Title of the Policy: Armstrong Investment Policy

**Functional Area:** Business and Finance

**Applies To:** All Faculty and Staff

**Policy Reference(s):** Georgia Code 50-17-2
http://www.legis.state.ga.us/cgi-bin/gl_codes_detail.pl?code=50-17-2
Georgia Code 50-17-63
http://www.legis.state.ga.us/cgi-bin/gl_codes_detail.pl?code=50-17-63

**Number:** N/A

**Date Issued:** Updated: December 2012

**Page(s):** 7

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**Responsible Person**

The Vice President for Business and Finance is responsible for maintenance of this policy, and for responding to questions posed regarding this policy.

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**Purpose / Rationale**

The purpose of this policy is to ensure that Armstrong investments are in compliance with the laws of the State of Georgia and are prudently managed in support of the University's primary missions.

**Revision Date:** December 2012

**Objectives:**
When investing Armstrong funds, the primary objective shall be to safeguard the principal. The secondary objective shall be to meet the liquidity needs of the campus. The third objective shall be to return an acceptable yield while minimizing risk and retaining liquidity.

**Discussion:**
The Investment Policy provides the guiding principles for Armstrong to effectively supervise, monitor and evaluate the investment of its financial assets to optimize returns within appropriate risk parameters. The investment program is defined in the various sections of the policy by:
- Articulating the legal requirements within which the assets may be invested.
- Providing guidelines for each investment portfolio in order to control the level of overall risk assumed.
- Establishing the benchmarks/criteria from which to monitor, evaluate and compare the performance results achieved by the investment managers.
- Serving as a review document to guide the ongoing oversight of Armstrong’s investments.
- Demonstrating that Armstrong is fulfilling its fiduciary responsibilities in the management of these investments.
- Maintaining a prudent investor profile consistent with the statutory requirements of the State of GA.

Definitions

N/A

Policy

The University participates in Pooled Investment fund programs that are available to Armstrong through the Office of the State Treasurer and the Board of Regents of the University System of Georgia (BOR). The characteristics and investment objectives of the six types of pooled funds are detailed below.

Georgia Fund 1
Georgia Fund 1 is the combined state general fund and local government investment pool managed by the Office of the State Treasurer. Georgia Fund 1 is a money market fund rated AAA by Standard & Poor's. Georgia Fund 1 is managed in a manner consistent with Rule 2a-7 (of the Investment Company Act of 1940) like funds. The rule places restrictions on the average maturity of a fund's portfolio (ninety days or less), on the proportion of its securities holdings with less than the highest rating (no more than 5 percent of assets), and on the concentration of the fund's assets in the securities of any single issuer (no more than 5 percent of assets). Typically surplus operating funds may be invested in the Georgia Fund 1 investment pool for periods of up to three months.

Short Term Fund
The Short Term investment fund, available through the BOR, provides a current return and stability of principal while affording a means of overnight liquidity for projected cash needs. The investment maturities in this fund will range between daily and three (3) years. Typically surplus operating funds and auxiliary, athletic and student account funds will be invested in the Short-term fund when funds are not anticipated to be needed for three or more months.
Investment Objectives:
- The primary investment objective shall be preservation of principal.
- The secondary investment objective shall be to provide a competitive return on the short term funds while providing for periodic cash needs.
- The overall character of the portfolio shall be of U.S. treasury and agency quality, and holdings shall be well diversified as to issuer and maturity.
- It is anticipated that liquidity needs generally will be met through maturities, portfolio structure, and interest income.

General Investment Guidelines:
- The investments shall be in conformity with donor intent, Regents policy and applicable federal and state laws.
- The investment manager is authorized to make investment changes as deemed necessary and in accordance with the objectives and guidelines set forth in this document on a discretionary basis.
- The investment manager will meet as necessary, but at least once a year, with the Board of Regents to review investment strategies and investment objectives.
- Investments shall be limited to fixed income securities that are eligible investments under Georgia Code 50-17-63.
- The investment manager shall prepare investment performance results on a quarterly basis. Results will be compared against the Money Net All Taxable Index and the Georgia Fund (LGIP Pool).
Specific Investment Guidelines:
The average maturity (average life) of the portfolio shall not exceed two (2) years.
- The maturity (average life) of any individual holding shall not exceed three (3) years.
- Adequate liquidity will be maintained to meet the forecasted working capital requirements of the fund participants.
- For purposes of determining maturities, the next Reset Date will be used for floating rate securities, the Put Date for putable securities, the Call Date for securities trading on a yield-to-call basis, and the average life on securities with periodic principal payments prior to maturity such as mortgage backed securities and asset backed securities.

Legal Fund
The Legal fund, available through the BOR, provides an opportunity for greater income and modest principal growth to the extent possible with the securities allowed under Georgia Code sections 50-17-59 and 50-17-63. The average maturity of in this fund will typically range between five (5) and ten (10) years, with a maximum maturity of thirty (30) years for any individual investment. Typically auxiliary, athletic, and student account funds not anticipated to be spent in the near future will be invested here.

Investment Objectives:
- The overall character of the portfolio should be one of treasury and agency quality, possessing virtually no degree of financial risk.
- The investment objective shall be to preserve principal and generate competitive fixed income returns.
- The portfolio will be measured against the Lehman U.S. Government Index.

General Investment Guidelines:
- The investments shall be in conformity with donor intent, Regents policy and applicable federal and state laws.
- The investment manager will give frequent and active attention to the fund to develop and implement strategy.
- The investment manager is authorized to make investment changes as deemed necessary and in accordance with the objectives and guidelines set forth in this document on a discretionary basis.
- The investment manager will meet as necessary, but at least once a year, with the Board of Regents to review investment strategies and investment objectives.

Specific Investment Guidelines:
- The portfolio shall have the following characteristics:
- The maximum maturity of an individual investment will be thirty (30) years.
- Maturities should generally be of intermediate to longer term length, but may emphasize shorter or longer maturities, depending on yield differentials.
- The average maturity of the portfolio shall not exceed ten (10) years.

Balanced Income Fund
The Balanced income fund, available through the BOR, is designed to be a vehicle to invest funds that are not subject to state regulations concerning investing in equities. This fund is comprised of fixed income, equity, and cash equivalent instruments. Typically endowment funds will be invested here.

Investment Objectives:
- The overall character of the portfolio should be one of above-average quality, possessing, at most, an average degree of investment risk.
- The investment objective shall be to seek a reasonable and meaningful total rate of return with emphasis on current income.
- For comparative purposes, the stock portion of the portfolio will be reviewed over a full market cycle relative to the results achieved by the Standard & Poor's 500 Index and the Lipper Large Cap Core Average.
The bond portion of the portfolio will be measured against the Lehman Aggregate Index.

General Investment Guidelines:
- The investment manager will give frequent and active attention to the fund to develop and implement strategy.
- The investment manager is authorized to make investment changes as deemed necessary and in accordance with the objectives and guidelines set forth in this document on a discretionary basis.
- The investment manager will meet as necessary, but at least once a year, with the Board of Regents to review investment strategies and investment objectives.

Specific Investment Guidelines:
- The equity allocation range shall be between 30%-40%, with a target of 35% of the total portfolio, and shall have the following characteristics:
  - High overall quality.
  - Reasonable diversification.
  - Companies with a history of consistent or growing earnings and/or dividends.
  - Prospects of future earnings and/or dividend increases.
  - Strong or improving financial position.

Note: Foreign common stocks that fulfill the above criteria are eligible investments, as long as they are listed or have American depositary receipts (ADRs).
- The fixed income (bond) portion of the portfolio shall be between 60%-70%, with a target of 65% of the total portfolio, and shall have the following characteristics:
- All issues must be investment grade at the time of purchase and be eligible investments under Georgia Code 50-17-63.
- Well diversified as to issuer and maturity.
- Maturities should generally be of intermediate to longer term length, but may emphasize shorter or longer maturities, depending on yield differentials.
- The maximum maturity of any individual issue shall not exceed thirty (30) years at the time of purchase.
- The average maturity of the portfolio shall not exceed ten (10) years.
- Reserves for contingencies and stock and bond purchases are expected to comprise the balance of the fund:
  - Reserves and excess income should be invested at all times in practical amounts.
  - Reserves can be invested in high quality institutional money market mutual funds or other high quality short term instruments.

Total Return Fund
The Total Return fund, available through the BOR, is another pool designed to be a vehicle to invest funds that are not subject to state regulations concerning investing in equities. This pool offers the greatest percentage of overall equity exposure, with well over half of the funds typically invested in equities. Typically endowment funds will be invested here.

Investment Objectives:
- The overall character of the portfolio should be one of above-average quality, possessing, at most, a moderate degree of investment risk.
- The investment objective shall be to seek a reasonable and meaningful total rate of return with an emphasis on capital appreciation.
- For comparative purposes, the stock portion of the portfolio will be reviewed over a full market cycle relative to the results achieved by the Standard & Poor’s 500 Index and the Lipper Large Cap Core Average.
- The bond portion of the portfolio will be measured against the Lehman Aggregate Index.
General Investment Guidelines:
- The investment manager will give frequent and active attention to the fund to develop and implement strategy.
- The investment manager is authorized to make investment changes as deemed necessary and in accordance with the objectives and guidelines set forth in this document on a discretionary basis.
- The investment manager will meet as necessary, but at least once a year, with the Board of Regents to review investment strategies and investment objectives.

Specific Investment Guidelines:
- The equity allocation range shall be between 60%-70%, with a target of 65% of the total portfolio, and shall have the following characteristics:
  - High overall quality
  - Reasonable diversification
  - Companies with a history of consistent or growing earnings and/or dividends
  - Prospects of future earnings and/or dividend increases
  - Strong or improving financial position
  - Note: Foreign common stocks that fulfill the above criteria are eligible investments, as long as they are listed or have ADRs.
- The fixed income (bond) portion of the portfolio shall be between 30%-40%, with a target of 35% of the total portfolio, and shall have the following characteristics:
  - All issues must be investment grade at the time of purchase and be eligible investments under Georgia Code 50-17-63.
  - Well diversified as to issuer and maturity
  - Maturities should generally be of intermediate to longer term length, but may emphasize shorter or longer maturities, depending on yield differentials.
  - The maximum maturity of any individual issue shall not exceed thirty (30) years at the time of purchase.
  - The average maturity of the portfolio shall not exceed ten (10) years.
  - Reserves for contingencies and stock and bond purchases are expected to comprise the balance of the fund.
  - Reserves and excess income should be invested at all times in practical amounts.
  - Reserves can be invested in high quality institutional money market mutual funds or other high quality short term instruments.

Diversified Fund
The Diversified fund is designed to gain further diversification and increase exposure to assets that have lower correlation to equity and bond markets by utilizing alternative asset classes. In addition, this fund is constructed to build an optimal portfolio where return is increased and risk is reduced.

Investment Objectives:
- The overall character of the portfolio should be one of above-average quality, possessing, at most, a moderate degree of investment risk.
- The investment objective shall be to seek a reasonable and meaningful total rate of return with emphasis on capital appreciation.
- For comparative purposes, the stock portion of the portfolio will be reviewed over a full market cycle relative to the results achieved by the Standard & Poor's 500 Index.
- The bond portion of the portfolio will be measured against the Lehman Aggregate Index.

General Investment Guidelines:
- The investment manager will give frequent and active attention to the fund to develop and implement strategy.
- The investment manager is authorized to make investment changes as deemed necessary and in
accordance with the objectives and guidelines set forth in this document on a discretionary basis.

- The investment manager will meet as necessary, but at least once a year, with the Board of Regents to review investment strategies and investment objectives.

Specific Investment Guidelines:
- The equity allocation range shall be between 50%-75%, and shall have the following characteristics:
  - Broad diversification among large, mid, and small cap stocks, including value and growth equity styles.
  - Growth equity style stocks should be from companies with:
    - High overall quality.
    - A history of consistent or growing earnings and/or dividends.
    - Prospects of future earnings and/or dividend increases.
    - Strong or improving financial position.

Note: Foreign common stocks that fulfill the above criteria are eligible investments, as long as they are listed or have ADRs.
- The fixed income (bond) portion of the portfolio shall be between 20%-40%, and shall have the following characteristics:
  - Allowable issues include investment grade, high yield, and non-dollar denominated debt.
  - Well diversified as to issuer and maturity.
  - Maturities should generally be of intermediate to longer term length, but may emphasize shorter or longer maturities, depending on yield differentials.
  - The maximum maturity of any individual issue shall not exceed thirty (30) years at the time of purchase.
- The average maturity of the portfolio shall not exceed ten (10) years.
- Hedge Funds. The investment approach to this asset class is to use a multi-strategy, multi-manager fund of hedge funds. A fund of funds strategy will provide the best access to a highly diversified pool of hedge fund strategies and managers. Absolute returns are sought by investing in a fund of funds manager. The specific portfolio characteristics should approximate:
  - 4-6% volatility.
  - Beta to the Standard & Poor’s 500 Index < 0.25.
  - 8% worst expected decline from peak to trough.
  - Consistent monthly returns.
  - Expected return of 5% above LIBOR net of fees over a rolling three (3) year time period.
  - Real Estate. The approach for investing in this asset class is to use real estate investment trusts (REITs). REITs are more liquid than owning commercial real estate, and diversification can be achieved by purchasing a mutual fund. The objectives for investing in real estate are:
    - Diversification, having lower correlation with major asset classes such as stocks and bonds.
    - Return characteristics of steady income, high single-digit returns with lower volatility within a total portfolio context.
  - Venture Capital/Private Equity/Post Venture Capital. This asset class is the riskiest and most volatile permitted investment opportunity. This asset should be considered as an additional diversification investment strategy due to the low correlation with stocks and bonds.
  - Reserves for contingencies and stock and bond purchases are expected to comprise the balance of the fund.
  - Reserves and excess income should be invested at all times in practical amounts.
  - Reserves can be invested in high quality institutional money market mutual funds or other high quality short term instruments.
Related Procedures

The President and Vice President for Business & Finance may authorize investments based on the recommendation of Financial Services. Financial Services will execute the investments based on written authorization.