



INVESTMENT MANAGEMENT

Scope: All campuses served by Louisiana State University (LSU) Office of Accounting Services

Effective: May 1, 2012, updated March 11, 2014; updated July 1, 2016; updated January 24, 2017; updated April 14, 2021; Updated June 1, 2022

I. Purpose

- To provide for the implementation of and compliance with the State of Louisiana R.S. 49:327, LSU System Permanent Memoranda 9 “LSU System Investment, Banking Services, and Safeguarding of Deposits Policy” (PM-9), and any other contractual limitations and restrictions.
- To establish a clear understanding of the University’s investment goals and objectives.
- To define and assign responsibilities for investing activities and decisions.
- To define limitations regarding the investment of University assets.
- Establish a basis for evaluating investment results.

II. Goals & Objectives

- A high level of liquidity must be maintained in the portfolio of investments to enable access to funds at minimal risk level or to provide the ability to adjust the portfolio in changing market conditions. Maturity terms are selected which ensure sufficient cash resources are available to meet obligations.
- For endowed assets, to preserve the purchasing power of those assets while allowing for an appropriate level of spending consistent with donor intent.
- Security of the invested funds and protection of the invested principal.
- Investment yield, while a key factor, will be subordinate to liquidity and security considerations.

III. Investment Committee

The investment committee is comprised of the following University individuals:

- Vice President for Finance
- Associate Vice President for Accounting Services
- Director, Financial Accounting & Reporting (FAR)
- Associate Director, FAR
- Assistant Director, FAR
- Investment Manager, FAR
- Appointee by the Executive Vice President for Finance and Administration/ CAO
- Representative from Health Science Center New Orleans
- The investment committee is responsible for providing guidance and recommendations. Final investment decisions are the responsibility of University officials in accordance with the provisions of Section IX.
- The committee meets at least quarterly to review investment portfolio performance, discuss the current state of the market, and develop a strategy for the future.

IV. Roles & Responsibilities

- Assess the goals and objectives for the University’s excess cash balance and endowments to ensure sound investment decisions are made.
- Compile a daily cash report projecting the cash position for the day.

- Analyze bank balances, checks issued, outgoing wires, ACHs, incoming deposits and any other bank related activity using the online banking portal of the contracted financial institution(s).
- Provide historical cash data for the investment committee meetings to assess cash needs.
- Submit a quarterly report on the investment portfolio to the Board of Supervisors.
- Prepare a report of projected investment income after the third quarter, or as requested.
- Transcribe minutes of the investment committee meetings.
- Prepare accounting entries for all investment transactions.
- Authorize all investment transactions in accordance with Section IX below.
- Prepare accounting entries for all investment transactions.
- The Investment Manager then
 - initiates all trading activities, approved per Section IX below, to include investment purchases and communication with the custodial banks;
 - prepares a monthly report on the investment portfolio to be reviewed at the investment committee meetings that details fluctuations in market value of the portfolio and includes yield analysis, purchases, calls, maturities, and duration and provides benchmarking information to evaluate overall portfolio performance; and
 - monitors asset allocations to ensure they are within the parameters as set forth by State of Louisiana R.S. 49:327, PM-9, and any other contractual limitations and restrictions.

V. Investment Pools

- Non-Endowed
 - Unrestricted Fund
 - Restricted Fund (excluding endowments)
 - Plant Fund
 - Auxiliary Fund
- Endowment
- Osher Endowment
- Health Plan

VI. Authorized Investments

- All investment vehicles (including but not limited to the list below) authorized and defined in R.S. 49:327, PM-9, and any other contractual agreements are authorized for use under these operating guidelines where applicable.
 - Demand Deposit Accounts – An account balance which can be drawn upon on demand, i.e., without prior notice.
 - Certificates of Deposit (CDs) – CDs are low risk, low return investments, and are also known as "time deposits", because the account holder has agreed to keep the money in the account for a specified amount of time.
 - Repurchase Agreements – A contract in which the seller of securities, such as Treasury Bills, agrees to buy them back at a specified time and price. They are collateralized by securities of the US Treasury, an agency thereof or US government sponsored enterprises.
 - Sweep Accounts – A brokerage account whose cash balance is automatically transferred into an interest-bearing investment, such as a money market fund.
 - Direct Obligations of the U.S. Government – US government-backed debt instruments, which are considered among the safest investments possible, including Treasury bonds, bills, and notes, and savings bonds.
 - U.S. Government Agency Obligations – Debt instruments issued by government sponsored entities, especially mortgage-backed securities from Ginnie Mae, Fannie Mae, and Freddie Mac, and the Federal Home Loan Banks. Because each of those organizations is sponsored by the US government, agency securities are implicitly guaranteed, and, in the case of Ginnie Mae, are backed by the full faith and credit of the United States.
 - Investment Grade Commercial Paper – An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term

liabilities. Maturities on commercial paper rarely range any longer than 270 days. The debt is usually issued at a discount, reflecting prevailing market interest rates.

- Money Market Funds – An open-end mutual fund which invests only in money markets. These funds invest in short term (one day to one year) debt obligations such as Treasury bills, certificates of deposit, and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends.
- Investment Grade Corporate Notes and Bonds – A debt instrument issued by a corporation.
- Municipal Tax-Exempt Bonds – Tax exempt bonds and other taxable governmental bonds issued by any state or a political subdivision or public corporation of any state.

VII. Asset Allocation and Limitations

- The investment portfolio should be well diversified to avoid undue exposure to any single economic sector, industry group, or individual security.

| Investment Pool | Investment Type | Investment Limit |
|--------------------------------------|--|--|
| Non-Endowed & Health Plan | US Government Agency Obligations where principal and interest are not backed by the full faith and credit of the US Government | 70% of all funds invested |
| | Investment Grade Commercial Paper, Corporate Notes and Bonds | 50% of all funds invested |
| | Municipal Tax-Exempt Bonds | 50% of all funds invested |
| Endowment & Osher | Cash & Equivalents | 3% target allocation 0% minimum; 5% maximum |
| | Fixed Income | 67% target allocation 63% minimum; 71% maximum |
| | Equity | 30% target allocation 24% minimum; 35% maximum |

VIII. Fixed Income Limitations

- As it relates to the total fixed income allocation in either of the endowed pools, the average credit quality must be A or higher.
- As it relates to the total fixed income allocation in the non-endowed pool, the average credit quality must be AA or higher.
- The following criteria applies to individual corporate bonds (excludes bonds held in a mutual fund or exchange traded fund) within any of the investment pools:
 - Investment grade must be rated BBB- to AAA.
 - Credit quality is determined as the lowest rating issued by any of the three major rating companies (S&P, Moody's, and Fitch).
 - Concentration limit of 5% per issuer of the total fixed income allocation.
 - In the event a corporate bond is downgraded below investment grade, the bond will be liquidated within 60 business days.

IX. Investment Transaction Approval

- Investment transactions must receive the following approvals prior to the execution of each transaction. Written documentation of each investment decision along with the purchase confirmations will be retained electronically.
- Investment transactions conducted to "swap" investments of the same type and amount can be authorized under a blanket approval from the investment committee. These "swaps" are typically time

sensitive and do not require any additional funds to be sent to the custodial financial institution. They are conducted to take advantage of more beneficial terms.

| Investment Threshold* | Approval Required |
|------------------------------|--|
| \$5 million or less | FAR Director and at least one other member of investment team. |
| Greater than \$5 million | Associate Vice President for Accounting Services and two other members of investment team. |

**The investment threshold is based on the total amount approved to be invested at any given time. It does not constitute the number of individual investments.*

X. Performance Indicators

- Investment results of the fixed income allocations will be benchmarked to the Barclay's Capital U.S. Aggregate Index.
- Investment results of the endowed pools will be benchmarked against a blend of passive indices based on each pool's asset allocation targets where:
 - Cash & Equivalents – 90-day U.S. Treasury Bills
 - Fixed Income – Barclay's Capital U.S. Aggregate Index
 - Equity – Russell 3000 Index
- Benchmarking information will be provided by the Investment Manager as part of the monthly investment portfolio report.
- Performance will be evaluated by the University on an annual basis as of June 30.

XI. Collateral

- All deposits and investments of University funds other than direct purchase of US Treasury securities or US Agency securities shall be secured by a pledge of collateral with a market value equal to no less than 100% of the deposits or investments less any amount insured by the FDIC.
 - FAR receives a monthly collateral report from the contracted financial institutions listing each security pledged and its corresponding market value.
 - The collateral market values are updated on a spreadsheet kept by FAR.
 - Collateral is released upon request of the Federal Reserve Bank once FAR verifies that adequate collateral exists.
 - A collateral report is produced monthly by FAR.
- Pledged collateral shall be maintained for safekeeping by a third-party depository.