

APPENDIX 7K

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SHORT TERM INVESTMENT POOL (STIP) INVESTMENT GUIDELINES

The purpose for these performance objectives (“Objectives”) and management guidelines (Guidelines”) is to clearly state the investment approach, define performance objectives and to control risk in the management of the University’s Short Term Investment Pool, or STIP (“Program”). These Objectives and Guidelines shall be subject to ongoing review by the Committee. Capital market conditions, changes in the investment industry, new financial instruments, or a change in the Committee’s risk tolerance, are among factors to be considered in determining whether the Guidelines shall be revised.

1. Investment Policy

a. Background:

The STIP is a cash investment pool established by The Regents and is available to all University groups, including retirement and endowment funds. The STIP allows fund participants to maximize income on their short-term cash balances by taking advantage of the economies of scale of investing in a larger pool and investing in a broader range of maturities.

b. Investment Objective

The Objective of the Program is to maximize returns consistent with safety of principal, liquidity, and cash flow requirements. The primary investment objective is to generate income from investments in short duration US dollar denominated bonds and cash equivalents. Because the liquidity needs of the University are subject to large and uncertain changes, the fund may materially increase its investments in highly liquid, cash equivalent securities from time to time.

Accordingly, the Benchmark will be a weighted average of the income return on a constant maturity two (2) year Treasury note and the return on US 30 day Treasury Bills. The weights for the two constituents will be the actual average weights of the bond and cash equivalent components of the pool. The Benchmark will be re-balanced monthly.

c. Investment Strategy

The Program shall be implemented by the Treasurer internal fixed income staff (“Manager”). The Treasurer will monitor the Program’s adherence to these Guidelines.

d. Performance Objectives

The performance objective of the Program is to meet or exceed the return of the Benchmark, on a consistent basis over time, net of all costs and fees.

e. Risk Objective

The Program shall be managed so that its annualized tracking error budget shall be 75 basis points.

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f. Other Constraints and Considerations

- Managers shall comply with applicable State and Federal laws and regulations and the prudence requirement described in section 3(a) of the Policy.
- Manager shall act solely in the interest of the Fund's owners.
- Implementation of this Program shall comply with the Fund's Policy.

2. Investment Guidelines

a. Asset Allocation

The portfolio will be invested primarily in marketable, publicly traded, investment grade short term fixed income instruments, notes and debentures denominated in U.S. dollars.

b. Types of Securities

The Program will be invested in a diversified portfolio of fixed income securities, subject to restrictions noted below in section 2c.

The following list is indicative of the investment classes which are appropriate for the Program, given its Benchmark and risk budget. It should not be construed to be an exhaustive list of "allowable" asset types. Security types and/or strategies not specifically enumerated, but which the Treasurer and Regents' Investment Consultant believe are appropriate and consistent with the Investment Policy may also be held, subject to the restrictions in 2c. and 2d. below.

The Program may purchase securities on a when-issued basis or for forward delivery.

1. Fixed income instruments

- a. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal Agencies or U.S. government-sponsored corporations and agencies
- b. Obligations of U.S. and foreign corporations such as corporate bonds, notes and debentures, and bank loans
- c. Mortgage-backed and asset-backed securities
- d. Obligations of international agencies, supranational entities, and foreign governments (or their subdivisions or agencies)
- e. Obligations issued or guaranteed by U.S. local, city and state governments and agencies
- f. Private Placements or Rule 144A securities, issued with or without registration rights

2. Short term fixed income instruments (having maturity of less than 13 months)

- a. US Treasury and Agency bills and notes
- b. Certificates of deposit
- c. Bankers acceptances
- d. Commercial paper
- e. Repurchase and reverse repurchase agreements (must be fully collateralized with approved collateral, using approved counterparties only)
- f. Eurodollar CD's, TD's, and commercial paper
- g. US and Eurodollar floating rate notes
- h. Money market funds managed by the custodian

c. Restrictions

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The following security types are **not** permitted:

- Interest rate derivative contracts, including options and futures
- Equity like securities, including but not limited to convertible bonds, preferred stocks, warrants, equity linked notes, and commodities
- Bonds issued in currencies other than US Dollar
- Foreign currency linked notes

The Manager may **not**:

- Purchase securities of tobacco related companies, as per the Policy, section 5b.
- Invest in mutual funds or group trusts unless specifically allowed in its guidelines
- Buy securities on margin
- Sell securities short
- Buy party-in-interest securities
- Buy securities restricted as to sale or transfer, except for 144A securities, which are permitted
- Buy or write structured (“levered”) notes
- Employ economic leverage in the portfolio through borrowing or derivatives, or engage in derivative strategies that conflict with the Derivatives Policy
- Purchase or sell foreign exchange contracts

d. Diversification and Concentration

The Program’s investments will be appropriately diversified to control overall risk. The following limitations apply in order to manage risk within acceptable ranges:

- **Interest rate risk**
 - No security may have a maturity of more than 5 ½ years
- **Credit risk**
 - No more than 5% of the Program’s investments, measured by market value, should be below “investment grade”, i.e. rated lower than the following standards or their equivalent by all major NRSRO’s
 - Standard & Poor’s and Fitch (BBB-)
 - Moody’s (Baa3)
 - Commercial Paper must have a rating of at least A-1, P-1, D-1, or F-1
 - The Program’s investments should exhibit an average credit quality of A (or equivalent) or better. Split-rated credits are considered to have the higher credit rating as long as the higher rating is given by one of the NRSRO’s
 - No more than 5% of the Program’s allocation to commercial paper may be invested in any single issuer.
 - Except for securities issued by the US Treasury or Agencies of the US Government, no more than 3% of the Program’s market value (exclusive of commercial paper) may be invested in any single issuer.
- **Liquidity risk**
 - No more than 10% of the Program’s market value may be invested in Private Placements or Rule 144A securities
 - The Programs’ investments in aggregate of any security may not exceed 20% of that security’s outstanding par value, without a written exception approved by the Treasurer.

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Subject to the limitations above, the investment manager has complete discretion with regard to choosing sector weights, issuers, and maturities.

e. Managers shall employ best execution. Transactions shall be directed to brokers/dealers designated by the Treasurer at the Manager's discretion when best execution is available.

3. Evaluation and Review

a. Policy and Guideline Review

The Treasurer shall review the Objectives and Guidelines at least annually, and report to the Committee on the impact of the Guidelines on the Program's performance.

b. Program performance and risk exposures shall be evaluated at multiple levels in accordance with the Objectives of the Program and individual Managers.

4. Reporting

On a quarterly basis, the Treasurer shall provide the following reports to the Committee:

- a. A summary of Program investments and risks.
- b. A summary of Program performance, on an absolute and benchmark relative basis.

Manager will be required to provide the Treasurer monthly and quarterly reports, including but not limited to:

- a. Monthly accounting statements showing portfolio income, holdings and transactions
- b. Quarterly review of portfolio and strategy performance including a market outlook
- c. Annual statement of compliance with investment guidelines

5. Definitions: See Appendix 8