

**FUNCTION:** Oregon Public University Fund Investments  
**ACTIVITY:** Portfolio Rules

**SCOPE:** The Oregon Investment Council (OIC) has, with advice from the Treasurer and Oregon State Treasury (OST) investment staff, adopted a policy and specific rules for investing the Public University Fund (PUF). These rules are included in Appendix A.

**POLICY:** Funds meeting Oregon State Treasury (OST) requirements are eligible for segregated investment management by the Investment Division of the OST and within guidelines approved by the OIC. Investments shall be authorized by an OST investment officer and documented in accordance with OST policies and procedures.

Funds shall be invested in accordance with the policies and procedures outlined in this policy and in accordance with statute established by HB 4018, section 7.

### **COMPLIANCE APPLICATION AND PROCEDURES**

OST shall provide an investment compliance program to accomplish the following objectives: a) monitor and evaluate portfolios, asset classes, and other investment funds to determine compliance with OST policies and contractual obligations; b) identify instances of non-compliance and develop appropriate resolution strategies; c) provide relevant compliance information and reports to OST management and the OIC, as appropriate; and d) verify resolution by the appropriate individual or manager within the appropriate time frame.

**Resolution of Non-Compliance.** If PUF investments are found to be a) out of compliance with one or more adopted investment guidelines or b) managed inconsistently with governing policy and objectives, investment staff shall bring the investments into compliance as soon as is prudently feasible. Actions to bring the portfolio back into compliance and justification for such actions, including documentation of proposed and actual resolution strategies shall be coordinated with the OST investment compliance program.

#### **Appendices (Attached):**

- A. Portfolio Rules for the Public University Fund

Appendix A

Portfolio Rules for the  
Public University Fund

Adopted July 30, 2014

1. **Scope:** These rules apply to the investment of funds from all eligible and approved participants in the Public University Fund (“PUF”), and are established under the authority of, and shall not supersede, the requirements established under ORS Chapter 293 and HB 4018 of Oregon Laws 2014.
2. **Objective:** Provide adequate liquidity for PUF participant cash flow requirements. Manage the portfolio to maximize total return over a long term horizon within the desired risk parameters.
3. **Portfolio Allocation and Risk Profile:** Allocation parameters listed in the table below are intended to be general guidelines, not hard limits subject to OST Compliance monitoring.

Strategy Type	Name	Allocation	Objective
Liquidity	Short-Term	The purpose of the short-term portfolio is to assure adequate cash for operations. Investment management efforts shall be conducted to maintain an allocation to the short-term portfolio equivalent to not less than approximately six (6) months of average monthly operating expenses. This short-term portfolio allocation may also be determined using the results of a cash flow analysis.	Principal reservation
Core	Intermediate-Term	Investment management efforts shall be conducted to allocate to the intermediate-term portfolio any cash balances in excess of those necessary to meet the requirements for the short-term portfolio. Funds allocated to the intermediate-term portfolio should not exceed \$300 million.	Higher total return versus short-term portfolio as measured by the OSTF yield over a 3-year trailing period.

	Long-Term	Investment management efforts shall be conducted to allocate to the long-term portfolio any cash balances in excess of those necessary to meet the requirements for the short-term portfolio. Funds allocated to the long-term portfolio should not exceed \$120 million.	Higher total return versus the benchmark index over a 5-year trailing period.
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**4. Permitted Holdings**

Short-Term Portfolio:

- The Oregon Short-Term Fund (OSTF); and
- Any securities eligible for purchase in the OSTF. The OSTF is governed by the Oregon Investment Council (OIC) and OST-adopted policies and guidelines as documented in OIC Policy 04.02.03.

Intermediate-Term Portfolio:

- Any holdings eligible for the Short-Term portfolio;
- The Oregon Intermediate-Term Pool (OITP); and
- Any securities eligible for purchase in OITP which is governed by Oregon Investment Council (OIC) and OST-adopted policies and guidelines as documented in OIC Policy 04.03.04.

Long Term Portfolio:

- Any holdings eligible for the Intermediate-Term Portfolio;
- Obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities, including inflation-indexed obligations with stated maturities less than 15.25 years;
- Non-U.S. Government Securities and their Instrumentalities;
  - Non-U.S. government securities and Instrumentalities with a minimum rating of one or more of Aa2/AA/AA by Moody's Investors Services, Standard & Poor's or Fitch, respectively, and with a stated maturity less than 15.25 years at the time of purchase.
- Municipal debt with a minimum rating of one or more of A3/A-/A- by Moody's Investors Services, Standard & Poor's or Fitch, respectively, and with a final maturity less than 15.25 years at the time of purchase;
- Corporate indebtedness with minimum investment grade ratings by one or more of Moody's Investors Services, Standard & Poor's or Fitch, respectively, and with a stated maturity less than 15.25 years at the time of purchase;
- Asset-backed securities rated AAA at the time of purchase with a weighted average life of less than 5.25 years;
- Commercial mortgage-backed securities (CMBS) rated AAA at the time of purchase with a weighted average life of less than 5.25 years;

- U.S. agency residential mortgage-backed securities (MBS) and residential mortgage related securities with a weighted average life of less than 5.25 years.

**5. Diversification**

The portfolio should be adequately diversified consistent with the following parameters:

- No more than 3% of portfolio par value may be invested in a single security with the notable exception of obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities; and
- No more than 5% of portfolio par value may be invested in the securities of a single issuer with the notable exception of obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities.

Issuer and security level restrictions shall not apply to OSTF or OITP holdings.

**6. Counterparties**

A list of all broker/dealer and custodian counterparties will be provided to PUF's Designated University annually.

**7. Strategy:**

- Maintain an average (measured by market value) credit rating of at least single-A, excluding OSTF and OITP holdings. If a security is rated by more than one rating agency, the lowest rating is used to determine the average rating;
- In the Long-Term Portfolio, maintain an average modified duration level of +/-20% of the custom fixed income benchmark up to a maximum of 7.5 years; and
- Structure maturities to provide reinvestment opportunities that are staggered. No more than 15% of the long-term portfolio should mature in a single, 3-month time period. This stipulation is intended to be a general guideline, not a hard limit subject to OST Compliance monitoring.

**8. Investment Restrictions:**

- All investments will be in U.S. dollar denominated securities;
- All investments will be non-convertible to equity;
- Collateralized debt obligations (CDO), Collateralized Loan obligations (CLO) and Z-tranche investments are not permitted;
- Investments in Alt-A, sub-prime, limited documentation or other "sub-prime" residential mortgage pools are not permitted. There shall be no use of leverage in any investments (excluding use of securities in a securities lending program). Structured securities such as ABS, MBS and CMBS shall not be considered as using leverage;

- For newly issued securities with unassigned ratings, “expected ratings” may be used as a proxy for assigned ratings up to 30 business days after settlement date; and
- Maximum market value exposures (excluding underlying holdings in OSTF and OITP) shall be limited as follows:

U.S. Treasury Obligations	100%
U.S. Agency Obligations	50%
U.S. Corporate Indebtedness	50%
Municipal Indebtedness	30%
Asset-backed Securities (ABS)	20%
Mortgage-backed Securities (MBS)	30%
Commercial Mortgage-backed Securities (CMBS)	10%
Structured Securities (Combined ABS, MBS and CMBS)	50%

#### **9. Policy Compliance:**

- OST Investment Staff will submit a written action plan to the Designated University regarding any investment downgraded by at least one rating agency to below investment grade within 10 days of the downgrade. The plan may indicate why the investment should continue to be held and/or outline an exit strategy; and
- OST Staff will consult with the PUF Designated University, on a pre-trade basis, if an investment trade or trades will result in a cumulative net loss greater than 1% over 3 months prior to trade settlement date.

#### **10. Performance Expectations/Reviews:**

- Over a 5-year trailing period, the Long-Term portfolio is expected to outperform the Bank of America Merrill Lynch 5-7 Year AAA-AA U.S. Corporate & Government Index (B3B0);
- OST will provide the PUF Designated University with a monthly report of all non-passive compliance violations of this policy’s guidelines; and
- Investment reviews between OST investment staff and the designated PUF University will occur quarterly and focus on:
  - Performance relative to objectives;
  - Adherence to this policy; and
  - Trading activity.

#### **SAMPLE FORMS, DOCUMENTS OR REPORTS:**

None