

# UNIVERSITY *of* PUGET SOUND

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## **POOLED CASH INVESTMENT POLICY STATEMENT**

Last Revised May 16, 2008  
Last Reviewed May 16, 2008

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## **I. INTRODUCTION**

Given the importance and amount of pooled cash balances, the university recognizes that deliberate management of the pooled cash balances is necessary and desirable.

This Pooled Cash Investment Policy Statement was adopted by the University of Puget Sound to establish a clear understanding of the philosophy and investment objectives for pooled cash balances. The Board has delegated authority to the Finance and Facilities committee to approve this policy. The Investment Subcommittee of the Finance and Facilities Committee will seek recommendations from the university's investment consultant and from staff, and then take forward recommended policy changes to the Finance and Facilities Committee annually. Staff, as directed by the Investment Subcommittee (ISC), are responsible for implementation of this policy.

It is expected that the investment consultant, Investment Subcommittee members, and staff will propose revisions to this policy any time they believe the policies impede the stated investment objectives.

It is anticipated that the Investment Subcommittee of the Finance and Facilities Committee will review this policy annually and make recommendations as needed to the Finance and Facilities Committee.

## **II. POOLED CASH OVERVIEW**

The University of Puget Sound's pooled cash consists of the following:

- A. Operating cash within unrestricted, designated, and restricted expendable funds
- B. Cash designated or restricted for capital projects
- C. Cash designated or restricted to endowment and loan funds
- D. Other special purpose cash

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### **III. INVESTMENT OBJECTIVE**

The primary pooled cash investment objectives are, in order of priority: preservation of capital, maintenance of necessary liquidity, and maximization of investment return within appropriate risk constraints.

### **IV. INVESTMENT STRATEGY**

The university pools the cash balances from its various unrestricted, designated, restricted, and agency funds to achieve economies of scale necessary for maximizing investment returns and creating internal operating efficiencies.

The university depends on preservation of capital and available liquidity to support its ongoing operations and from time to time to fund specific future capital projects. To ensure this support, the bulk of the pooled cash balance shall be invested in highly liquid, short-term investment vehicles with minimal downside risk. This portion of the pooled cash is referred to herein as “transaction cash.” Transaction cash includes all pooled cash designated or restricted for capital projects, endowment, certain life income agreements, loan funds, and other special purposes, as well as the bulk of operating cash. It is recognized that a portion of the operating cash is not required to meet daily, monthly, or annual needs because of built-in float related to upfront collection of tuition payments relative to the spreading of payroll over a twelve-month period, as well as the general practice of spending endowment payout in the year after it is earned and distributed. This portion of the pooled cash is referred to herein as “core cash”. Core cash may be invested in short-to-intermediate fixed income vehicles.

Management shall regularly analyze the components of cash balances relative to liquidity needs and shall monitor the adequacy of transaction cash and the appropriate level of core cash.

Note: It is understood that certain cash balances are required to be segregated (including self-insured workers’ compensation reserves, post retirement medical assets, and similar such items) and will not be pooled. These amounts are referred to herein as “segregated cash”.

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**V. APPROVED INVESTMENTS AND LIMITS**

**Transaction and Segregated Cash**

- A. The maturity date of any transaction or segregated cash investment should never be more than two years from the day of purchase.
- B. The university may, with approval of the Investment Subcommittee, hire a qualified external management firm to manage short-term investments.
- C. The following investments are permitted:

- United States Treasury bills, notes, bonds, zero coupon bonds, STRIPs, TIPS
- Securities issued by federally related institutions(with full faith and credit backing by the U. S. government):

Commodity Credit Corporation	Export-Import Bank	Farmers Housing Administration
General Services Administration	Government National Mortgage Association	Maritime Administration
Private Export Funding Corporation	Rural Electrification Administration	Rural Telephone Bank
Small Business Administration	Tennessee Valley Authority	Washington Metropolitan Area Transit Authority
- Securities issued by other federally-related institutions, if rated Aaa by Moody's or AAA by Standard and Poor's:

Private Export Funding Corporation	Tennessee Valley Authority
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- Securities issued by Government Sponsored Enterprises (GSEs—privately owned, publicly chartered entities), if rated Aaa by Moody's or AAA by Standard and Poor's:

Federal Agricultural Mortgage Corporation	Federal Farm Credit System	Federal Home Loan Bank System
Federal Home Loan Mortgage Corporation	Federal National Mortgage Association	Resolution Funding Corporation
Student Loan Marketing Association		

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- Certificates of Deposit, Repurchase Agreements, Bankers Acceptances, Commercial Paper at certain financial institutions: Bank of America, KeyCorp, U.S. Bancorp, Washington Federal, Wells Fargo, Rainier Pacific, Columbia Bank, Frontier Bank (limit of \$5 million per bank)
- Money Market funds with Moody's rating of Aaa or Standard and Poor's rating of AAAM, including the following:
  - ❖ Frank Russell Money Market Fund (No upper dollar limit, but in advance of any action that would result in a reduction in the Frank Russell Money Market Fund below the level indicated in the WHEFA 2001 Self Liquidity document at Exhibit A, the university will arrange a replacement strategy satisfactory to maintain the highest possible short-term ratings with Moody's and Standard & Poor's.)
  - ❖ Victory Federal Money Market Fund (sweep account associated with Key Bank checking accounts – limit \$5 million, with the understanding that balances might be temporarily higher on days when an unusually large deposit is made into checking or if cash is needed to cover outstanding commitments during periods when the university is closed such as winter break closure.)
- Non-bank commercial paper with an A-1 or P-1 rating (limit of \$5 million per issuer).

D. External regulatory restrictions on segregated cash may impose particular investment criteria. In such cases, financial officers of the university are authorized to deviate in a prudent manner from the above permitted investments to satisfy external regulatory requirements.

### **Core Cash**

Core cash of up to \$10 million may be invested in short-to-intermediate term fixed income funds approved by the Investment Subcommittee. Although the University cannot dictate policy to pooled/mutual fund investment managers, it

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will seek to select managers/funds that invest within the following investment guidelines:

- A. The Fund will invest under normal circumstances at least 65% of its total assets in a diversified portfolio of fixed income instruments of varying maturities. The average portfolio duration for the Fund is one to three years.
- B. The Fund invests primarily in investment grade debt securities but may invest up to 10% of its assets in non-investment grade bonds.
- C. The Fund may invest up to 30% of its total assets in non-dollar denominated bonds. The Fund will normally hedge at least 75% of its foreign currency exposure.
- D. The Fund may invest all of its assets in derivative instruments, such as options, futures contracts or swap agreements, or in mortgage and asset-backed securities.
- E. The Fund may lend its portfolio securities to brokers, dealers, or other financial institutions to earn income.

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Exhibit A

**University of Puget Sound  
Guidelines Governing Liquidation of Investments to Meet Requirements  
of  
WHEFA 2001 Variable Rate Demand Bonds with University Self-  
Liquidity  
Amount: \$10,620,000 million**

In order to provide self-liquidity for the university's outstanding variable rate demand bonds (VRDB's), the university must be able to ensure timely payment to bondholders in the event of a failed remarketing. To do this, the university must at all times have sufficient liquid assets to cover the outstanding debt and be able to liquidate these assets within the deadlines specified in the bond documents.

**Sufficiency of Liquid Assets**

The university presently maintains substantial liquid assets in the Russell Money Market Fund. This fund provides same-day liquidity. In addition, the university holds substantial liquid assets in the PIMCO Total Return Fund, an intermediate duration bond fund. This fund provides next-day liquidity. Additionally, the University has a \$5 million on-demand line of credit from KeyBank National Association providing additional same-day liquidity. These sources of liquidity combined are more than sufficient to cover operating needs, scheduled debt service payments, and a tender of the VRDB's.

Throughout the life of the bonds the university will maintain sufficient liquid investments and/or sources of liquidity satisfactory to the rating agencies for maintaining the highest short-term rating. The university will provide the rating agencies with periodic balance reporting as requested by them.

To ensure ongoing sufficiency of liquid assets, the university will:

- A. Assign a staff member to monitor the Russell Money Market Fund and PIMCO Total Return Fund on a regular basis to ensure that the combined sources of liquidity are not less than 3 times the outstanding VRDB balance with each fund providing not less than 1.2 times**

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- coverage.** This responsibility will be included in the assigned staff member's job description and is currently assigned to Cheri Finnegan, Senior Accountant.
- B. The university will make a notation within its investment policy that any action that would take the Russell Money Market Fund and PIMCO Total Return Fund balances below the levels defined in 1) above, will require an advance replacement strategy sufficient to maintain the highest short-term ratings.

It is understood that these sources of liquidity may be modified and/or replaced during the life of the VRDBs in such ways that are satisfactory to the rating agencies and the university and that are within bond document parameters.

#### Liquidation of the Assets

In the event of a tender, the bond documents require that the owner of the bonds give the Remarketing Agent and Trustee notice of such tender 7 days in advance. Should the Trustee be notified of a tender, the Trustee will in turn notify the university that same day. Because tender notices are anticipated to be infrequent and the university wants to minimize risks associated with moving funds within a very short window of opportunity, the university will initiate liquidation of funds sufficient to cover the tender two days prior to demand date. Such funds will be deposited in Puget Sound's checking account one day prior to demand date. Excess funds in checking will automatically sweep to the Victory Federal Money Market Fund (AAAm and Aaa rated) and back to checking the next morning. Should the tender result in a failed remarketing, the Remarketing Agent will notify the Trustee and the university by 7:00 a.m. Pacific Standard Time (10:00 a.m. Eastern Standard Time) on the demand date. Upon notification, the University will initiate an outgoing wire transfer from its checking account to the Trustee/Paying Agent no later than 10:00 a.m. Pacific Standard Time (1:00 p.m. Eastern Standard Time). Upon satisfactory verification of receipt, the Trustee will initiate a federal wire transfer to DTC by their deadline of 10:30 a.m. Pacific Standard Time (1:30 p.m. Eastern Standard Time) which will ensure that DTC will effect the payoff by their closing time. In the event the tender does not result in a failed remarketing, the university will reinvest the liquidated funds on the demand date.

To ensure that the liquidation process is completed in a timely fashion:

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- A. The university will follow-up with Russell, PIMCO and/or Key Bank to ensure that they are acting expeditiously to move liquid funds to the university's checking account.
- B. The university will follow-up with the Trustee to ensure that they received the failed re-marketing notice and are prepared to wire to DTC by the deadline on the demand date.
- C. The university will identify at least three staff members to receive tender and failed re-marketing notices and to ensure that the necessary steps are being completed timely. Currently, they are:
  - Sherry Mondou 253.879.3183
  - Stefanie Lund 253.879.8619
  - Janet Hallman 253.879.8620
  - Katherine Davis 253.879.3306

The university will update this document as appropriate and will review it not less than annually to ensure that it remains up-to-date throughout the life of the VRDB's.