

**STATEMENT OF INVESTMENT POLICY
SOUTHERN ILLINOIS UNIVERSITY
FINANCE COMMITTEE OF THE BOARD OF TRUSTEES**

I. STATEMENT OF OBJECTIVES

It is the policy of Southern Illinois University to invest funds in a manner which will provide investment returns and security consistent with good business practices, while meeting the daily cash flow demands of the University, and conforming to all statutes governing the investments of funds. Funds of Southern Illinois University will be invested in accordance with the provisions of the Illinois Compiled Statutes, Chapter 30, Sections 235/0.01 - 235/8, "The Public Funds Investment Act", the Policies of the Board of Trustees of Southern Illinois University, and covenants provided from the University's bond and Certificate of Participation issuance activities.

As provided in Illinois Compiled Statutes, Chapter 30, Sections 225/1-225/2 "The Public Funds Deposit Act," public funds of the University will be deposited in savings and loan associations or State or national banks in Illinois.

A. Overall Risk Profile

The three basic objectives of Southern Illinois University's Investment Program are:

1. Safety of invested funds;
2. Maintenance of sufficient liquidity to meet cash flow needs;
3. Attainment of the maximum investment returns possible consistent with the first two objectives.

The achievement of these objectives shall be accomplished in the manner described below:

1. Safety of Invested Funds

The University will insure the safety of its invested funds by limiting credit and interest rate risks. Credit risk is the risk of loss due to the failure of the security issuer or backer to meet promised interest or principal payments on required dates. Interest rate risk is the risk that the market value of portfolio securities will fall or rise due to changes in general interest rates. The physical security of the University's investments is also an important element of safety. Detailed safekeeping requirements are defined in Section IV of this policy.

- a. Credit risk will be mitigated by:
 - i) Limiting investments to those specified in the Illinois Public Funds Investment Act, which prohibits investment in corporate bonds with maturity dates longer than six months from the date of purchase;
 - ii) Prequalifying the financial institutions with which we will do business; and
 - iii) Diversifying the investment portfolio so that the failure of any one issue or backer will not place an undue financial burden on the University.

- b. Interest rate risk will be mitigated by:
 - i) Maintaining significant balances in cash equivalent and other short maturity investments as changing interest rates have limited impact on these securities' prices;
 - ii) Establishing an asset allocation policy that is consistent with the expected cash flows of the University.

2. Liquidity

The University's investment portfolio will be structured in such a manner that securities mature at the same time as cash is needed to meet anticipated demands. Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.

3. Investment Returns

Investment returns on the University's investment portfolio is a priority after the safety and liquidity objectives described above. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

B. Asset Allocation

The University's investment portfolio will be structured to provide that sufficient funds from investments are available every month to meet the University's anticipated cash needs. Subject to the safety provisions outlined above, the choice in investment instruments and maturities will be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends, and specific market opportunities.

Based on a review of the University's cash flows, assets (excluding debt financing funds) will be invested according to the following schedule:

| Portfolio | Approximate Average Maturity Range | Target |
|-------------------|---|----------------------|
| Cash Equivalents | Less than 1 year; typically less than 30 days | Minimum \$40 million |
| Intermediate Term | Up to 10 years | \$65 - \$105 million |

The Treasurer will manage the investments to fall within the asset allocation ranges. However, circumstances may occur that cause the allocations to temporarily fall outside the prescribed ranges.

C. Definition of Funds

Funds for the purpose of this policy are all University funds which are available for investment at any one time. Funds include those in the University's general operation and debt financing activities.

D. Prudence

Investments shall be made with judgement and care - under circumstances then prevailing - which persons of prudence, discretion and intelligence exercise in management of their own affairs, not for speculation but for investment, considering the probable safety of their own capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio.

II. INVESTMENTS

This section of the Investment Policy identifies the types of instruments in which the University may invest its funds.

A. Eligible Securities

Southern Illinois University will make investments under the Public Funds Investment Act (Illinois Compiled Statutes Chapter 30, sections 235/0.01 - 235/8). This affords the University a number of investment opportunities including:

- Securities of the U.S. Government or its Agencies;
- Interest bearing savings accounts, certificates of deposit, interest bearing time deposits, other direct obligations of any bank defined in the Illinois Banking Act;
- Certain short term obligations of U.S. Corporations rated in the highest three rating classifications by at least two standard rating services provided such obligations do not mature in longer than 180 days from the time of purchase and the issuing entity has at least \$500 million in assets (limited to 33% of portfolio);
- Money market mutual funds provided they are comprised of only U.S. Treasuries and U.S. Agencies;
- Public Treasurer's Investment Pool-State Treasurer's Office;
- Repurchase agreements of Government securities;
- Other specifically defined repurchase agreements.

B. Diversification

The portfolio should consist of a mix of various types of securities, issues and maturities. While the fund's asset allocation strategy provides diversification by fixed income sector, each portfolio within the sectors will also be broadly diversified by security type, issue and maturity.

C. Collateralization Requirements

In accordance with the State Finance Act (30 ILCS 105/6a-1), deposits that exceed the amount of federal deposit insurance coverage shall be collateralized using eligible securities as listed in the Deposit of State Moneys Act (15 ILCS 520/11). The collateral for various investments shall be held by third parties or in a separate trust department of a participating bank. In order to anticipate market changes and provide for a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest.

D. Release of Collateral

The authorization to release University securities pledged as collateral will be telephoned to the appropriate bank by the Treasurer or designee. A written confirmation outlining details for the transaction and confirming the telephone instructions will be sent to the bank within five (5) working days.

E. Confirmation

Receipts for confirmation of purchase of authorized securities should include the following information: trade date, par value, rate, price, yield, settlement date, description of securities purchased, agency's name, net amount due, and third party custodial information. These are minimum information requirements.

F. Pooling

The University will pool all operating cash for investment purposes to provide for efficiencies and economies in their management. Proceeds related to revenue bond and certificate of participation financing activities will be pooled to the extent allowed under the covenants.

III. SELECTION OF INVESTMENT ADVISORS, INVESTMENT MANAGERS, AND FINANCIAL INSTITUTIONS

A. Investment Advisors and Investment Managers

Investment advisors and investment managers who manage University funds must be registered with the Securities and Exchange Commission and carry adequate levels of insurance. The University will annually send a copy of the Investment Policy to investment advisors and investment managers who manage University funds. The University strives to follow the State's Procurement Policy of issuing public Requests For Proposal in selecting its advisors and managers.

B. Qualification of Brokers, Dealers, and Financial Institutions

The University will only transact business with banks, savings and loan associations, and broker dealers. Transactions will be conducted only with banks and broker dealers who have been prequalified by the University.

IV. INTERNAL CONTROL PROCEDURES

A. Purchase of Securities

The Board Treasurer will authorize no more than 4 employees to purchase investment securities. A list of these authorized employees will be provided to each investment broker/dealer. A confirmation of the purchase of authorized securities will be mailed to the Board Treasurer. All security transactions will be conducted "delivery versus payment."

On occasion, there will be a need for the Board Treasurer to delegate authorization to a third party to purchase securities on behalf of the University. In these instances, a one-time delegation will be executed that clearly states the type of security, the amount to be purchased, the maturity date, and the purchase date.

B. Safekeeping of Assets

All securities (except collateral) owned by the University will be held by its safekeeping agents. The University will contract with a bank or banks for the safekeeping of securities which are owned by the University as a part of its

investment portfolio or which have been transferred to the University under the terms of any repurchase agreements. Safekeeping reports shall be provided.

C. Sale of Securities

The Board Treasurer will designate no more than 4 authorized employees to initiate the sale of investment securities. A list of these authorized employees will be provided to the investment managers. The proceeds of all sales transactions will be deposited into a University related demand deposit account.

D. Wire/ACH Transactions

Where possible, the University will use repetitive wire transfers and preformatted ACH transfers to restrict the transfer of funds to preauthorized accounts only. When transferring funds to an account using a non-repetitive wire or a non-preformatted ACH transfer, the bank is required to call back a second pre-established employee for confirmation that the transfer is authorized.

V. STRUCTURE AND RESPONSIBILITY

This section of the Policy defines the overall structure of the investment management program.

A. Responsibilities of the Finance Committee of the Board of Trustees

The Finance Committee of the Board of Trustees will, upon recommendation of the Treasurer:

1. adopt a written investment policy, consistent with the requirements of the Public Funds Investment Act including:
 - a. the definition of maturity ranges for short and intermediate investments;
 - b. the allocation of funds between short and intermediate investments;
 - c. the setting of benchmarks for evaluating investment performance.
2. adopt investment guidelines.
3. review quarterly investment reports.
4. approve the selection and assess the performance of investment managers.

B. Responsibilities of the Treasurer

The Treasurer is appointed by the Board of Trustees and is chief custodian of all funds held in the name of the Board of Trustees. The Treasurer is responsible for recommending, as necessary, financial policies and procedures to insure compliance with State and Federal laws, Board Policies and University Guidelines. Investment

oversight and banking relations are also responsibilities of the office. The Treasurer is responsible for providing the Board a quarterly report of cash and investment activities.

C. Investment Managers

The investment managers are accorded full discretion, within the limits set forth in this Statement of Investment Policy and investment guidelines adopted by the Finance Committee, to (1) select individual securities, (2) adjust the maturity mix, where applicable, and (3) diversify their portfolios so as to limit the impact of large losses in individual investments on the total portfolio.

The investment managers will provide the Board Treasurer with a monthly report of investment activity and investment performance.

D. Ethics and Conflicts of Interest

Officers, employees and agents, including, but not limited to, investment managers, involved in the investment process shall refrain from personal business activity that conflicts with the proper execution of the investment program, or impairs their ability to make impartial investment decisions. They shall disclose any material financial interests that could be related to the performance of the University's investment portfolio. They shall also comply with all applicable Federal and State laws governing ethics and conflict of interest.

VI. PERFORMANCE EVALUATION

The Board Treasurer will perform periodic reviews of the cash and investment activity to ensure that the safety, liquidity and performance of the investment portfolio is appropriate.

The Board Treasurer will provide a quarterly report of cash and investment activity to the Finance Committee.

The Finance Committee of the Board of Trustees will review the performance of each portfolio and Total Fund relative to appropriate benchmarks on a quarterly basis.

The following benchmarks are currently being utilized:

| Portfolio | Benchmark | Description |
|-------------------|--|--|
| Cash Equivalents | Merrill Lynch Ready Asset | A monthly average of the daily yield on the Merrill Lynch Ready Assets Trust. |
| Intermediate Term | Lehman Brothers Intermediate Government Bond Index | A market value-weighted index of U.S. Treasury and Agency bonds with maturities between one and ten years. |

| | | |
|------------|-----------------------|--|
| Total Fund | Performance Benchmark | A weighted-average return of the above portfolio benchmarks. The weights assigned to each benchmark are based on the actual monthly allocations to each portfolio. |
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Results will be evaluated relative to the above benchmarks and relative to the risks incurred in generating the results.

VII. STATEMENT OF INVESTMENT POLICY REVIEW

This Statement will be reviewed as governing Statutes are modified or when there is a material change in University circumstances that may warrant a new asset allocation policy. Absent these changes, this policy statement will be reviewed and modified, if appropriate, no less than every five years.

VIII. PUBLIC NOTICE

A. Investment Policy

Pursuant to the Public Funds Investment Act (30 ILCS 235/2.5(c)), the investment policy shall be made available to the public at the University's main administrative office. Further, a copy of the investment policy will be posted on the web site of the Vice President for Financial & Administrative Affairs and Board Treasurer.

B. Investment Performance

Pursuant to Public Act 93-0499, the University will post monthly investment performance on the Vice President for Financial & Administrative Affairs and Board Treasurer web site by the 15th day following the end of the month.

C. GASB 3 and GASB 40

In reporting investments on its financial statements, the University follows the reporting requirements of GASB 3 and GASB 40.

Approved by Finance Committee, Southern Illinois University Board of Trustees
December 11, 2008