TO: Budget Unit Managers

FROM: Richard Hale, Vice President

SUBJECT: POLICY & PROCEDURE UPDATE

I. Purpose

The purpose of this memorandum is to transmit Policy Number VI-42/Procedure Number 6415 regarding the guidelines that govern the College’s investment policy.

II. Additional Information

Please contact Andrea Jaeckel, Director of Fiscal Compliance and Accounting Services, at ext. 4739, if you have any questions concerning this new Policy.

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Attachments
I. PURPOSE

To establish a set of guidelines to govern the investment objectives of cash not required for operations. In general, these funds will be invested to provide the College a convenient and economical means of investing short-term funds at the best rates available for prudent investments.

II. AUTHORITY

N.J.S.A. 18A:3b-6.g

III. POLICY STATEMENTS

Cash required for operations

Cash needed to meet short-term obligations will be invested with the State of New Jersey Cash Management Fund. The Division of Investment was created by P.L. 1950, c.270, which became effective on July 1, 1950. Various funds in the custody of the State Treasurer are combined (pooled) for the purpose of investment. Moneys may be deposited in or withdrawn from the Fund on any day on which both the New Jersey banks and State offices are open. These funds must be highly liquid.

Cash not needed for immediate operating activities

The overall objectives for the College’s short-term investments are to maximize the total return of the investment while preserving the principal amount and creating economic stability.

The portfolio(s), under the management of the Investment Manager(s), represent the assets of The Richard Stockton College of New Jersey. Both the College and the Investment Manager(s) recognize the fiduciary nature of the portfolio(s) and the important responsibilities associated with its management.
The Investment Manager is responsible for optimizing investment return and growth of the College’s assets within the guidelines established. The Investment Manager(s) has investment discretion over the assets in the portfolio while ensuring that the assets are invested with care, skill, prudence, and diligence.

**Investment Oversight**

Oversight for these short-term investments will be provided by the Investment Committee, a subcommittee of the Audit and Finance Committee of the Board of Trustees consisting of present or past members, the Vice President for Administration, Finance and Institutional Advancement, and another member or members appointed by the Audit and Finance Committee. This committee is charged with the responsibility to review and analyze the results of the portfolio(s) against those of the State Cash Management Fund and other relevant market indexes. Additionally, they will be charged with the responsibility of reviewing the Investment Manager(s) performance on a regular basis. The structure of this committee may change over time as recommended by its’ current members with the approval of the Audit and Finance Committee.

The Investment Committee will provide summary performance results and status of the investment portfolio to the Audit and Finance Committee as requested, or at least quarterly. The College’s finance staff and the President of the College will monitor the Investment Manager(s) compliance with College investment policies and communicate any changes in policy to the Investment Manager(s).
Investment Guidelines

1. The following fixed income instruments are approved for the investment portfolio:

   A. Obligations of the U.S. government and its agencies representing the highest quality short-term debt obligations available in the market place.
   B. Money market instruments, repurchase agreements, commercial paper bankers’ acceptance, certificates of deposit, and approved money market funds approved by the committee.
   C. State bonds.
   D. Corporate bonds.
   E. Floating rate securities without interest rate caps.
   F. Equities

2. Quality of Investments:

   United States Agency obligations will be rated Aaa/AAA by Moody’s Investor Services and Standard & Poor’s.

   Commercial paper purchased must have the highest “prime” rating at a minimum A-1, P-1 or better by either Standard and Poor’s (“S&P”) Corporation or Moody’s Investor Services (Moody’s) at the time of purchase. Certificates of Deposit (collateralized at 120% based on the purchase price at the time of purchase), Bankers Acceptance, and Repurchase Agreements will be collateralized.

   Securities of issuers with a long-term credit rating must be rated “AA”, “Aa” or better by S&P or Moody’s, respectively, with a maturity of no more than five (5) years. Should the rating of a security held in the portfolio fall below the minimum acceptable rating by S&P or Moody’s, the Investment Manager(s) will notify the Vice President for Administration, Finance and Institutional Advancement or a designee and recommend appropriate action.

   The weighted average credit quality of the investment portfolio is to be no less than AA (or its equivalent rating).
3. **Diversification:**

It is the policy of the College to diversify its investment portfolios. Portfolio diversification is employed as a way to limit certain types of risk. Investments shall be diversified as to maturities and as to the type of investment to limit the risk of loss which might result from over-concentration of assets in a specific maturity, in a specific kind of security or from a specific issuer. Any deviation from the guidelines established herein shall be allowed only with the express approval of the Investment Committee.

The Investment Manager(s) will **not** invest more than 25 percent of total assets under their control (market value at time of investment) in the securities of issuers in any particular industry, other than United States government securities, or government agency securities. **No** more than 10 percent of the account, valued at market at the time of purchase, will be invested in securities (other than United States Government) of any one issuer. **No** more than 10 percent of the outstanding securities of an issuer will be purchased, except such restrictions shall not apply to United States government or government agency securities or repurchase agreements.

For purposes of this diversification policy, securities of a parent company and its subsidiaries will always be combined except for captive finance companies. Securities issued by the U.S. Treasury and U.S. government agencies are specifically exempted from these restrictions.

4. **Marketability/Liquidity:**

Investment Manager(s) will purchase securities that regularly trade in a secondary market under normal conditions. Investment Manager(s) will structure the portfolio so that securities mature as needed to meet the College’s anticipated liquidity demands. Portfolio holdings will be sufficiently liquid to ensure that 5 percent of the portfolio can be sold on a day’s notice with no material impact on market value.
5. Maturity/Portfolio Duration:

The portfolio’s average duration will be measured using the six (6) month Treasury bill; however, the benchmark index is subject to change at the discretion of the Investment Committee. The final maturity of each security within the portfolio will not exceed five (5) years.

### Security and Issuer Diversification

<table>
<thead>
<tr>
<th>Authorized Investment Instrument</th>
<th>Percent of Portfolio Allowed</th>
<th>Percent of Portfolio Per Issuer</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. U.S. Government</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>B. U.S. Treasury</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>C. U.S. Agencies</td>
<td>100%</td>
<td>33%</td>
</tr>
<tr>
<td>D. Certificates of Deposit</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>E. Banker’s Acceptances</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>F. Commercial Paper</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>G. Corporate Bonds</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>H. Collateralized Mortgage Obligation and Passthroughs</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>I. Money Market Mutual Funds</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>J. Repurchase Agreements</td>
<td>25%</td>
<td>10%</td>
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<tr>
<td>K. State</td>
<td>25%</td>
<td>10%</td>
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</tbody>
</table>
6. Performance Measurement:

Due to the inevitability of short-term market fluctuations, it is intended that the following performance objective will be achieved by the Investment Manager(s). The College reserves the right to evaluate and make any necessary changes regarding the Investment Manager(s) over a shorter term using the criteria established in this policy statement.

Reporting

The Investment Manager(s) will meet with the Investment Committee or a designee no less than quarterly and will be available for regular telephone contact. Monthly, Investment Managers(s) will provide statements of transactions and market valuation of portfolio assets.

Market Benchmark

Quarterly, the Investment Manager(s) will provide the College with a review of performance, net of fees, relative to an appropriate index as agreed to by the President of the College upon the advice of the Vice President for Administration, Finance and Institutional Advancement and the performance results of the New Jersey Cash Management Fund.

Peer Group Ranking

Total return, net of fees, for each Investment Manager(s) portfolio will outperform other similar short-term fix income investment funds by at least 50 percent.
7. Restricted Investments:

The Investment Manager(s) shall not utilize derivative securities to increase the actual or potential risk posture of the accounts. Subject to other provisions in this Investment Policy, the use of primary derivatives is prohibited. These include but are not limited to structured notes, lower class tranches (as defined by the Federal Financial Institutional Examination Council) of collateralized mortgage obligations (CMOs), principal only (PO) or interest only (IO) strips, inverse floating securities, futures contracts, options, short sales, margin trading, and such other specialized investment activity.

Moreover, the Investment Manager(s) are precluded from using derivatives to affect a leveraged portfolio structure.

IV. RESPONSIBILITY FOR IMPLEMENTATION AND REVIEW

Implementation: Vice President for Administration, Finance and Institutional Advancement with the approval of the President.

Review: The Investment Committee shall review this policy as appropriate no less than annually.

V. COMPETITIVE SELECTION OF INVESTMENT MANAGER(S)

All investment activities are affected through competitive bidding. The College will accept the offer that most closely mirrors the guidelines established within this policy. The Investment Manager(s) selected will provide the highest rate of return within the required time to maturity, while preserving the principal amount and creating economic stability. Consideration will be given to historical performance and fee structure during the selection process.