shall submit quarterly reports to the Board of Regents and the president of the university in the format prescribed by the PFIA[GO2], 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:
 - i. beginning market value for the reporting period;
 - ii. ending market value for the period; and
 - iii. 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 investment strategy expressed in this policy and to relevant provisions of the Public Funds Investment Act.

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.

Disclosure Requirements for Investment Officers

Pursuant to Texas Government Code Sec. 2256.005(i), 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:

- 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;
- funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or
- 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.

Training

Each member of the board and investment officer shall attend at least one training session within six months after taking office or assuming duties relating to investment responsibilities as required by Section 2256.007 of the Texas Government Code. The primary investment officers shall attend ~~not less than once each state fiscal biennium~~ an investment training session relating to investment responsibilities from an independent source *not less than once each state fiscal biennium*. Training for the investment officer(s) will be conducted by an organization or firm that is approved by the board. The approved independent sources include:

- Texas Higher Education Coordinating Board
- Center for Public Management at the University of North Texas
- Government Treasurer's Organization of Texas
- PFM Asset Management LLC

The university may provide other training in investments in order to insure the quality and capability of the university's investment ~~officers personnel~~ to make investment decisions in compliance with the PFIA.

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

The board shall review this investment policy and investment strategies not less than annually. The board shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

Cross Reference: Tex. Gov't Code Ch. 573, 2256-2257, 2263; 26 U.S.C. § 501(f); Tex. Educ. Code § 51.0031-.0032, Investments-Endowment Funds (3.20)

Responsible for Implementation: Vice President for Finance and Administration

Contact for Revision: *Director of Treasury and Student Business Services*~~Vice President for Finance and Administration~~

Forms: None

Board Committee Assignment: Finance and Audit

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 conform to Chapter 2257 of the Government Code. The signature of the president, vice president for finance and administration, associate vice president of financial and administrative services, or director of *treasury and student business services* ~~administrative services~~ is required for release of pledged securities from safekeeping. Increases in the level of collateralization require approval by the president, vice president for finance and administration, associate vice president of financial and administrative services, *or* director of *treasury and student business services* ~~administrative services, controller or assistant controller~~. The controller's office will reconcile the appropriate investment accounts to broker's statements and other supporting documents monthly.

APPENDIX B ADMINISTRATIVE PROCEDURES

The *student business services* ~~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 associate vice president of financial and administrative services or the director of *treasury and student business services* ~~administrative 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.