CUNY INVESTMENTS POLICY

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3.3 Investments

3.3.1 Investment Responsibilities

The Board of Trustees is responsible for the investment of the following funds of the City University of New York: Silberman Fund, Baruch Fund, Wollman Fund, Voorhees Fund, and the Investment Pool. The Board of Trustees believes that this responsibility is most effectively discharged by retaining outside professional investment counsel to buy and sell securities, in accordance with this investment policy. (BTM,1976,12-20,005, D)

3.3.2 Ethical, Social, and Environmental Principles

The Board of Trustees adopts the following policy for the investment of University funds in corporate enterprises (BTM,1972,10-24,008, ):

3.3.2.1 The University as an Initial Investor

In deciding whether to purchase securities of a particular corporation, the University will in most cases be guided solely by the financial considerations of safety and growth of capital and production of income. Only when the corporation is directly and substantially involved in activities clearly considered by the University community to be contrary to fundamental and widely shared ethical principles should the investment counselors be instructed to avoid purchase of its securities. (BTM,1972,10-24,008, )

3.3.2.2 The University as a Continuing Investor

The University should exercise its ethical responsibilities as an investor primarily through the voting of its shares on propositions presented in corporate proxy statements. the University may also wish to make formal or informal representations to management concerning the corporation's activities. Only in exceptional cases, where it is found that the corporation's activities are gravely offensive to the University's sense of social justice, should the University consider initiating formal corporate action such as the proposing of matters for inclusion in a proxy statement, or initiating or joining in shareholder litigation. (BTM,1972,10-24,008, )

When the University finds that a corporation in which it owns securities is directly and substantially involved in activities causing social injury, it will vote its shares in favor of propositions that it considers likely to change such activities or to mitigate the social injury that they cause, and against propositions that it believes will have the opposite effect. Written representations may be made to management where appropriate, and other shareholder action may be initiated under circumstances referred to in this policy. In deciding whether to take shareholder action the University should give due consideration to whether the company, acting alone, has power and responsibility to correct the injury, or whether correction could be made more appropriately through the enactment of new laws and regulations. the University should refrain from taking action on, or should vote against, proxy proposals involving social or political matters that are unrelated to the business of the particular corporation, and should refrain from voting on proposals that are likely to cause deep divisions within the University community. (BTM,1972,10-24,008, )
Where a corporation's conduct is found to be clearly and gravely offensive to the University community's sense of social justice, and where it is found that the exercising of shareholder rights and powers is unlikely to correct the injury, consideration should be given to selling that corporation's securities. Due regard should be given to both positive and negative conduct of the corporation in such areas as (BTM,1972,10-24,008,\_
): 

a) Hiring, employment and pension practices  
b) Relationships with foreign governments  
c) Product safety and consumer health  
d) Extent and nature of military contracts  
e) Conservation and environmental pollution  
f) Participation in the charitable, educational and cultural life of the community  

In considering whether a sale should be made, the economic effect of such a sale on the University's portfolio should be a relevant but not necessarily controlling consideration. (BTM,1972,10-24,008,\_
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3.3.2.3 Policy on Tobacco Company Investments  

The University, in all portfolios, shall remove investments in all companies that manufacture cigarettes. Such divestiture shall take place at a time and in such quantities of securities as the portfolio advisors to the University shall deem fiscally sound and prudent. (BTM,1990,05-21,007, L)  

3.3.3 Investment Objectives  

3.3.3.1 Nominal Return Requirements  

The investment program shall be structured to preserve and enhance principal over the long term, in both real and nominal terms. For this purpose, short-term fluctuations in values will be considered secondary to long-term investment results. Moreover, the investments of the Fund shall be diversified to minimize the risk of significant losses unless it is clearly prudent not to do so. Total return, which includes realized and unrealized gains, plus income less expenses, is the primary goal of the University. (BTM,2001,01-29,004, F)  

The required total rate of return for the Fund annually, net of all fees and operating expenses, can be decomposed into three components (BTM,2001,01-29,004, F):  

a) Expected annual spending  
b) Expected annual inflation erosion  
c) An annual buffer for long-term appreciation  

In order to achieve this goal, the asset allocation specified below is adopted. The Fiscal Affairs Committee will review this target along with the accompanying asset allocation at least once every three years. (BTM,2001,01-29,004, F)
3.3.3.2 Relative Return Requirements

As a means of remaining current on trends in the endowment and foundation universe, information will be provided that compares the University's program to an appropriate endowment and foundation fund universe. Based upon the asset allocation specified in below, the total return for the University shall rank in the top half of the appropriate endowment and foundation fund universe. Risk-adjusted returns should also rank in the top half of the same universe. The total fund return should, over time, exceed the Policy and Allocation Indices. Returns for the University's managers shall exceed their respective benchmarks, as well as rank in the top half of the appropriate universe of managers adhering to the same investment strategy. (BTM,2001,01-29,004, F)

It is further recognized that the return targets described herein may not be achieved in any single year. Instead, a longer-term horizon of three to seven years shall be used in measuring the long-term success of the Fund. While it is expected that returns will vary over time, the University has a risk tolerance consistent with that of other funds created for similar purposes, and the assets of the Fund shall be invested accordingly. (BTM,2001,01-29,004, F)

3.3.4 Fiscal Affairs Committee

The Fiscal Affairs Committee serves at the discretion of the Board of Trustees and acts on behalf of the Board of Trustees as a fiduciary. (BTM,2001,01-29,004, F)

The Fiscal Affairs Committee is responsible for the total investment program. The Committee shall approve the investment policy and provide overall direction to the administrative staff in the execution of the investment policy. (BTM,2001,01-29,004, F)

The Fiscal Affairs Committee shall review and approve or disapprove investment recommendations not governed by Investment Policy prior to their execution. The Committee may also review and recommend investment policy changes, deletions, or additions. (BTM,2001,01-29,004, F)

3.3.5 Investment Consultant

The Investment Consultant shall assist the Fiscal Affairs Committee in developing and modifying policies, objectives, and guidelines, including the development of a cash flow driven asset allocation strategy and recommendations on the appropriate mix of investment manager styles and strategies. The Consultant shall act as a fiduciary to the Fund. (BTM,2001,01-29,004, F)

Additionally, the Consultant shall provide assistance in manager searches and selection, investment performance calculation, evaluation, and any other relevant analysis. The Consultant shall provide timely information, written and/or oral, on investment strategies, instruments, managers and other related issues, as requested by the Fiscal Affairs Committee. (BTM,2001,01-29,004, F)

3.3.6 Investment Managers

3.3.6.1 Duties and Responsibilities

a) Investing the assets under its management in accordance with this policy. (BTM,2001,01-29,004, F)
b) Meeting or exceeding the manager-specific benchmarks, net of all fees and expenses, expressed herein over various and appropriately measured time periods. (BTM,2001,01-29,004, F)

c) Exercising investment discretion within the constraints of this policy. Such discretion includes decisions to buy, hold or sell securities in amounts and proportions reflective of the manager's current investment strategy and compatible with the investment objectives. (BTM,2001,01-29,004, F)

d) Complying with all provisions pertaining to the investment manager's duties and responsibilities as a fiduciary. Fund assets should be invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent professional investment manager, acting in a like capacity and familiar with such matters, would use in the investment of Fund assets. (BTM,2001,01-29,004, F)

e) Complying with the Association for Investment Management and Research (AIMR) Code of Ethics and Performance Presentation Standards (PPS). (BTM,2001,01-29,004, F)

f) Disclosing all conflicts and potential conflicts of interest including, but not limited to, professional relationships with other University-related entities, personal or professional relationships with board members or executive staff, or memberships or financial interests in companies or entities doing business with the University. (BTM,2001,01-29,004, F)

g) Ensuring that all portfolio transactions are made on a "best execution" basis. (BTM,2001,01-29,004, F)

h) Exercising ownership rights, where applicable, through proxy solicitations, doing so strictly for the economic benefit of the Fund. Documentation regarding the disposition of proxy solicitations shall be provided by the investment managers upon request. (BTM,2001,01-29,004, F)

i) Meeting with the Committee, as needed, upon request of the Committee. Annual reports are to be submitted in writing within forty-five days after the end of each year. (BTM,2001,01-29,004, F)

j) Acknowledging in writing to the Committee the investment manager's intention to comply with this Statement as it currently exists or as modified in the future. (BTM,2001,01-29,004, F)

k) Informing the Committee regarding all significant matters pertaining to the investment of the fund assets no less than five business days after discovery. (BTM,2001,01-29,004, F)

l) Initiating written communication with the Committee when the manager believes that this Investment Policy is inhibiting performance and/or should be altered for any valid reason. No deviation from this policy is permitted until after such communication has occurred and the Committee has approved such deviation in writing. (BTM,2001,01-29,004, F)

m) Reconciling performance, holdings and security pricing data with the Fund's custodian bank. If the Fund's custodian bank shows a different price for a given security, the manager shall submit to the custodian bank's price reconciliation process. (BTM,2001,01-29,004, F)

3.3.6.2 Selection

In order to ensure proper diversification, the Fiscal Affairs Committee shall invest across a broad range of asset classes and shall utilize multiple managers. The diversification strategy shall minimize the risk exposure to any single entity, asset class, or investment strategy. However, it is noted that the administrative and expense burdens on the Endowment rise as the number of
managers employed increases. Therefore, an optimum balance shall be reached that maximizes the diversification benefits to the Fund while minimizing associated expenses. (BTM,2001,01-29,004, F)

The University will not consider the selection of any manager without first setting a target allocation to a particular asset class and determining that a manager is needed to implement that allocation strategy. Moreover, selected management strategies will be consistent with the adopted asset allocation mix. Once the University has determined that a manager search is warranted, it will establish certain minimum criteria for a manager to be considered eligible to be a candidate. (BTM,2001,01-29,004, F)

The University intends that any qualified candidate receives fair consideration. Therefore, the manager selection process will typically take place via a formal Request for Proposal (RFP). The RFP shall be designed to ensure that managers are fairly and completely evaluated using industry best practices. The University shall strive to hire investment managers that offer the greatest incremental benefit to the Fund, net of fees and expenses, in accordance with, but not limited to, the criteria listed below (BTM,2001,01-29,004, F):

a) Length of firm history
b) Length of key professionals' tenure
c) Appropriateness of investment philosophy and process
d) Fit between product and existing plan assets and objectives
e) Absolute and relative returns, and variability of returns
f) Stability of the firm's client-base and assets under management
g) Ownership structure, including capitalization and insurance requirements—minimum two times the value of assets managed
h) Compensation structure
i) Fee structure
j) Record of compliance with all applicable laws and regulations
k) References and professional qualifications

3.3.6.3 Performance Benchmarks

The Policy Index return measures the success of the Fund's target allocation. It shall be calculated by using index rates of return for each asset class invested in by the Fund multiplied by the percent targeted to each asset class. This hypothetical index measures the Plan's structure as defined by the Fiscal Affairs Committee. (BTM,2001,01-29,004, F)

The Allocation Index return measures the success of the Fund's actual allocation. It shall be calculated by using index rates of return for each asset class invested in by the Fund multiplied by the actual percent allocated to each asset class. The difference between the allocation index return and the policy index return measures the effects of deviating from the target allocation. The difference between these two hypothetical indices measures the implementation and management of the Plan. (BTM,2001,01-29,004, F)
The total fund return is the actual return earned by the Fund. It shall be compared to three items. First, it shall be compared to the investment objectives as defined in the Statement of Investment Policy. Second, the difference between the total fund return and the allocation index return measures the effect of active management. Third, the Fund's total return shall be compared against other endowments/foundations. (BTM,2001,01-29,004, F)

The University's investment managers shall be compared to a combination of passively managed index returns matching the managers' specific investment styles, as well as the median manager in their appropriate peer group universe. Specific benchmarks and peer groups are described for each manager in Appendix A of this document. (BTM,2001,01-29,004, F)

3.3.6.4 Reporting Requirements

Managers shall submit the following annually (BTM,2001,01-29,004, F):

a) A summary of policy compliance. (BTM,2001,01-29,004, F)
b) A brief review of investment process. (BTM,2001,01-29,004, F)
c) A discussion of any changes to the investment process. (BTM,2001,01-29,004, F)
d) A summary of investment strategy used over the past year and underlying rationale.
e) An evaluation of strategy's success/disappointments. (BTM,2001,01-29,004, F)
f) A comment on the manager's assessment of the current liquidity of the portfolio and the market(s) in which the portfolio is invested. For managers holding mortgage-backed securities, results of current 'stress' tests on the portfolio, indicating how the manager believes it would respond to interest rate movements. (BTM,2001,01-29,004, F)
g) An annual performance report that (BTM,2001,01-29,004, F):
   (i) Provides total fund and asset class returns for the last quarter, the year-to-date, the last year, three years, five years, and since inception, versus designated benchmarks. All performance data shall be in compliance with AIMR Performance Presentation Standards. (BTM,2001,01-29,004, F)
   (ii) Discusses performance relative to benchmarks. (BTM,2001,01-29,004, F)
   (iii) Provides portfolio characteristics relative to benchmark. (BTM,2001,01-29,004, F)
h) A report to the Committee on their standing policies with respect to ethics and professional practice, within forty-five days of the end of each calendar year (31 December). (BTM,2001,01-29,004, F)
i) A report to the Committee on compliance with the Association of Investment Management and Research (AIMR) Code of Ethics. Managers shall disclose if any Chartered Financial Analyst (CFA) charter holders employed by the firm are disciplined by AIMR. (BTM,2001,01-29,004, F)

Managers must promptly inform the Committee of all significant matters pertaining to the investment of the fund assets, for example (BTM,2001,01-29,004, F):

a) Changes in investment strategy, portfolio structure and market value of managed assets
b) Changes in the ownership affiliations, organizational structure, financial condition, professional personnel staffing and clientele of the investment management organization
c) Any material changes in the liquidity of the securities they hold in the University's portfolio
Managers must disclose to the Committee any deviation from or violation of the investment policy described herein as soon as the manager is aware that the policy has not been fully complied with. The timing, duration, and resolution to any policy violation must be disclosed. (BTM,2001,01-29,004, F)

Managers shall disclose all pertinent information regarding any and all regulatory findings and/or litigation in which they are involved. This information includes (BTM,2001,01-29,004, F):

a) Assets under management and asset growth since inception
b) Any change in process
c) Any change in personnel
d) Any material events since the previous report
e) An independent performance review

3.3.6.5 Evaluation

The University shall monitor and evaluate manager performance using the following resources (BTM,2001,01-29,004, F):

a) Monthly performance reports
b) Quarterly investment performance and portfolio analysis
c) Comprehensive manager reviews once per annum
d) Investment consultant
e) Other analyses as needed

The University's portfolios shall be measured over various and appropriate time periods. A horizon of three to seven years shall be used in measuring the long-term success of the Fund. Shorter time periods shall be evaluated as appropriate and necessary. the University shall make every effort to look at all factors influencing manager performance, and attempt to discern market cyclical from manager over performance or under performance. (BTM,2001,01-29,004, F)

On a timely basis, at least quarterly, the Committee will review actual investment results achieved by each manager (with perspective toward a three to five-year time horizon or a peak-to-peak or trough-to-trough market cycle) to determine whether the investment managers performed satisfactorily when compared with the objectives set in relation to other similarly managed funds. (BTM,2001,01-29,004, F)

The Committee will re-evaluate, from time to time, its progress in achieving the total fund, equity, fixed income, and international equity segments objectives previously outlined. (BTM,2001,01-29,004, F)

The periodic re-evaluation will also involve an assessment of the continued appropriateness of the (BTM,2001,01-29,004, F):

a) Manager structure
b) Allocation of assets among the managers
c) Investment objectives for the University's assets
The Committee may appoint investment consultants to assist in the ongoing evaluation process. The consultant(s) selected by the Committee are expected to be familiar with the investment practices of similar endowments/foundations and will be responsible for suggesting appropriate changes in the University's investment program over time. (BTM,2001,01-29,004, F)

3.3.6.6 Probation

The University's investment managers may be placed on a watch list in response to the Fiscal Affairs Committee's concerns about the managers' recent or long-term investment results, failure of the investment advisor to comply with any of the University's investment policies, significant changes in the investment advisor's firm, anticipated changes in the University's structure, or any other reasons that the Fiscal Affairs Committee deems appropriate. (BTM,2001,01-29,004, F)

3.3.7 Custodian Banks

In order to maximize the University's investment return, no money should be allowed to remain idle. Dividends, interest, proceeds from sales, new contributions and all other monies are to be invested or reinvested promptly. The Custodian(s) will be responsible for performing the following functions (BTM,2001,01-29,004, F):

a) Accepting daily instructions from designated staff
b) Advising designated staff daily of changes in cash equivalent balances
c) Immediately advising designated staff of additions or withdrawals from account
d) Notifying investment managers of proxies, tenders, rights, fractional shares or other dispositions of holdings
e) Resolving any problems that Staff may have relating to the custodial account
f) Safekeeping of securities
g) Collecting interest and dividends
h) Daily cash sweeping of idle principal and income cash balances
i) Processing of all investment manager transactions
j) Collecting proceeds from maturing securities
k) Disbursing of all income or principal cash balances as directed
l) Providing monthly statements by investment managers' accounts and a consolidated statement of all assets
m) Providing a dedicated account representative and backup to assist the University staff in all needs relating to the custody and accountability of the Fund's assets
n) Managing the securities lending program
o) As the Custodian(s), acting as a fiduciary

3.3.8 Asset Allocation

This policy is to be pursued by the University on a long-term basis, but will be reviewed on an annual basis and revised if significant changes occur within the economic and/or capital market environments. A change in spending structure or long-term investment prospects may trigger a revision of the asset allocation. (BTM,2001,01-29,004, F)
Permitted asset classes are as follows (BTM,2001,01-29,004, F):

a) U.S. Large Cap Equity  
b) U.S. Mid Cap Equity  
c) U.S. Small Cap Equity  
d) U.S. Convertible Bonds  
e) U.S. Investment Grade Fixed Income  
f) U.S. High Yield Fixed Income  
g) International Equity  
h) Global Bonds

The target asset mix is as follows (BTM,2001,01-29,004, F):

a) Equities  
   (i) Market Value Target: 58%  
   (ii) Minimum Exposure: 50%  
   (iii) Maximum Exposure: 70%  
b) Domestic Large Cap  
   (i) Market Value Target: 33%  
   (ii) Minimum Exposure: 25%  
   (iii) Maximum Exposure: 60%  
c) Domestic Mid Cap  
   (i) Market Value Target: 5%  
   (ii) Minimum Exposure: 0%  
   (iii) Maximum Exposure: 15%  
d) Domestic Small Cap  
   (i) Market Value Target: 10%  
   (ii) Minimum Exposure: 0%  
   (iii) Maximum Exposure: 15%  
e) International Equity  
   (i) Market Value Target: 10%  
   (ii) Minimum Exposure: 0%  
   (iii) Maximum Exposure: 15%  
f) Convertible Bonds  
   (i) Market Value Target: 8%  
   (ii) Minimum Exposure: 0%  
   (iii) Maximum Exposure: 10%  
g) Fixed Income  
   (i) Market Value Target: 34%  
   (ii) Minimum Exposure: 25%
(iii) Maximum Exposure: 45%

h) Investment Grade Bonds
   (i) Market Value Target: 14%
   (ii) Minimum Exposure: 10%
   (iii) Maximum Exposure: 40%

i) High Yield Bonds
   (i) Market Value Target: 10%
   (ii) Minimum Exposure: 0%
   (iii) Maximum Exposure: 15%

j) Global Bonds
   (i) Market Value Target: 10%
   (ii) Minimum Exposure: 0%
   (iii) Maximum Exposure: 15%

3.3.8.2 Style Allocation

The University shall strive to maintain a neutral bias with respect to style allocation—growth versus value—in its equity investments. The University recognizes that over the long run, returns from growth and value investing tend to approximate each other; over shorter periods, however, differences in returns can be significant. (BTM,2001,01-29,004, F)

3.3.8.3 Rebalancing

The University's Investment Consultant will review the University's asset allocation at least quarterly to determine if the asset allocation is consistent with the exposure ranges established for the University, described herein. (BTM,2001,01-29,004, F)

3.3.8.4 Opportunistic Investments

From time to time, the University may be presented with attractive investment opportunities in such areas as real estate, private equity and debt, hedge funds, etc. Investments in these opportunities may be implemented only with prior written approval from the Fiscal Affairs Committee. (BTM,2001,01-29,004, F)

3.3.9 Portfolio Management

Full discretion, within the parameters of this policy, is granted to the investment managers regarding the selection of securities, and the timing of transactions. (BTM,2001,01-29,004, F)

Compliance with all policies shall be monitored by the investment managers on a regular basis—monthly or more frequently when market conditions warrant—and based on then current market values. Securities that, at purchase, would move the portfolio out of compliance with this policy, based on the investment manager's most recent valuation, may not be purchased. (BTM,2001,01-29,004, F)
In the event that a portfolio moves out of compliance with this policy—as identified in the investment manager's regular review of the portfolio—through market conditions or other changes outside the control of the manager, the manager shall notify in writing the University Fiscal Affairs Committee immediately. The manager shall state the nature of the violation, potential remedies, or a petition that a compliance waiver be granted. (BTM,2001,01-29,004, F)

3.3.9.1 Monitoring and Verification

Certain portfolio management rules lend themselves to straightforward manager compliance monitoring. Where monitoring is possible using monthly holdings and transaction information provided by the Fund's Custodian Bank, the Consultant shall be responsible for alerting the Fiscal Affairs Committee if a manager is out of compliance. (BTM,2001,01-29,004, F)

Portfolio management rules that do not lend themselves to straightforward manager compliance monitoring shall rely on manager-supplied attestations of compliance. (BTM,2001,01-29,004, F)

3.3.9.2 General Portfolio Management Rules

The following rules are to be adhered to, unless prior approval from the Committee has been granted (BTM,2001,01-29,004, F):

a) There shall be no use of options, commodities, limited partnerships, or financial futures without the prior approval of the Committee. (BTM,2001,01-29,004, F)

b) Uncovered options or futures contracts may not be purchased. (BTM,2001,01-29,004, F)

c) Uncovered short positions may not be purchased. (BTM,2001,01-29,004, F)

d) Short selling is not permitted. (BTM,2001,01-29,004, F)

e) There shall be no use of financial leverage. (BTM,2001,01-29,004, F)

3.3.9.3 Derivatives Rules

Derivative financial instruments are not allowed to be purchased by the University's asset managers without prior approval of the Committee. Exceptions to this are as follows: international managers can use forward currency contracts to defensively protect their international holdings from currency fluctuations. (BTM,2001,01-29,004, F)

3.3.9.4 Domestic Active Equity Portfolio Rules

The rules listed below shall apply to all actively managed domestic equity portfolios, unless otherwise specifically noted (BTM,2001,01-29,004, F):

a) Domestic equity purchases are limited to publicly traded common stocks. Exceptions shall be approved by the Committee in advance. (BTM,2001,01-29,004, F)

b) No single holding shall account for more than 6% of the allowable equity portion of the portfolio at market value. (BTM,2001,01-29,004, F)

c) The University's domestic equity portfolios are expected to be fully invested. No more than ten percent of a manager's domestic equity portfolio may consist of cash or cash equivalents. (BTM,2001,01-29,004, F)
d) No single holding in the University's portfolio shall account for more than five percent of the outstanding common stock of any one corporation. Additionally, no single holding across all actively managed portfolios of an investment management firm shall account for more than fifteen percent of the outstanding common stock of any one corporation. (BTM,2001,01-29,004, F)

e) The purchase of stocks or convertibles in foreign companies (ADRs) that are traded on exchanges based in the United States, may be held by each domestic stock manager in proportions that each manager shall deem appropriate, up to ten percent of the portfolio at market value. (BTM,2001,01-29,004, F)

f) Convertible bonds, convertible preferred stocks, warrants and rights may be purchased as equity substitutes so long as they meet the equity standards in this policy. (BTM,2001,01-29,004, F)

3.3.9.5 International Equity Portfolio Rules

The rules listed below shall apply to all international equity portfolios, unless otherwise specifically noted (BTM,2001,01-29,004, F):

a) Short-term reserves may be held in U.S. dollar denominated, local currency securities, or investment vehicles available through the University's custodian. While ADRs are acceptable for inclusion, the intent of the dedicated international equity allocation is to gain exposure to the various international local markets. (BTM,2001,01-29,004, F)

b) Managers may purchase or sell currency on a spot basis to accommodate securities settlements. (BTM,2001,01-29,004, F)

c) Managers may enter into forward exchange contracts on major currencies only (no exotics) provided that use of such contracts is designed to dampen portfolio volatility or to facilitate the settlement of securities transactions. (BTM,2001,01-29,004, F)

d) The University's international equity portfolios are expected to be fully invested. No more than ten percent of a manager's international equity portfolio may consist of cash or cash equivalents. (BTM,2001,01-29,004, F)

e) Equity securities should be issued by non-US corporations, although the manager has latitude to hold U.S. securities provided that such investment is consistent with the attainment of the portfolio's investment objectives, and does not exceed ten percent of the portfolio's market value. (BTM,2001,01-29,004, F)

f) The number of issues held, and their geographic or industry distribution, shall be left to the investment manager provided that equity holdings in any one company (including common stock and convertible securities) do not exceed six percent of the market value of the manager's portion of the University's portfolio. (BTM,2001,01-29,004, F)

g) Managers with established international equity mandates may invest up to ten percent of their portfolio(s) in the emerging markets. (BTM,2001,01-29,004, F)

3.3.9.6 Domestic Fixed Income Portfolio Rules

The rules listed below shall apply to all domestic fixed income portfolios, unless otherwise specifically noted (BTM,2001,01-29,004, F):
a) Domestic fixed income investments may include U.S. Government and Federal Agency obligations, corporate bonds, debentures, commercial paper, certificates of deposit, Yankee bonds, mortgage-backed securities and other domestically issued fixed income instruments deemed prudent by the investment managers. (BTM,2001,01-29,004, F)

b) No more than six percent of the market value of the University's domestic fixed income assets may be invested in the debt securities of any one issuer. No limitations on issues and issuers shall apply to obligations of U.S. Government and Federal Agencies. (BTM,2001,01-29,004, F)

c) The overall average quality of each fixed income portfolio shall be rated AA or higher by Standard and Poor's. Split-rated securities will be measured using Standard and Poor's ratings. Non-rated issues or issues below investment grade—below BBB—may be purchased up to a maximum of fifteen percent of the portfolio. These quality restrictions will not apply to a manager that is hired by the University to manage dedicated high yield fixed income portfolios. (BTM,2001,01-29,004, F)

d) The diversification of securities by maturity, quality, sector, coupon and geography is the responsibility of the manager. Active bond management is encouraged, as deemed appropriate by the investment managers. (BTM,2001,01-29,004, F)

e) The average duration (interest rate sensitivity) of an actively managed portfolio shall not differ from the passive benchmark's duration by more than twenty percent. (BTM,2001,01-29,004, F)

f) Any mortgage-backed securities (MBS) shall be subject to the constraints listed below (BTM,2001,01-29,004, F):

   (i) Agency fixed and floating rate pass-throughs, U.S. Treasury securities and cash equivalents can be held without limitation. (BTM,2001,01-29,004, F)

   (ii) Fixed rate PAC 1, PAC 11 and Sequential Collateralized Mortgage Obligations can be held without limitation. (BTM,2001,01-29,004, F)

   (iii) Inverse floating rate, interest only (I/O), principal only (P/O), and accrual CMOs in aggregate will be limited to fifteen percent of the mortgage securities portfolio, with no more than five percent of the portfolio invested in accrual CMOs. In the event that other types of mortgage-related securities that have risk characteristics similar to those in this category are developed, the manager will inform the Fiscal Affairs Committee of those securities and they will be included in this fifteen percent limitation. (BTM,2001,01-29,004, F)

   (iv) All other types of mortgage-related securities not explicitly cited herein will be limited to an aggregate twenty percent of the portfolio. (BTM,2001,01-29,004, F)

   (v) The manager must receive at least two competitive offers on the same or similar securities prior to purchasing each mortgage-backed security for the portfolio. (BTM,2001,01-29,004, F)

   (vi) The University recognizes that the calculation of the duration of a mortgage-backed security involves assumptions as to the expected future prepayment rate for the security at the time of calculation and that prepayment rates cannot be precisely determined in advance. The manager is expected to calculate expected duration prior to the initial purchase of a security and on a routine basis in monitoring the portfolio's compliance with this policy. (BTM,2001,01-29,004, F)
3.3.9.7 High Yield Fixed Income Portfolio Rules

The fixed income rules previously described shall apply to high yield fixed income managers, unless otherwise specifically noted. High yield fixed income managers may invest up to ten percent of their portfolios in emerging markets fixed income securities. (BTM,2001,01-29,004, F)

3.3.9.8 Global Fixed Income Portfolio Rules

The rules listed below shall apply to all global fixed income portfolios, unless otherwise specifically noted (BTM,2001,01-29,004, F):

a) The global bond portfolio may hold no more than thirty percent of its assets, at market value, in the debt securities of any single foreign government or non-US government entity. No single non-government debt security shall constitute more than six percent of the global bond portfolio, at market value. Securities issued by AAA-Rated Supranational Organizations (such as the World Bank) shall be considered to be government equivalents. (BTM,2001,01-29,004, F)

b) Short-term reserves may be held in U.S. dollar denominated or local currency securities or investment vehicles available through the University's custodian. (BTM,2001,01-29,004, F)

c) Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility rather than lever portfolio risk exposure. Currency contracts may be utilized to either hedge the portfolios currency risk exposure or in the settlement of securities transactions. (BTM,2001,01-29,004, F)

d) Managers may purchase or sell currency on a spot basis to accommodate securities settlements. (BTM,2001,01-29,004, F)

e) Decisions as to the number of issues held and their geographic distribution shall be the responsibility of the investment manager. (BTM,2001,01-29,004, F)

f) The overall average quality of each global fixed income portfolio shall be AA or higher. Non-rated issues may be purchased provided that, in the judgment of the manager, they are of a quality sufficient to maintain the average overall portfolio quality of AA or higher. Issues below investment grade (below BBB) may be purchased up to a maximum of fifteen percent of the portfolio. (BTM,2001,01-29,004, F)

g) The average duration (interest rate sensitivity) of a global fixed income portfolio shall not differ from the passive benchmark by more than twenty percent. (BTM,2001,01-29,004, F)

3.3.10 Pooling of Funds

The endowment funds of various colleges shall be pooled for investment purposes into one fund insofar as this is possible in view of the restrictions on certain funds. This pooling is based on the market value at the time of the merging of the funds, and future funds that accrue shall be credited at the prevailing market value. (BTM,1961,06-19,002, )

3.3.11 Investment Authorizations

The senior colleges, community colleges and Central Office are authorized to invest funds in the Common Fund for Short Term Investments. (BTM,1980,12-22,001, )