

**Section 3.8.A****Financial Services: Treasury – Short Term Investment Guidelines****Issued:****December 2021****Replaces:****May 2020**

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**3.8.A SIU SHORT TERM FIXED INCOME PORTFOLIO - INVESTMENT GUIDELINES****Objectives and Purpose**

The goal is to construct a portfolio that emphasizes safety of principal, maintains liquidity, and outperforms the ICE BofA Merrill Lynch US 3-Month Treasury Bill Index (the "Benchmark"). Active management is expected to provide increased income and total return to Southern Illinois University. These guidelines should be reviewed periodically by Southern Illinois University, its investment consultant and PFM Asset Management LLC to assure that the University's objectives are being achieved.

In addition to the guidelines outlined below, the investment manager will adhere to the Southern Illinois University Statement of Investment Policy, the Illinois Public Funds Investment Act, other applicable state laws and applicable federal laws. The guidelines below are intended to provide additional direction specific to the short term portfolio.

**Eligible Securities**

Investments may be made in any of the following fixed income securities, subject to credit, diversification and marketability guidelines below. All securities must be authorized investments under the Illinois Public Funds Investment Act including the following:

1. Obligations issued or guaranteed by the United States of America, its agencies, and its instrumentalities.
2. Certificates of deposit, time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act.
3. Obligations of U.S. corporations with assets exceeding \$500 million. Such obligations shall be rated the highest short term or three highest long term rating classifications by at least two standard rating services, and not exceed 10% of the corporation's outstanding obligations. No more than one-third of the University's funds may be invested in short-term obligations that mature in 270 days or less from the settlement date and no more than one-third of the University's funds may be invested in obligations of corporations that mature more than 270 days but less than three years from the settlement date.

4. U.S. Agency mortgage-backed securities (MBS); provided weighted average life is equal to or less than 3 years. No “derivative” MBS such as Interest Only (IO), Principal Only (PO), and inverse floaters will be allowed. Mortgage “to be announced” (TBAs) securities, and passthrough Planned Amortization Class Securities (PACS) are allowed. At no time shall the portfolio be subjected to leverage.

### **Duration Exposure**

The average weighted duration of portfolio security holdings will be managed to meet the University cash flow expectations.

### **Credit Quality**

In all categories of investments, emphasis will be on high-quality securities and the weighted average of portfolio holdings will not fall below AA-/Aa3 long term or A-1/P-1 short term. Portfolio holdings are subject to the following limitations:

1. **Rated Securities:** At the time of purchase, all securities must be rated in accordance with the minimum rating requirements as noted in Table A.
2. **Downgrade Securities:** Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at PFM Asset Management LLC but must be approved by the University. The University will be notified of all such downgrades in writing.

### **Diversification**

1. **Maturity:** Securities must be equal to or less than 3 years to maturity. In the case of MBS, average life will be used as a proxy for maturity. See Table A for additional maturity limitations.
2. **Sector:** The portfolios managed by PFM Asset Management LLC will at all times be diversified among the major market sectors, subject to the limitations outlined in Table A.
3. **Issuer:** Holdings are subject to the limitations outlined in Table A.

### **Sustainable Investing**

Material, relevant, and decision-useful sustainability factors should be regularly considered, within the bounds of financial and fiduciary prudence, in evaluating issuers. Such factors include, but are not limited to: (i) corporate

governance and leadership factors; (ii) environmental factors; (iii) social capital factors; (iv) human capital factors; and (v) business model and innovation factors, as provided under the Illinois Sustainable Investing Act (30 ILCS 238).

While such factors are not determinative for investment decisions, the University will periodically review the portfolio holdings to determine the consistency with these objectives and will identify specific issuers that are restricted from purchase under this policy. Such review may include an analysis of ESG factors and related criteria by an independent, third-party evaluator.

### **Marketability**

All holdings will be of sufficient size and held in issues that are traded actively enough to facilitate transactions at minimum cost and accurate market valuation.

### **Performance Measurement and Objectives**

Total portfolio return will be calculated each calendar month and reported at the end of each calendar quarter. The manager will be evaluated on an after-fees basis against the ICE BofA Merrill Lynch US 3-Month Treasury Bill Index (the "Benchmark").

The manager shall aim to meet or exceed the ICE BofA Merrill Lynch US 3-Month Treasury Bill Index (the "Benchmark") over a complete economic cycle.

### **Reporting**

Formal management reporting will include:

1. A monthly accounting statement showing portfolio income, holdings and transactions;
2. A monthly total return computation; and
3. A quarterly market outlook and investment strategy.

**Table A****SIU - Short Term Portfolio Guidelines: Investment Limits and Specifications**

Sector	Sector Maximum <sup>8</sup> (%)	Per Issuer Maximum <sup>8</sup> (%)	Minimum Ratings Requirement <sup>1,8</sup>	Maximum Maturity
U.S. Treasury	100%	100%	N/A	3 Years (3 year avg. life <sup>6</sup> for GNMA)
GNMA		40%		
Other U.S. Government Guaranteed (e.g. AID, GTC)		10%		
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB	75% <sup>4</sup>	50% <sup>5</sup>	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3, or equivalent)	3 Years
Federal Agency/GSE other than those above		10%		
Supranationals where U.S. is a shareholder and voting member	25%	10%	Highest ST or Two Highest LT Rating Categories by one NRSRO (A-1/P-1, AA-/Aa3, or equivalent)	3 Years
Agency Mortgage-Backed Securities (MBS)	25% <sup>4</sup>	25%	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3, or equivalent)	3 Year Avg. Life <sup>6</sup>
Short-Term Corporate Obligations	33.3% <sup>2</sup>	5% <sup>3</sup>	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3, or equivalent)	270 Days
Longer-Term Corporate Obligations	33.3% <sup>2</sup>	5% <sup>3</sup>	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3, or equivalent)	3 Years
Time Deposits/Certificates of Deposit	25%	N/A <sup>7</sup>	N/A <sup>7</sup>	2 Years

**Notes:**

<sup>1</sup> Rating by at least two SEC-registered Nationally Recognized Statistical Rating Organizations ("NRSROs"), unless only one is available or unless otherwise noted. ST=Short-term; LT=Long-term.

<sup>2</sup> Maximum allocation applies to all funds managed within the Short-Term and Intermediate portfolios.

<sup>3</sup> Maximum across all non-government permitted investment sectors (excluding Treasuries, U.S. Federal Agencies and Agency MBS) is 5% combined per issuer.

<sup>4</sup>Maximum allocation to federal agency securities, including Agency debentures and Agency MBS, is 75%.

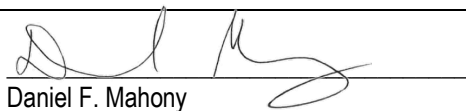
<sup>5</sup>Maximum issuer allocation to federal agencies, included Agency debentures and Agency MBS, is 50%.

<sup>6</sup> The maturity limit for MBS is based on the expected average life at time of purchase, measured using Bloomberg or other industry standard methods.

<sup>7</sup> None, deposits must follow collateralization requirements which are detailed in the University's Statement of Investment Policy.

<sup>8</sup> All sector, issuer, and rating limits apply at the time of purchase.

<sup>9</sup> Longer-term corporate obligations must mature more than 270 days but less than three years from the settlement date.



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12/7/2021

Date