

 <p>UNIVERSITY OF DENVER</p>	UNIVERSITY OF DENVER POLICY MANUAL WORKING CAPITAL POLICY	
<p><u>Responsible Department:</u> Controller's Office <u>Recommended By:</u> G. Kvistad, C. Woody <u>Approved By:</u> Chancellor Coombe</p>	<p>Policy Number 2.20.040</p>	<p>Effective Date: June 1, 2011</p>

1 INTRODUCTION

Working capital or operating cash is defined as funds that are managed outside of the endowment investments. These funds are: net from operations, unexpended gift funds, unexpended endowment spending allocations, designated funds, plant funds and all other sources other than endowment gifts and investment returns. The purpose of this policy is to bring a formal and disciplined approach to the management of these cash assets.

2 INVESTMENT OBJECTIVES

Operating cash assets will be managed to achieve a targeted rate of return while recognizing the liquidity needs for operating and capital expenditures. These funds are required for operating and capital needs; hence the investment risk exposure should be appropriate to preserve the principal of the investments.

3 PORTFOLIO STRUCTURE

The policy portfolio will be segmented into four levels of liquidity representing the expected time horizons of cash flow needs and investment asset allocation.

Tier I (A&B) (Operating Cash) – Tier I is invested in money market securities and the corporate banking demand deposit account (DDA). These funds are designed to meet short term working capital requirements and are conservatively managed and regulated to ensure capital preservation and liquidity at all times.

Tier II (Short-term Reserves) – Tier II is invested in limited duration securities to provide for a sufficient level of reserves in case of unanticipated liquidity needs; yet provide for a level of incremental return over Tier I.

Tier III (Reserves) – Tier III funds are invested for additional return and duration. Funds are not expected to be spent for over 12 months. Funds are used for excess liquidity and long-term spending needs.

Tier IV (Strategic) – Tier IV funds are not anticipated to be liquidated in the short term and therefore invested in a longer term horizon. The objective is to grow cash balance over the long term.

Operating cash flows fluctuate throughout the year with upward spikes at the beginning of each academic term and more negative net flows during the summer months as deposits decline. Therefore, the four liquidity segments will operate within a range of allocation depending on projected net cash flows. The segments can range as follows:

<u>Segment</u>	<u>Range</u>	<u>Benchmark</u>
Operating Cash	0%-25%	Citigroup 3-mo Treasury Bill Index/DDA Earned credit rate
Short Term Reserves	5%-15%	Citigroup 3-mo Treasury Bill Index
Reserves	25%-45%	BofA Merrill Lynch 1-3 US Treasury Index
Strategic	20%-35%	Barclays Capital Intermediate Government/Credit Index

4 INVESTMENT GUIDELINES

The portfolio shall consist of investment products or securities that are appropriate for each liquidity segment given the risk exposure and liquidity needs. The following is a list of appropriate investments which may be modified within the risk guidelines:

U.S. Treasury securities	High Yield
Securities of agencies of the Federal Government	Cash Equivalents including Commercial Paper, CD's, Repurchase Agreements
Investment grade corporate securities	Non-US Developed and Emerging Markets
Bank Certificates of Deposit	
Money Market Mutual Funds	

Investment in the University's endowment investment is permissible subject to the Board of Trustee's approval and upon the creation of a 5th Tier.

The University may utilize the advice and services of investment managers, fund managers, banks and brokers as appropriate to accomplish the investment objectives.

5 RISK EXPOSURE

The underlying portfolio investments will attempt to match the appropriate risk characteristics and volatility commensurate with the benchmarks. Risk/return models will be evaluated taking into account the tiered liquidity allocation.

6 INVESTMENT MONITORING

The Controller's Office staff is responsible for daily monitoring of cash needs as analyzed from bank reports. Appropriate levels of cash will be transferred to or from the liquidity or contingent segments. The Advisor will consult with the staff and provide analysis of investment levels and recommend funding changes to the various investment products to meet the liquidity and investment objectives. Performance, allocation, and duration will be reported against the benchmarks per the attached monthly report sample. The policy will be reviewed by the Investment Committee of the Board of Trustees with the University administration in conjunction with Advisor consultants on at least an annual basis.