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Owner: *Tom Lofton: Investment Officer*  
Policy Area: *Investments*  
References: *INV 216: Securities Lending,  
OST Policy 04.03.05*

## INV 405: Oregon Public University Fund Investments

### OREGON INVESTMENT COUNCIL POLICY

#### INTRODUCTION AND OVERVIEW

##### **Purpose and Goals**

The purpose of this policy is to direct Oregon State Treasury ("OST") investment staff to maximize total return (i.e., principal and income) within stipulated risk parameters and subject to approved investments as prescribed in these guidelines.

##### **Applicability**

Classified represented, management service, unclassified executive service.

##### **Authority**

Subject to the terms and conditions of this policy and under the authority of ORS Chapter 293, the designated OST Fixed Income Investment Officer(s) ("investment staff") shall have full discretionary power to direct the investment, exchange, liquidation and reinvestment of Oregon Public University Fund ("PUF") assets. The Oregon Investment Council (OIC) and OST expect that investment staff will recommend changes any time these guidelines are inconsistent with PUF investment objectives, market conditions or other economic or financial considerations.

### POLICY PROVISIONS

##### **Definitions**

None.

## A. Policy Statements

1. Funds meeting OST requirements are eligible for segregated investment management by the OST Investment Division and its investment officers according to and within the guidelines established and approved by the OIC. Investments shall be authorized by an OST investment officer and documented in accordance with OST policies and procedures.
2. Funds shall be invested in accordance with the policies and procedures outlined in this policy and in accordance with ORS 352.450.

## B. Compliance Application and Procedures

1. OST shall provide an investment compliance program to accomplish the following objectives: a) monitor and evaluate portfolios, asset classes, and other investment funds to determine compliance with OST policies and contractual obligations; b) identify instances of non-compliance and develop appropriate resolution strategies; c) provide relevant compliance information and reports to OST management and the OIC, as appropriate; and d) verify resolution by the appropriate individual or manager within the appropriate time frame.
2. **Resolution of Non-Compliance.** If PUF investments are found to be a) out of compliance with one or more adopted investment guidelines or b) managed inconsistently with governing policy and objectives, OST investment staff shall bring the investments into compliance as soon as is prudently feasible. Actions to bring the portfolio back into compliance and justification for such actions, including documentation of proposed and actual resolution strategies, shall be coordinated with the OST investment compliance program and communicated with the Designated University.

## C. Portfolio Rules for the Public University Fund

1. **Scope:** These rules apply to the investment of funds from all eligible and approved PUF participants, and are established under the authority of, and shall not supersede, the requirements established under ORS Chapter 293 and ORS 352.450.
2. **Objective:** Provide adequate liquidity for PUF participants' cash flow requirements. Manage the portfolio to maximize total return over a long-term horizon within stipulated risk parameters.
3. **Portfolio Allocation and Risk Profile:** Allocation parameters listed in the table below are intended as general guidelines, not hard limits subject to OST Compliance monitoring.

Portfolio	Objective	Allocation
Liquidity	Assure adequate cash for operations.	<b>Short-Term</b> Funds invested in the Oregon Short Term Fund. Target allocation of funds based upon aggregated university participant annual cash flow forecasts. Absent cash flow forecasts, the target allocation will be based upon a minimum of six months' estimated operating expenses.

<p><b>Core</b></p>	<p>Actively managed to achieve a diversified portfolio of investment grade bonds invested over longer horizons than permitted in OSTF. Based on historical market performance, total returns generated over extended periods are anticipated to be greater than returns realized in shorter-maturity strategies.</p>	<p><b>Intermediate</b></p> <p>Investments with a maturity or weighted average life from three years and above.</p>
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#### 4. Permitted Holdings

- Securities eligible for inclusion or included in the designated performance benchmark(s) unless explicitly restricted in this policy.
- The Oregon Short-Term Fund ("OSTF"). Underlying investments of the OSTF are excluded from restrictions in this policy. The OSTF is governed by the OIC and OST-adopted policies and guidelines as documented in OIC Policy INV 303.
- Securities eligible for purchase by the OSTF unless explicitly excluded by this policy.
- Obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities, including inflation-indexed obligations with stated maturities less than 15.25 years.
- Non-U.S. government securities and Instrumentalities with a minimum rating of one or more of Aa2/AA/AA by Moody's Investors Services, Standard & Poor's or Fitch, respectively, and with a stated maturity less than 15.25 years at the time of purchase.
- Municipal debt with a minimum rating of one or more of A3/A-/A- by Moody's Investors Services, Standard & Poor's or Fitch, respectively, and with a final maturity less than 15.25 years at the time of purchase.
- Corporate indebtedness with minimum investment grade ratings by one or more of Moody's Investors Services, Standard & Poor's or Fitch, respectively, and with a stated maturity less than 15.25 years at the time of purchase.
- Asset-backed securities rated AAA at the time of purchase.
- Commercial mortgage-backed securities (CMBS) rated AAA at the time of purchase.
- U.S. agency residential mortgage-backed securities (MBS) and U.S. agency commercial mortgage-backed obligations ("CMO")

#### 5. Diversification

1. The portfolio should be adequately diversified consistent with the following parameters:
  - No more than 3% of portfolio par value may be invested in a single security with the exception of obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities; and
  - No more than 5% of portfolio par value may be invested in the securities of a single issuer with the exception of obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities.
  - Maximum market value exposures shall be limited as follows:
    - U.S. Treasury Obligations 100%

- U.S. Agency Obligations 50%
  - U.S. Corporate Indebtedness 50%
  - Municipal Indebtedness 30%
  - Asset-backed Securities (ABS) 20%
  - Mortgage-backed Securities (MBS) 40%
  - Commercial Mortgage-backed Securities (CMBS) 10%
  - Structured Securities (Combined ABS, MBS and CMBS) 50%
- Issuer, security, and sector-level restrictions shall not apply to OSTF holdings.

## 6. Counterparties

A list of all broker/dealer and custodian counterparties shall be provided upon request.

## 7. Strategy

- Maintain an average (measured by market value) credit rating in the Core allocation of A- or better. If a security is rated by more than one rating agency, the lowest rating is used to determine the average rating.
- Maintain an average modified duration level of +/- 10% of the custom benchmark.

## 8. Investment Restrictions

- All investments will be in U.S. dollar denominated securities.
- All investments will be non-convertible to equity.
- Collateralized debt obligations (CDO), Collateralized Loan obligations (CLO) and Z-tranche investments are not permitted.
- Investments in Alt-A, sub-prime, limited documentation or other "sub-prime" residential mortgage pools are not permitted. There shall be no use of leverage in any investments (excluding use of securities in a securities lending program). Structured securities such as ABS, MBS and CMBS shall not be considered as using leverage.
- For newly issued securities with unassigned ratings, "expected ratings" may be used as a proxy for assigned ratings up to 30 business days after settlement date.
- Investments in issuers identified by the Carbon Underground 200 published by the Fossil Free Indexes LLC ("FFI").
  - This restricted security list will be updated annually at calendar year-end and enforced for all new security purchases.
  - Exposures to issuers added to the Carbon Underground 200 subsequent to purchase may be held to maturity.

## 9. Policy Compliance

- OST Investment Staff will submit a written action plan to the Designated University regarding any investment downgraded by at least one rating agency to below investment grade within 10 days of the downgrade. The plan may indicate why the investment should continue to be held and/or outline an exit strategy.

- OST Staff will consult with the Designated University, on a pre-trade basis, if an investment trade or trades will result in a cumulative net loss greater than 1% over 3 months prior to trade settlement date.

**10. Performance Expectations/Reviews**

- Excluding the short-term allocation, the Core allocation is expected to perform in-line with the following custom benchmark:
  - 75% Bloomberg Barclays U.S. Aggregate 3-5 Year Index; and
  - 25% Bloomberg Barclays U.S. Aggregate 5-7 Year Index.
- OST will provide the Designated University with a monthly report of all non-passive compliance violations of this policy's guidelines.
- Investment reviews between OST investment staff and the Designated University will occur quarterly and focus on the following elements:
  - Performance relative to objectives;
  - Adherence to this policy; and
  - Trading activity.

**Exceptions**

None.

**Failure to Comply**

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

**PROCEDURES and FORMS**

None.

**ADMINISTRATION**

**Feedback**

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

**Attachments:**

No Attachments

**Approval Signatures**

<b>Committee</b>	<b>Approver</b>	<b>Date</b>
OIC	John Skjervem: Chief Investment Officer	10/2016

<b>Committee</b>	<b>Approver</b>	<b>Date</b>
	Perrin Lim	10/2016
	Kim Olson: Policy Analyst	10/2016
	Tom Lofton: Investment Officer	10/2016

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