



POLICY & PROCEDURE DOCUMENT

NUMBER: 3.1400

DIVISION: Strategy Operations and Finance

TITLE: Investment Policy

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Authorized By: Susan Howarth, Executive Vice President for Strategy, Operations and Finance

I. Purpose and Scope

The purpose of this investment policy is to establish investment objectives that provide consistent guidelines for the short- or intermediate-term investments of Western Kentucky University's (WKU) cash and cash equivalent funds to earn a return. The policy ensures the university's working capital is managed to provide adequate cash flow and return on cash balances. Bond proceeds are invested pursuant to the applicable investment guidelines in bond resolution and are not subject to this policy.

This investment policy applies to all cash and cash equivalents of Western Kentucky University (WKU). This policy does not apply to the WKU Foundation, College Heights Foundation, Student Life Foundation, and WKU Research Foundation, which manages its investments in accordance with their respective investment policies.

II. Policy

1. Safety of Principal and Managing Risk

Principal protection is the primary objective of the investment policy.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply audited financial statements, proof of National Association of Security Dealers (NASD) certification, proof of state registration and a certification of having read and understood and agreeing to comply with the university's investment policy.

Risk shall be minimized by diversifying the investment portfolio so that potential losses are minimized. All investments will have a minimum long term credit quality rating of A3/A- or short-term rating of A-1/P-1, or equivalent, at the time of purchase.

Uses of margin or leveraging is prohibited.

All cash deposits and investments in excess of FDIC insurable amounts maintained by any financial institution will be collateralized. Collateralized securities shall be purchased using the delivery versus payment procedure. The Investment Committee may also establish collateral account with the Federal Reserve Bank in the name of Western Kentucky University for collateral requirements of local investments.

2. Liquidity

Sufficient liquidity should be maintained to meet projected and unexpected operating cash needs. This will be accomplished by structuring the duration of securities in the investment portfolio on a staggered basis so that securities mature concurrent with cash needs. In addition, the portfolio shall largely consist of securities with active secondary markets which offer same-day liquidity.

3. Investment Earnings

All reasonable efforts should be made to maximize investment earnings, taking into consideration investment risk constraints and liquidity needs.

4. Tiered Investment Structure

The investment portfolio will be categorized into four tiers based upon expected liquidity needs and expected rate of return.

Tier	Category	Investment Maturity	Objective
1	Depository	Daily	Cash to meet immediate liquidity needs
2	Operating	Up to 1 year	Principal protection and liquidity
3	Reserve	Up to 3 years	Principal protection, but same-day liquidity not necessary
4	Strategic	Up to 5 years	Principal protection, yield and total return priority

Tier 1 Depository funds are designed to meet daily cash flow needs. This tier shall hold a minimum of 45 days cash for operating liquidity. The calculation of daily cash flow needs shall be based on consolidated prior fiscal year average operating expense per day. Tier 1 Depository funds will reside in the university's local depository account and will earn income based on the bank's contracted interest rate.

Tier 2 Operating funds are designed to meet anticipated cash flow needs. These investments shall have maturity dates of up to one year. The primary objective of

these funds is to preserve principal and liquidity while earning at maximum income rate. The funds in this tier will be continuously invested in readily available funds to meet any unanticipated cash flow needs.

Tier 3 Reserve funds shall be investments designed to maximize income while preserving principal on a longer-term basis as same day liquidity is not necessary. These investments shall have maturity dates of three years or less.

Tier 4 Strategic funds will be designed to enhance current income consistent with preservation of principal with longer-term prescribed maturity. These investments shall have a stated maturity date of not more than five years.

5. Permissible Investments and Descriptions

The operating funds shall be invested in accordance with KRS 42.500 and as further defined by 200 KAR Chapter 14.

Permissible Investment	Description
<p>U.S. Government and U.S. Government Guaranteed securities</p>	<p>U.S. Treasury securities-bills, notes, bonds, Treasury Inflation Protected securities, or any other obligations or securities issued by the U.S. Treasury or any other obligations- unconditionally guaranteed as to principal- and interest by the U.S. government</p>
<p>U.S. Agency and Government Sponsored Enterprise ("GSE") debt obligations</p>	<p>Including though not limited to: the Federal National Mortgage Association; Federal Home Loan Bank; Federal Agricultural Mortgage Corporation; and Federal Home Loan Mortgage Association</p>
<p>Municipal securities</p>	<p>Municipal securities including taxable and tax-exempt commercial paper, variable and fixed rate demand notes, as well as other taxable and tax-exempt notes and bonds</p>
<p>Non-U.S. sovereign, sovereign guaranteed and supranational</p>	<p>U.S. dollar denominated obligations of foreign governments and supranational organizations rated in one of the three highest long-term categories by an NRSRO</p>
<p>Corporate debt obligations</p>	<p>Corporate debt obligations including fixed and floating rate securities and Corporate Notes and Bonds of foreign corporations including Yankee and Eurodollar</p>
<p>Certificates of deposit or Interest-Bearing Accounts</p>	<p>Certificates of deposit or other interest-bearing accounts issued through a bank or savings and loan institution having a physical presence in Kentucky which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations, including surety bonds.</p>
<p>Commercial Paper</p>	<p>Commercial paper issued by domestic and international corporations-including U.S. dollar denominated Euro commercial paper</p>
<p>Bankers Acceptances</p>	<p>Rated in one of the highest three rating categories.</p>

Asset Backed securities	Agency or non-agency Asset-Backed securities rated in the highest category by a nationally recognized statistical rating organization.
Repurchase Agreements	If delivery of obligations is subject to repurchase agreements, it is taken directly through an authorized custodian, including but not limited to national or state banks chartered in Kentucky.
Money Market Funds	As a portion of the liquidity sector of the university's account, the university may invest in money market funds on a short-term basis.
Mutual Funds	The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended. The management company of the investment company shall have been in operation for at least five years; and all of the securities in the mutual fund shall be eligible investments pursuant to this section.

III. Policy Review

An Investment Committee consisting of the following members, and any other individual designated by Executive Vice President for Strategy, Operations and Finance, will correspond on a regular basis to review the investment portfolio and strategy.

- Assistant Vice president for Budget, Finance and Analytics
- University Controller/Treasurer
- Accounting & Financial Reporting Director

A review of the sufficiency of this policy will be conducted annually in conjunction with a review of account performance.

The Investment Committee will select a bank to serve as the Custodian (“Custodian”) for the university’s bank accounts and local investments and will perform standard custodial functions.

IV. Reporting Requirements

The investment management firm and/or Custodian will provide monthly account statements and other reports as requested by the university.