

## CASH MANAGEMENT STATEMENT

### **Introduction**

This Cash Management Statement (CMS) supports VSC Policy 404 and provides the framework for the investment of pooled cash of the Vermont State Colleges. The pooled cash includes all funds of the VSC other than the funds that are held in the endowment and certain plant, restricted and loan reserves, for which separate investment guidelines or restrictions are established.

### **Investment Objectives**

Cash for purposes of investment allocation shall be divided into three asset groups as follows:

**Short-Term Pool:** The objective of the Short-Term Pool is to meet the anticipated day-to-day operating and capital cash obligations of the VSC over a minimum of the next four weeks.

The investment objectives in order of importance are: (1) safety of principal, (2) same day or next day liquidity, and (3) consistent with the first two objectives, less regard for rate of return.

**Intermediate-Term Pool:** The objective of the Intermediate-Term Pool is to meet the anticipated day-to-day operating and capital cash obligations of the VSC from four weeks to one year, and to provide a liquid source of funds in the event that the Short-Term Pool is insufficient to meet the VSC's cash needs.

The investment objectives in order of importance are: (1) reasonable safety of principal, (2) same day to 30 day liquidity, and (3) consistent with the first two objectives, an above market rate of return, mostly in the form of dividends and interest income.

**Long-Term Pool:** The objective of the Long-Term Pool is to optimize earned income on long term-term funds which will be expended by the VSC only in the event of a financial emergency, or an investment or capital opportunity. Cash that is not expected to be needed for operational purposes for a period exceeding one year is considered the Long-Term Pool.

The investment objectives in order of importance are: (1) an above market total rate of return averaged over a number of years, and (2)

consistent with the first objective, a measured tolerance for risk and adequate liquidity.

### **Allocation Guidelines**

- Short-Term Pool: The Short-Term Pool average weighted maturity shall be between one day and three months.
- Intermediate-Term Pool: The Intermediate-Term Pool average weighted maturity shall be between one month and two years, with maximum maturity range of three years.
- Long-Term Pool: The Long-Term Pool average weighted maturity shall generally be over 365 days.

### **Performance Objectives**

- Short-Term Pool: The benchmark for the short-term portfolio shall be total return that meets or exceeds the yield of one-month U. S Treasury bill.
- Intermediate-Term Pool: The benchmark for intermediate-term portfolio shall be total return that meets or exceeds the Merrill Lynch 1 Year Treasury Note.
- Long-Term Pool: The benchmark for the long-term portfolio will be the appropriate competitive benchmarks, depending on the type of investment.

### **Allowable Investments for Asset Groups**

The Short-term pool shall be deployed at a bank to facilitate VSC operations. The Intermediate-Term Pool and Long-Term Pool shall be deployed either at a bank, with investment managers or internally at the VSC; whichever matches most closely with the operational and investment needs of the VSC.

#### **Short-Term Pool:**

Allowed Investments: Investments in the short-term portfolio are restricted to U. S. Treasury and government agency securities, money markets, high quality corporate securities, and commercial and bank paper.

Investments shall be in marketable securities of the following types and with the noted credit ratings:

1. All debt securities shall be rated Aaa, Aa, A or Baa by Moody's Investor's Service, Inc. or AAA, AA, A or BBB by Standard & Poor's Corporation.
2. Obligations of, or guaranteed by, the United States of America, its agencies or instrumentalities. (Treasuries and Agencies)
3. Commercial paper must be rated A-1 or higher by Standard and Poor's or Prime-1 (P1) by Moody's Investor's Service, Inc.
4. Bankers' acceptances or negotiable certificates of deposit issued by banks rated B or better. No more than 20% of the funds held in the cash pool shall be invested in certificates of deposit, bankers' acceptances or floating rate notes of the institutions within any single holding company.
5. Repurchase agreements of banks having Fitch ratings no lower than B secured by the U.S. Government and federal agency obligations with market values of at least 100% of the amount of the repurchase agreement.

**Intermediate-Term Pool:**

Allowed Investments:

Investments of the Intermediate-Term Pool may be in any combination of:

1. US Treasury Bills, Notes and Bonds;
2. Obligations issued by the U.S. Government, its agencies and instrumentalities;
3. Investment-grade obligations of state or local governments, instrumentalities, and public authorities;
4. Corporate debt obligations, including commercial paper of U.S. and foreign corporations;
5. Asset-backed securities (excluding residential and commercial mortgage-backed securities);

6. Instruments of U.S. and foreign banks, including time deposits, certificates of deposit and banker's acceptances;
7. Invested internally at the VSC.

Quality: At the time of purchase, all securities in the intermediate-term portfolio are restricted to securities rated Aaa, Aa, A or Baa by Moody's Investor's Service, Inc. or AAA, AA A or BBB by Standard & Poor's Corporation (investment grade or equivalent), or higher with the following exceptions:

1. Money market securities (e.g., commercial paper) that only carry short-term ratings must be rated P-3 (or equivalent) or higher.
2. All asset-backed securities must be rated Aaa or AAA.

Illiquid Securities: The Manager will not purchase any security that cannot be disposed within five (5) business days in the ordinary course of business at approximately the amount at which the Portfolio has most recently valued the security.

**Long-term pool:** The Long-Term Pool may be maintained in diversified fixed income securities with maturities of over 365 days and equity or bond mutual funds with intermediate to long term durations.

Long-term funds may be invested alongside the VSC endowments.

Except for the two items below, which are internal to the VSC, the long-term funds will be managed by experienced, qualified and reputable professional investment managers.

Long-Term Pool funds may be set aside to fund the Green Revolving Fund (GRF). The GRF will be a pool of money that the VSC makes available to the colleges to fund energy savings initiatives. The colleges will pay the GRF back principal and interest. The total GRF fund will not exceed \$2,000,000 and individual loans from that fund will have a maximum duration of five years.

Long-Term Pool funds may be used to fund capital projects at the colleges. These projects will tend to be for smaller amounts (less than \$500,000) and for relatively short (5 years or less) durations.

### **Investment Management Responsibility and Structure**

Cash management and investment responsibility resides with the Vice President of Finance and Chief Financial Officer.

1. Investment managers will be engaged to invest assets consistent with this CMS. Subject to this CMS and a written agreement between the VSC and the investment manager, the investment manager will be given discretion to select individual securities and to make adjustments to the structure of the portfolio; OR
2. Investments may be made internally using allowable instruments.
3. Vermont State Colleges may utilize a Line Of Credit to cover any monthly operation expense shortfalls from maturities if the sale of any asset would be adversarial to the portfolio. As soon as possible the investment manager will raise the cash necessary to cover the loan.

### **Administration and Reporting**

The CFO will report to the Finance and Facilities Committee quarterly, the following:

1. Balances in each asset group;
2. Investments in each asset group by manager and investment type or fund; and
3. Performance of each individual investment type within each asset group.

As delegated by the Board of Trustees through its Annual Banking Resolution, the Chancellor and CFO, are authorized to open accounts with banks, investment firms, or commercial paper institutions, and/or to execute purchases and sales, in order to implement this investment policy.