COMMITTEE ON FINANCE

California State University Investment Policy Clarification

Presentation By

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Summary

This item requests the Board to approve updates for clarification to the California State University Investment Policy.

Background

In 2007, the CSU investment structure changed from a single investment portfolio, where campuses made the day to day decisions on how much to invest in the portfolio, to a single investment portfolio where day to day investment decisions are made centrally at the Chancellor’s Office based on the systemwide cash position each day. This current structure allows for the efficient use of cash and maximizes the amount of systemwide cash that can be invested, thereby increasing investment earnings for the campuses. The California State University Investment Policy (Investment Policy) still contains language that reflects the pre-2007 investment structure that called for campuses to make the day to day investment decisions. This item requests minor changes to the Investment Policy, so that it will be consistent with the current CSU investment structure. A revised Investment Policy, marked to reflect the proposed changes, is presented as Attachment A.

Recommendation

RESOLVED, by the Board of Trustees of the California State University, that the California State University Investment Policy, as amended and presented herein as Attachment A of Agenda Item 5 of the November 5-6, 2013 meeting of the Committee on Finance, is approved.
The California State University Investment Policy

The following investment guidelines have been developed for CSU campuses to use when investing California State University funds.

Investment Policy Statement
The objective of the investment policy of the California State University (CSU) is to obtain the best possible return commensurate with the degree of risk that the CSU is willing to assume in obtaining such return. The Board of Trustees desires to provide to each campus president, the Chancellor and his designees with the greatest possible flexibility to maximize investment opportunities. However, as agents of the trustees, campus presidents, the Chancellor and his designees must recognize the fiduciary responsibility of the trustees to conserve and protect the assets of the portfolios, and by prudent management prevent exposure to undue and unnecessary risk.

When investing CSU funds, the primary objective of the CSU shall be to safeguard the principal. The secondary objective shall be to meet the liquidity needs of the CSU. The third objective shall be to return an acceptable yield.

Investment Authority
The California State University may invest monies held in local trust accounts under Education Code Sections 89721 and 89724 in any of the securities authorized by Government Code Sections 16330 and 16430 and Education Code Section 89724 listed in Section A, subject to limitations described in Section B.

A. State Treasury investment options include:

- Surplus Money Investment Fund (SMIF)
- Local Agency Investment Fund (LAIF)
- State Agency Investment Fund (SAIF)

Eligible securities for investment outside the State Treasury, as authorized by Government Code Section 16430 and Education Code Section 89724, include:

- Bonds, notes or obligations with principal and interest secured by the full faith and credit of the United States;
- Bonds, notes or obligations with principal and interest guaranteed by a federal agency of the United States;
- Bonds or warrants of any county, city, water district, utility district or school district;

- California State bonds, notes, or warrants, or bonds, notes, or warrants with principal and interest guaranteed by the full faith and credit of the State of California;


- Commercial paper exhibiting the following qualities: (1) “prime” rated, (2) less than 180 days maturity, (3) issued by a U.S. corporation with assets exceeding $500,000,000, (4) approved by the PMIB. Investments must not exceed 10 percent of corporation’s outstanding paper, and total investments in commercial paper cannot exceed 30 percent of an investment pool;

- Bankers’ acceptances eligible for purchase by the Federal Reserve System;

- Certificates of deposit (insured by FDIC, FSLIC or appropriately collateralized);

- Investment certificates or withdrawal shares in federal or state credit unions that are doing business in California and that have their accounts insured by the National Credit Union Administration;

- Loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration;

- Student loan notes insured by the Guaranteed Student Loan Program;

- Debt issued, assumed, or guaranteed by the Inter-American Development Bank, Asian Development Bank or Puerto Rican Development Bank;

- Bonds, notes or debentures issued by U.S. corporations rated within the top three ratings of a nationally recognized rating service;

B. In addition to the restrictions established in Government Code Section 16430, the CSU restricts the use of leverage in CSU investment portfolios by limiting reverse repurchase agreements used to buy securities to no more than 20 percent of a portfolio.
Furthermore, the CSU:

- Prohibits securities purchased with the proceeds of a reverse repurchase from being used as collateral for another reverse repurchase while the original reverse repurchase is outstanding;

- Limits reverse repurchase agreements to unencumbered securities already held in the portfolio purchased with the proceeds of the repurchase (but in any event not more than one year) and;

- Limits reverse repurchase agreements to unencumbered securities already held in the portfolio.

**Investment Reporting Requirements**

Annually, the Chancellor will provide to the Board of Trustees a written statement of investment policy in addition to a report containing a detailed description of the investment securities held by all the CSU campuses and the Chancellor’s Office, including market values.

B. Each campus will provide no less than quarterly to the Chancellor a report containing a detailed description of the campus’s investment securities, including market values. A written statement of investment policy will also be provided if it was modified since the prior submission. These quarterly reports are required:

- to be submitted to the Chancellor within 30 days of the quarter’s end

- to contain a statement with respect to compliance with the written statement of investment policy; and

- to be made available to taxpayers upon request for a nominal charge.