

# **The Florida Atlantic University Finance Corporation**

## **Investment Policy Statement**

**August 2024**

### **Overview**

This Investment Policy Statement sets forth the specific investment objectives and parameters for the management of The Florida Atlantic University Finance Corporation's Operating Funds. This Policy is designed to ensure the prudent management of these financial assets, the availability of operating funds when needed, and to earn an investment return competitive with comparable funds and appropriate measurement benchmarks.

### **Prudence and Ethical Standards**

Prudence and appropriate care in accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) will be exercised in seeking to attain the investment objectives set forth. UPMIFA requires fiduciaries to apply the standard of prudence "about each asset in the context of the portfolio of investments, as part of an overall investment strategy." All investment actions and decisions must be based solely on the interest of the University. Fiduciaries must provide full and fair disclosure of all material facts regarding any potential conflicts of interests.

As summarized for the purposes of this Investment Policy Statement, UPMIFA states the duty to manage the assets as a prudent investor would, in light of the purposes, scope, objectives and other relevant circumstances. This standard requires the exercise of reasonable care, skill, and caution while being applied to investments not in isolation, but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the University. In making and implementing investment decisions, the duty is to diversify the investments unless, under special circumstances, the purposes of the University are better served without diversifying.

In addition, fiduciaries must conform to fundamental fiduciary duties of loyalty and impartiality. This requires acting with prudence in deciding whether and how to delegate authority, in the selection and supervision of agents, and incurring costs where reasonable and appropriate.

## **I. Definition of Duties**

### **The FAU Finance Corporation Board of Directors**

The Board of Directors of the FAU Finance Corporation has the ultimate fiduciary responsibility for the FAU Finance Corporation's Operating Funds. Additionally, their responsibilities include approving the Investment Policy Statement and any amendments, reviewing and approving the investment strategy and major policy matters, and providing oversight to ensure effective implementation of the investment policies. They are also responsible for ensuring compliance with fiduciary standards and ethical guidelines. Additionally, the Board of Directors receives regular performance reports and updates from the Executive Director and Investment Committee.

### **Executive Director**

The Executive Director of the FAUFC has daily responsibility for administration of the FAU Finance Corporation's investment Funds and, within the investment policies outlined, consults the Board or the Board Chair on all major and / or policy matters relating to the investment of the portfolio. This responsibility includes approving investment strategy, hiring and firing of investment managers, custodians and investment consultants, monitoring performance of the investment portfolio on a regular basis. The Executive Director will serve as primary contact for the FAUFC's investment managers, investment consultant, and custodian. The Board hereby delegates ongoing signatory authority for all portfolio changes to the Executive Director, so long as those changes fall within the boundaries set by this policy.

### **Investment Committee**

The Committee recognizes that matters concerning the investment of the Portfolio assets owned by FAUFC merit serious attention and frequent consideration. The Committee, at a minimum, will consist of:

- A. The Executive Director and Chief Financial Officer of Florida Atlantic University (University), who will serve as the Chair
- B. University Controller
- C. University Treasurer
- D. A member of the board of directors, appointed by the FAUFC board chair, will serve on the investment committee for a term of two years. However, the chair holds the authority to remove the member at any time, or the member may resign, necessitating the selection of a new board member to the committee.
- E. A member appointed by the Executive Director of the Finance Corporation. The Executive Director has the authority to remove the member at any time.

To conduct business, a quorum must be established by the FAUFC Investment Committee, which requires a majority of its members to be present. Any decision made the committee must have at least three affirmative votes. Without meeting this voting threshold, no actions or resolutions can be approved.

The Committee is responsible for hiring an investment consultant and with the guidance and recommendations of the Investment Consultant:

- A. Directing all of its efforts toward the investment objectives stated herein
- B. Performing at least annually a review of the investment objectives stated herein
- C. Ensuring that the objectives stated in this Policy are practical and reflect the mission of the

#### University

- D. Implementing and monitoring the asset allocation policy
- E. Conducting an annual formal review of the investment structure
- F. Selecting and monitoring of qualified, competent investment managers
- G. Terminating investment managers failing to maintain acceptable quantitative (e.g. risk/return profile) and/or qualitative (e.g. organizational changes) standards
- H. Developing and reviewing the objectives and guidelines given to each specific investment manager
- I. Meeting at least semi-annually to review the results of the investment portfolios
- J. Determining whether the investment objectives set forth herein are being met and whether the investment guidelines are being followed
- K. Providing the Board of Directors with regular performance reports on the investment portfolios
- L. Completing annually eight (8) hours of continuing education in subjects or courses of study related to investment practices and procedures.

The Committee is responsible for hiring a third-party custodian to provide appropriate arrangements for the holding of the FAUFC's investment assets. The Custodian will:

- A. Properly designate all securities purchased and collateral obtained, as assets of the FAUFC.
- B. Ensure that no withdrawal of securities, in whole in in part, will be made, except by an authorized staff member of the FAUFC or the University.
- C. Provide accurate, reliable, and efficient safekeeping of assets.
- D. Produce monthly reports and serve as an independent confirmation of asset values and account activities.
- E. Provide the timely settlement of securities transactions.
- F. Recommend and approve requests to the Board under the spending policy.

#### Investment Consultant

The Investment Consultant is responsible for assisting the Executive Director and the Investment Committee in managing and overseeing the FAUFC's investment portfolio. The consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant will:

- A. Provide the Investment Committee with quarterly performance reports within 30 days following the receipt of custodial statements of each calendar quarter;
- B. Meet with the Investment Committee and/or the Board as requested;
- C. Monitor the activities of each investment manager or investment fund;
- D. Supply the Investment Committee and/or the Board with other reports or information as reasonably requested.

#### Custodian

The custodian is an integral part of managing and overseeing the FAUFC's assets. Any custodian will promptly provide the Investment Committee and Consultant all information reasonably necessary for compliance,

implementation and monitoring purposes.

The custodian shall:

- A. Be of institutional quality;
- B. Provide monthly transaction and asset reports in a timely manner; and,
- C. Promptly communicate any errors, irregularities or concerns regarding portfolio issues.

## **II. Investment Strategies**

### **A. General Objectives and Acceptable Investments**

Investments should provide for the preservation of capital with an emphasis on the generation of optimal levels of income and liquidity, without undue exposure of risk. The investments shall seek to achieve these objectives using a strategy of cash, cash equivalents, United States Government securities, high-grade corporate securities and/or high-quality funds. The primary investment objectives for FAUFC funds will be to provide for preservation of capital with a secondary emphasis upon liquidity and lastly return. *These funds are operational in nature.*

### **B. Asset Allocation**

The FAUFC funds shall be managed by one or more short-term fixed income investment managers (which may include the administrative staff), each maintaining a portfolio with an average weighted maturity between one day and two years. A dedicated allocation to SBA and SPIA may also be considered.

**The total amount of assets investment will be regularly monitored by the Executive Director or designee in consultation with its financial Consultant as allocation among the managers is always subject to change.**

### **C. Time Horizon**

The Investment Committee realizes the importance of maintaining a longer-term focus when evaluating investment performance; however, shorter-term time horizons are also evaluated. Therefore, it is intended that the investment objectives stated below will be achieved by the investment managers over a three-year moving average, net of investment management fees and transaction costs. However, the Investment Committee reserves the right to evaluate and make any necessary changes regarding the investment managers over a shorter-term basis using the criteria established in the "Evaluation of Investment Managers" section of this statement.

### **D. Specific Performance Objectives - Market Benchmarks**

The rolling 3-year period performance objectives shall be the total return for the FAUFC funds to exceed the total return of a Balanced Index comprised of 50% of US t-bills and 50% of the Bloomberg/Barclays 1-3 Year Government/Corporate Bond Index

### **E. Variability**

1. The standard deviation for each short-term investment manager shall not exceed 1.2 times the standard deviation of 3-month U.S. Treasury Bills.

2. The standard deviation for each Intermediate-term investment Fund manager shall not exceed 1.2 times the standard deviation of the appropriate index (Bloomberg/Barclays 1-3 Year Government/Corporate Bond Index or Bloomberg/Barclays Intermediate Government/Credit Bond Index or other such appropriate index).

F. Peer Group Ranking

1. The total return for each investment manager shall rank in the top half of the appropriate universe over a 3-year horizon.

G. Liquidity

1. The FAUFC funds will be managed to ensure a high level of liquidity. The majority of the funds will remain fully liquid on a daily basis. This approach ensures that the fund remains readily accessible while taking advantage of prudent investment opportunities.

**III. Investment Guidelines and Restrictions**

1. All assets shall be invested in accordance with the restrictions and guidelines outlined in applicable Florida law, including, but not limited to, Section 218.415 of the Florida Statutes.
2. Unless subsequently overruled or edited, all assets must also be invested according to the stipulations set forth by the March 30, 2023 Resolution of the Board of Directors of the FAU Finance Corporation regarding environmental, social and governance interests.
3. In the event of severe economic or market conditions, which would have a negative impact on the funds, a separate account manager may deviate from the stated asset structure upon notifying and obtaining approval from the Executive Director of the FAUFC. Any such decision must be explained thereafter in writing. The Board is aware and agrees that, once the investment manager notifies the Executive Director of the FAUFC of the desirability of such a deviation from the stated asset structure, the investment manager is not permitted, under this restriction, to effect the change until receiving the approval of the Executive Director of the FAUFC to the proposed deviation. The Board acknowledges that this requirement and restriction may increase any negative effect of severe condition on the portfolio, which risk may be further increased if the manager does not receive a prompt answer from the Executive Director of the FAUFC. Any other deviation must first be approved by the Executive Director of the FAUC.
4. The requirements stated below apply to investments in non-mutual and non-pooled funds (i.e separate accounts), where the investment manager is able to construct a separate, discretionary account. Although the policy cannot dictate to pooled/mutual fund investment managers, the intent is to select and retain only pooled/mutual funds with policies that are similar to this policy statement. All managers (pooled/mutual and separate), however, are expected to achieve the stated performance objectives.
  - (a) The investment manager shall immediately notify the Executive Director of the FAUFC and Consultant in writing of any material changes in its investment outlook, strategy, portfolio structure, ownership, or senior personnel.
  - (b) Bank Certificates of Deposit and Bankers' Acceptances are to be rated within the top

two rating classifications by any one national rating service.

- (c) Not more than 10% of an investment manager's portfolio shall be invested in commercial paper of any single issuer. The credit quality must be rated A1 and P1.
- (d) There shall be no investment in any non-marketable security.
- (e) There shall be no short-selling, securities lending, options trading, financial futures or other specialized investment activity.
- (f) The investment managers shall not utilize derivative securities to increase the actual or potential risk posture of the accounts. Subject to other provisions in this Investment Policy Statement, the use of primary derivatives, including, but not limited to, structured notes\*, lower class tranches\*\* of collateralized mortgage obligations (CMO's), principal only (PO) or interest only (IO) strips, inverse floating securities, futures contracts, options, short sales, margin trading, and such other specialized investment activity is prohibited.

Moreover, the investment managers are precluded from using derivatives to affect a leveraged portfolio structure (if options and futures are specifically approved, such positions must be offset in their entirety by corresponding cash or securities). The University must explicitly authorize the use of such derivative instruments.

\* Permit investments in "conservative" structured notes, which are principal guaranteed, unleveraged, and of short to intermediate maturity.

\*\* Lower class defined by Federal Financial Institutional Examination Council (FFIEC).

## **FIXED INCOME GUIDELINES**

- (a) Short-term investment managers must invest at least 50% of the portfolio in U.S. Government Securities and/or U.S. Government Agency issues.
- (b) No more than 5% of the portfolio, at cost, or 8% at market can be invested in any single issue, except the investments in U.S. Government or U.S. Government Agency Securities.
- (c) No more than 25% of each manager's fixed income assets, at market value, shall be invested in any single industry.
- (d) The weighted-average credit quality is to be no less than "AA" (or its equivalent rating by two national rating agencies) for the FAUFC Funds and the minimum acceptable credit quality at the time of purchase for individual securities shall be "A"
- (e) Commercial paper must be, at the time of purchase, rated within the highest classification established by not less than two national rating services.

- (f) The duration for each investment manager shall be less than or equal to two years.
- (g) The maximum maturity of any security shall be 3 years.

#### **IV. Evaluation of Investment Managers.**

All investment returns shall be measured net of fees. Each investment manager will be reviewed on an ongoing basis and evaluated upon the following criteria:

- A. Ability to meet or exceed the median performance of a peer group of managers with similar styles of investing;
  - B. Ability to exceed the return of the appropriate benchmark index;
  - C. Adherence to the guidelines and objectives of this Investment Policy Statement; and,
  - D. Avoidance of regulatory actions against the firm, its principals or employees.
- Performance shall be evaluated based on the adherence to the stated philosophy and style of management at the time the investment manager was retained; timely communication with the University and investment consultant and, continuity of personnel and practices at the firm.

\* Market cycles will vary in duration. Stated time frames apply to typical periods when market cycles occur every three to five years.

#### **V. Mechanism For Reviewing Investment Manager's Performance**

The following are specific steps that the Investment Committee will take when reviewing an investment manager's performance.

- A. The Investment Committee will evaluate performance results on each manager using reports prepared by the consultant.
- B. Investment managers will be ranked historically based on 1-year, 3-year and 5-year performance.
- C. Performance results for 1-year, 3-year, and 5-year will be reviewed by the Investment Committee and compared with benchmarks. Review meetings may also be made with each manager. But all managers will be reviewed on an ongoing basis.
- D. Managers with persistent poor performance will be brought to the Investment Committee's attention with the Consultant's recommendations. Based on the performance and the recommendations of the Consultant, the Investment Committee will review and pass the recommendation with any changes on to the Executive Director of the FAUFC.
- E. Consistently poor performance is defined as not meeting the performance objectives and benchmark for the three-year moving average set forth in this Investment Policy. However, due to the short-term nature of these investments, the Executive Director of the FAUFC and the Consultant may monitor performance more rigidly.

#### **VI. Investment Manager Requirements**

Unless prior written approval is obtained from the Investment Committee or the Board to the contrary:

- A. Each investment manager must satisfy the performance objective guidelines.
- B. Each investment manager shall have the full investment discretion with regard to market timing and security selection, consistent with the Statement of Investment Policy Statement.
- C. The investment managers will be expected to report in writing, at least quarterly, the performance numbers, all transactions, and asset values at market value.

### **Investment Managers**

Open communication between the investment managers, the Board and its consultant are critical to the success of the University's portfolios. The manager shall communicate the following at least **annually**:

- A. A review of key investment decisions, investment performance and portfolio structure;
- B. An organizational/investment advisor update, including a report on any and all changes in organizational/investment advisor structure, investment personnel and process and a list of new relationships or clients that have terminated their services; and
- C. A review of the manager's understanding of investment guidelines and expectations and any suggestions to improve the policy or guidelines.

In addition, the following is required of each investment manager:

- A. **Monthly** transaction and asset statements shall be provided to the Investment Committee, its Consultant and custodian (if not the same) no later than the **tenth** business day following month end;
- B. **Quarterly** performance reviews;
- C. **Immediate notification** to the University and its consultant of any exceptions to this investment policy statement with a recommended plan of action to correct the violation; and
- D. Other reports or information as may be reasonably be requested by the Board, its consultant or custodian.



## **VII. Investment Policy Review**

This statement shall be reviewed annually. The investment performance will be reviewed on a quarterly basis and the report will be provided by an independent third party. We recognize the importance of adhering to the philosophy and strategy detailed in the Investment Policy. We agree to work to fulfill the objectives stated herein, within the guidelines and restrictions, to the best of our ability. We acknowledge that open communications are essential to fulfilling this objective, and therefore, recognize that suggestions regarding appropriate adjustments to the Investment Policy Statement or the manner in which investment performance is reviewed are welcome.

This Policy last was approved August 30<sup>th</sup>, 2024.

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