Policy & Procedure Review

Policy & Procedure Number: CWUP 2-10-100

CWUP (Policy) CWUP 2-10-100

CWUR (Procedure)

New Revision

Title: University Investments

Summary: CWUP 2-10-100 University Investments has a partial amendment as follows:

The partial portion of the current IP (dated 1/2/13) under the section on page 2 labeled:

Investment Portfolio Characteristics

- Effective maturity of the portfolio (by market value) shall not exceed:

  Minimum Maximum
  7 – 10 years  10%  30%

Shall be amended to read:

  7 – 10 years  0%  30%

The remainder of the IP shall remain in force as written.

This partial amendment of only the longest maturity portion of the IP is advisable for at least the following reasons:

- This amendment allows the Investment Manager to maintain the shorter term nature of the current portfolio as recent bond maturity proceeds would be forced by IP to be re-invested into longer maturity bonds.
- The current yield environment in the US is historically low and presents little incentive to ‘lock in’ low rates for a 7 to 10 year length of time.
- The portfolio has historically been invested in bonds that mature in 7 years or less.
- The risks of owning low yielding longer term bonds appears unusually high at this time since inflation expectations remain low and the Federal Reserve is taking specific actions such as tapering Quantitative Easing (QE) to boost the inflation rate to at least 2% annually.
- It is expected that bonds maturing over the next year could be re-invested in higher yielding longer term bonds as rates are expected to rise within this time period.
- Active trading of the bonds that make up the portfolio is to be avoided according to the Investment Philosophy portion of the IP.
Investment Guidelines and Objectives

Central Washington University will invest all available excess funds not currently required to meet the current operations of the university. Investments will comply with all applicable state laws and regulations, specifically RCW 39.58, RCW 39.59, RCW 43.84.080 and RCW 43.250. Allowable investments are limited to the following:

1) Obligations of the U.S. government.
2) Obligations of U.S. government agencies, or of corporations wholly owned by the U.S. government.
3) Bonds of the state of Washington and any local government in the state of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.
4) General obligation bonds of a state other than the state of Washington and general obligation bonds of a local government of a state other than the state of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.
5) Any investments authorized by law for the treasurer of the state of Washington or any local government of the state of Washington other than a metropolitan municipal corporation but, except as provided in chapter 39.58 RCW, such investments shall not include certificates of deposit of banks or bank branches not located in the state of Washington.

In all instances, prudent judgment, as defined by RCW 43.250.040, will be exercised in investing the funds of the university and will seek to preserve real purchasing power of the principal, and to provide a predictable dependent source of investment income. The investment portfolio priorities are: safety, liquidity and yield.

In order to increase earnings potential and to expedite investment transactions, monies in the various funds and accounts will be pooled for operational and investment purposes. Cash needed for daily operations will be maintained in an interest-bearing checking account.

Roles and Responsibilities

The President delegates authority to the CFO/Vice President for Business and Financial Affairs to establish an investment policy, investing of university funds and to establish an investment committee. The investment committee will:

1) Review policy to define investment objectives, allowable investments and asset allocation and recommend any modifications.
2) Monitor investment performance.
3) Review the portfolio performance quarterly and overall adherence to the investment policy.
4) Have authorization to use the services of an external professional investment manager or investment consultant.

Investment Philosophy
Manage investment risks through: 1) Diversification 2) Continuous monitoring of credit- rating 3) Maintain appropriate maturity and target allocation levels. Excessive active trading is to be avoided unless warranted by credit rating events or changing cash flow needs.

**Investment Portfolio Characteristics**

- No securities purchased with maturities greater than 10 years.
- No more than 10% of the total portfolio market value may be invested in any single issue.
- The total bonds of any single state shall not exceed 10% of the total portfolio market value.
- The portfolio will average about 50% U.S. Government and 50% State/Municipal bonds over a 5 year time horizon.
- Effective maturity of the portfolio (by market value) shall not exceed:

<table>
<thead>
<tr>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 1year</td>
<td>20%</td>
</tr>
<tr>
<td>1 - 3.9 years</td>
<td>30%</td>
</tr>
<tr>
<td>4 - 6.9 years</td>
<td>70%</td>
</tr>
<tr>
<td>7 - 10 years</td>
<td>30%</td>
</tr>
</tbody>
</table>

**Asset Allocation Target**

<table>
<thead>
<tr>
<th>Minimum</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market</td>
<td>0%</td>
<td>--</td>
</tr>
<tr>
<td>US Government</td>
<td>25%</td>
<td>50%</td>
</tr>
<tr>
<td>US Treasury</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>US TIPS</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Federal Agencies</td>
<td>13%</td>
<td>25%</td>
</tr>
<tr>
<td>WA Bank CD's</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>State/Local GO Bonds</td>
<td>25%</td>
<td>50%</td>
</tr>
<tr>
<td>WA &amp; WA local</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Other state GO bonds</td>
<td>20%</td>
<td>43%</td>
</tr>
</tbody>
</table>

[PAC: 10/1/08, Responsibility: BFA; Authority: Cabinet/UPAC; Reviewed/Endorsed by: Cabinet/UPAC; Review/Effective Date: 01/02/2013; Approved by: James L. Gaudino, President]