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## RPM 7.21: Investment of Operational Funds and Bond Proceeds

Regents of the University of New Mexico

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**Subject: INVESTMENT OF OPERATIONAL FUNDS AND BOND PROCEEDS**

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Applicability

This policy governs the investment of operational funds and bond proceeds of the University of New Mexico. It does not apply to endowments held by the University and the UNM Foundation, which are invested in accordance with the Foundation's Consolidated Investment Fund Endowment Investment Management Policy.

of: 5-11-10 to:

Policy

The University shall manage its cash flow in a manner which will maximize funds available for investments. The primary objective for investments of operational funds and bond proceeds of the University is capital preservation. In addition, available funds shall be invested with the following objectives:

1. Conformance with applicable laws and regulations, bond resolutions and indentures, and other pertinent legal restrictions.
2. Sufficient liquidity to ensure the University can quickly respond to cash demands and meet funding and operations requirements and emergency expenditures.
3. Recognition of differing objectives and needs of various operating funds and bond proceeds.
4. Maximization of investment returns.

The Board recognizes that in order to meet these investment objectives it may be advantageous to engage the services of investment consultants and managers who have appropriate training and expertise and who have access to specialized information and analysis or analytical tools and systems. Investment consultants and managers must be registered investment advisors with the Securities and Exchange Commission (SEC) and must have a minimum of \$500 million of assets under management. Such contracts must be approved by the Board of Regents. All persons or entities, including investment managers and consultants, that have responsibility for investment of University funds shall be bound by this and other University policies, including conflict of interest policies RPM 1.8 and RPM 6.4, and federal and state laws and regulations.

Investment Guidelines

The scope of authority for the types of investments that may be made with University funds is statutorily defined in NMSA 1978, Sections 6-8 and 6-10. University assets may be invested in any securities permitted by law, subject to the provisions of this investment policy. Individuals responsible for investment decisions shall exercise judgment, care, skill, and caution to invest and manage funds as a prudent investor would, by considering the objectives, terms, and distribution requirements while preserving capital. Operational funds and bond proceeds are primarily invested in high quality, relatively short-term fixed income securities not exposed to significant market risk. Investments should have an average duration of three years or less, an average credit quality of A1/A+ or better, no use of leverage, and security ratings of investment grade.

Prohibited Investments

Notwithstanding authority granted by law and elsewhere in this document, in order to mitigate exposure to interest rate risk, market risk, and liquidity risk, the following investments and investment practices are prohibited. Prohibited investments include, but are not limited to the following:

- Domestic or international equity securities (i.e. stocks)
- Commodities and futures contracts
- Options
- Speculative securities

- Mortgages- backed debt and pass-through securities or obligations
- Non government fixed income mutual funds
- Private placements
- Limited partnerships
- Real estate properties
- Principal-only (PO) securities
- Interest-only (IOs) Securities
- Planned amortization class (PACs)
- Residual Tranche collateralized mortgage obligations
- Venture-capital investments
- Derivatives, except when utilized to protect the Global Fixed Income Portfolio
- Collateralized mortgage obligations (CMOs) and other mortgage-backed securities, inverse floaters, leveraged floaters, capped and rate floaters, dual index floaters, and floating rate notes whose index is tied to a long-term interest rate or lagging index, e.g. Cost of Funds Index (COF1)
- Investment purchase on margin or short sales
- Leveraging the portfolio, lending securities with an agreement to buy them back after a stated period of time (reverse repurchase agreements from the perspective of the Operating Fund)
- Repurchase agreements are prohibited for operating funds, but are allowable for bond proceeds.
- GICs are prohibited for operating funds, but are allowable for bond proceeds.

#### Reporting and Accountability

The University Debt and Investment Advisory Committee is responsible for ensuring University investments are managed in accordance with University policy and applicable laws and regulations. The Committee is also responsible for oversight of the investment process and distribution of investment income, monitoring investment activities, and reporting the results of investment activity annually to the Board of Regents. The Committee is chaired by the Executive Vice President for Administration/CFO/COO and is composed of representatives from Financial Services, the Office of Planning, Budget and Analysis, and other members designated by the Executive Vice President for Administration/CFO/COO.

The Associate Vice President for Planning, Budget, and Analysis under the supervision of the Executive Vice President for Administration/CFO/COO is responsible for the day-to-day investment activities concerning University operational funds and bond proceeds. The associate vice presidents for Financial Services are responsible for ensuring proper internal controls are in place. The UNMH Administrative Chief Financial Officer is responsible for the day-to-day investment activities concerning UNM Hospital operational funds and bond proceeds and for ensuring proper internal controls are in place. All investment transactions require prior authorization from two University administrators with signature authority on the University's depository account. All individuals delegated authority to make investment decisions must be bonded in accordance with NMSA 6-8-5.

#### References

NMSA 1978, §§ 6-8 and 6-10; Uniform Prudent Investor Act, NMSA 45-7 (601-612); Internal Revenue Code IRC § 148, Arbitrage; "Regent Code of Conduct and Conflicts of Interest Policy" 1.8 RPM; "Employee Code of Conduct and Conflicts of Interest," 6.4 RPM; "Code of Conduct," 3715 UBPPM; "Conflicts of Interest," 3720 UBPPM; "Investment Management," 7610 UBPPM.