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|  <b>UNIVERSITY of DENVER</b>   | <b>UNIVERSITY OF DENVER<br/>POLICY MANUAL<br/>WORKING CAPITAL</b> |  |  |
| <b><u>Responsible Department:</u></b> Business and Financial Affairs<br><b><u>Recommended By:</u></b> SVC Business and Financial Affairs, Controller, and Provost<br><b><u>Approved By:</u></b> Board of Trustees | <b><u>Policy Number</u></b><br>FINA 2.20.040                      | <b><u>Effective Date</u></b><br>10/15/2021 |  |

## I. INTRODUCTION

Working capital, or operating funds, are defined as funds that are managed separately from investments of endowment, bond funds, and funds held by others. "Operating Funds" result from positive unrestricted operations, transfers to gainsharing and other designated funds, unexpended gift funds, unexpended endowment spending distributions, additions to plant funds, and all other sources other than activity within the endowment, bond funds and funds held by others.

Operating Funds are the primary source of liquidity of the University. Operating funds include reserves and can provide working capital to fund operations, strategic plans, or capital initiatives. Lastly, operating funds provide a buffer for endowment volatility or operating deficits. A line of credit or other short-term facility may be utilized by the University for liquidity if deemed appropriate by management, recommended by the Finance and Budget Committee, and approved by the Board of Trustees. The dollar amount of the line of credit or other short-term facility shall count toward the Days Cash on Hand metric as used by the University to measure liquidity.

Liquidity requirements are a function of uncertainties in assumptions in annual operating and capital budgets and access to balance sheet reserves, whether planned or by necessity. However, within the Higher Education sector, inflows and outflows of cash throughout the year are reasonably predictable, supporting the premise to strategically invest Operating Funds to bolster investment returns.

## II. POLICY OVERVIEW

### A. Objectives

The University's primary objectives in investment of Operating Funds are capital preservation and liquidity. Maximization of yield is important, but a secondary objective.

## **B. Credit Standards – Permitted Investments**

Operating Funds will be invested in securities that in aggregate have a minimum average portfolio quality of A-. Not more than 10% of the funds invested can be below investment grade. "Permitted Investments" include the following:

1. Money Market Instruments
2. Government and Agency Securities
3. Supranational Obligations (such as the International Bank for Reconstruction and Development)
4. Municipal Bonds
5. Variable and Floating-Rate Debt Securities
6. Corporate Securities
7. Private Placements (Including 144As)
8. Event-linked Bonds
9. Bank Loans
10. Yankee and Euro Bonds
11. Mortgage-Backed Securities (including CMOs and REMICs)
12. Mortgage Derivatives
13. Asset-Backed Securities
14. Preferred Stock
15. Convertible Securities
16. Non-U.S. Dollar-denominated Securities
17. Emerging Market Securities
18. Non-Leveraged Structured Notes
19. Futures and Forwards (Including Exchange Traded Swaps Futures)
20. Currencies
21. Options, Caps and Floors
22. Swaps
23. Credit Default Swaps (Long and Short)

## **C. Portfolio Diversification**

Investments held in the Operating Funds portfolio will be diversified to minimize risk of loss resulting from the concentration of investments of a specific maturity, issuer, fund, or class of securities. No more than 10% of the portfolio will be invested in any single security.

## **D. Duration**

Maturities for individual investments will be such that the duration of the portfolio of Permitted Investments will not exceed a duration of one year. Duration is understood to mean that a one percent change in interest rates, for example, will produce an opposite one percent change in market value of the investment.

### III. PROCESS OVERVIEW

#### A. Implementation

The Senior Vice Chancellor (SVC) for Business and Financial Affairs, in consultation with the Chancellor and Associate Vice Chancellor Finance (AVCF), will develop operating procedures to ensure that the Policy's credit standards, liquidity, and yield objectives are met. Daily cash management activities will be overseen by the SVC for Business and Financial Affairs, the AVCF, and their staff.

The University's liquidity requirements are monitored monthly and will be assessed annually at the time of the completion of the ensuing year's operating and capital budget in connection with an annual review by the Finance & Budget and Investment Committees. The University will observe liquidity metrics utilized by credit rating agencies and industry "best practice" metrics for Days Cash on Hand from other agencies such as the Education Advisory Board (EAB). *Currently the EAB recommends a "best practice" benchmark of a minimum of 90 Days Cash on Hand.*

#### B. Compliance and Oversight

The SVC for Business and Financial Affairs and the AVCF will ensure compliance at all times with the objectives of this Policy. At least annually, the Investment Committee of the Board of Trustees will review the performance, Permitted Investments, portfolio diversification, and duration of funds invested pursuant to this Policy. The Finance & Budget Committee of the Board of Trustees will review the University's liquidity requirements and the status of reserves in connection with its review and recommendation to the Board of Trustees of the annual Operating and Capital Budget.

### IV. DEFINITIONS

A. "**Operating Funds**" – see Section I.

B. "**Permitted Investments**" – see Section II B.

| Revision Effective Date | Purpose                           |
|-------------------------|-----------------------------------|
| 10/15/2021              | <i>Align policy with practice</i> |