



## MEMORANDUM

**Date:** July 18, 2023

**To:** Business Affairs Committee of UNCW Board of Trustees

**From:** Miles Lackey, Vice Chancellor for Business Affairs

**Re:** Requesting Approval of Investment Policy for Institutional Trust Funds

**Bottom-line:** UNC Wilmington is requesting Board of Trustees approval of the attached Investment Policy for Institutional Trust Funds.

**Background:** Adoption of the policy is necessary for the University to be permitted to invest a portion of the University's eligible cash<sup>1</sup> into short-term U.S. Treasuries and Bank Certificates of Deposit. We anticipate this flexibility will enable the University to achieve greater investment returns (relative to those provided through the State Treasurer's Short Term Investment Fund), while continuing to invest in securities that are highly liquid and of the highest credit quality. In addition, the aforementioned authority will enable the University to better align its investment strategies with planned cash needs.

### **Next Steps:**

- Board of Trustees consideration of the Investment Policy for Institutional Trust Funds.
- If approved, Chancellor requests delegated authority from the President of the UNC System and/or from his designee.
- If approved, the investments contemplated as part of the Investment Policy will commence in FY24.
- The policy will be reviewed by management on a regular basis and a report will be prepared for the Board of Trustees annually that provides investment results and recommendations for any potential updates to the policy.

### **Attachments:**

- **Attachment #1:** Investment Policy for Institutional Trust Funds

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<sup>1</sup> Eligible cash refers to "Institutional Trust Funds," which are primarily derived from fee revenues and auxiliary operations. As of 6/30/23, UNCW's eligible Institutional Trust Fund balance was \$191.5 million. State appropriations, tuition, and capital funds are excluded from the Institutional Trust Fund balance calculation.

|                             |  |
|-----------------------------|--|
| <b>Proposed Policy:</b>     | <b>Investment Policy for Institutional Trust Funds</b>     |
| <b>Authority:</b>           | <b>Chancellor and the Board of Trustees</b>                |
| <b>History:</b>             | <b>None</b>  |
| <b>Source of Authority:</b> | <b>N.C. General Statute 116-36.1, UNC Policy 600.2.4.1</b> |
| <b>Responsible Office:</b>  | <b>Vice Chancellor for Business Affairs</b>                |

## **I. Purpose**

N.C. General Statute 116-36.1 authorizes the Board of Governors of the University of North Carolina ("UNC") to adopt uniform policies and procedures applicable to the deposit, investment, and administration of institutional trust funds and to delegate such authority through the President to the constituent institutions. Through UNC policy "600.2.4.1: Delegated Authority for Managing Institutional Trust Funds," upon request by the Chancellor, the President may delegate authority to the Chancellor of a constituent institution to deposit, invest, and administer institutional trust funds consistent with N.C. General Statute 116-36.1.

The purpose of this policy is to provide guidelines for the investment of Institutional Trust Funds of the University of North Carolina at Wilmington's ("UNCW" or "the University").

This policy will delegate management responsibility for the execution of this investment policy; establish overall portfolio goals and objectives; identify applicable benchmarks, and identify permitted investment securities/funds along with applicable investment limits.

## **II. Scope**

This policy applies to the University's Institutional Trust Funds only (i.e. funds generated by fees, auxiliary receipts, and overhead receipts). It does not apply to any General funds.

## **III. Roles and Responsibilities**

Authority to manage the investment program in accordance with this investment policy is granted to the University's Vice Chancellor for Business Affairs, who shall act and may further delegate the authority to execute and manage investments in accordance with any procedures and internal controls for the operation of the investment program consistent with this investment policy.

## **IV. Policy**

### **A. Philosophy**

The University and its associated entities rely on operating cash to fund operations, pay debt service, and build rainy day funds. Therefore, an investment program for operating funds must rely on prudent, conservative methods of preserving cash while generating supplemental returns. In this investment policy we seek to maintain the highest credit quality

instruments, while limiting duration, sector, and counterparty risk. Limiting duration helps to reduce interest rate risk – the likelihood that movements in interest rates will affect the net asset value of investments in the program. While a substantial portion of UNCW's operating cash will remain invested with the NC Short-Term Investment Fund (STIF) managed by the State Treasurer, there may be opportunities to generate additional income for UNCW (with minimal to no additional risk being incurred by the University).

#### **B. Goals and Objectives**

- To earn rates of return that consistently exceed the returns of applicable benchmark(s) and generate supplemental resources for the University.
- To provide liquidity for University operating and capital needs.

#### **C. Benchmark**

- Rate of return on the NC Short-Term Investment Fund managed by the State Treasurer.

#### **D. Permitted Investments and Applicable Limits**

Permitted investments and applicable limitations are outlined in the following chart:

| <b>Investment Type</b>   | <b>Individual Investment / Placement Limit</b>   | <b>Exposure Threshold</b>                                   | <b>Quality</b>                           | <b>Maximum Limit / Reset Period</b> |
|--|--|---|--|-------------------------------------|
| U.S. Treasury Bills, Notes, and Bonds  | May not exceed overall sector exposure threshold | Combined (may not exceed 50% of Institutional Trust Funds)* | Full Faith & Credit of the United States | Up to 24 months                     |
| Bank Certificates of Deposit   | Under FDIC insurance limit                       |   | FDIC Insured                             | Up to 24 months                     |
| NC Short-Term Investment Fund (STIF)   | None   | None  | NA                                       | NA                                  |
| <i>*As a percentage of the total balance of all "Institutional Trust and Special Funds."</i> |  |   |  |                                     |

#### **E. Custody**

All investment securities and funds managed by external parties will be held in the name of the University by an independent third-party custodian selected by the University.

#### **F. Reports and Updates**

This policy will be reviewed on a regular basis and a report will be prepared for the Board of Trustees annually that provides investment results and recommendations for any potential updates to the policy.

### **V. Compliance and Enforcement**

The Division of Business Affairs will enforce and administer this policy in accordance with

the N. C. General Statutes. The policy administrator is the Vice Chancellor for Business Affairs.

**VI. Contacts for Additional Information and Reporting**

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