FGP.P2F
2013/2014

UWI

Short-Term Investment Policy Statement (Short-Term IPS)

Prepared by
The Office of Finance
April 2013

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I. Governing Authority

The University of the West Indies' (UWI's) investment program shall be first and foremost operated in conformance with applicable Government, and other legal requirements of the respective campus countries.

The overarching governance of The UWI rest with the University Council which provides financial oversight through the University and Campus F&GPCs.

Chapter 9 (Financial Investments) of The UWI's **Revised Financial Code** (August 2008) and The UWI's **Revised Financial Procedures and Guidelines Edition 2010** – provides the basic policy framework regarding UWI's investments in financial instruments. The policy framework provides for a functioning **University Investment Advisory Committee**, four **Campus Financial Investments Operating Committees** and a **Centre Financial Investments Operating Committee**. Both the **Revised Financial Code 2008** and the **Revised Financial Procedures and Guidelines Edition 2010** provide broad generalizations on the framework within which The UWI is expected to select, manage and monitor investment in financial instruments, whether these be short-term, medium-term or long-term investments.

II. Scope

The purpose of this document **UWI Short-Term Investment Policy Statement** (**UWI Short-Term IPS)** is to set out in more detail, guidelines for the parameters, responsibilities and controls for the short-term (12 months or less) investment of University funds. The guidelines contained in The **UWI Short-Term IPS** complement the existing policies on financial investment documented in both the **Revised Financial Code 2008** and the **Revised Financial Procedures and Guidelines Edition 2010,** and should be read in accordance with these documents. Investments of endowment assets, medium and long-term investments and money held in bank, demand (current) deposit accounts are not covered under this policy.

Whilst provision has been made within the general policy framework for the University's campuses and the Centre to consolidate or pool cash and reserve balances to optimize University-wide liquidity management and investment earnings and to increase efficiencies with regard to investment pricing, custody/trust and administration, the primary focus of the Short-Term IPS relates to financial investments at the individual campus level. All aspects are presented in a generic form (i.e. not campus specific) and are intended to have general application across all campuses and the University Centre. Where reference is made to existing country laws, then the applicable law of the campus country would apply.

III. General Objectives

The primary objectives of the policy are to set short-term investment parameters, establish limits consistent with the University's risk tolerance, and provide appropriate benchmarks for performance. Investment activities shall be guided by the following priorities, listed in order:

1. **Safety** - Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio by mitigating **credit risk**, **interest rate risk** and **currency risk**.

2. **Liquidity -** The investment portfolio shall remain sufficiently liquid to meet all operating requirements which may be reasonably anticipated.

3. **Yield -** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout the budget cycle.

IV. Standards of Care

1. **Prudence -** The standard shall be the "prudent person" standard, except as may otherwise be prescribed by applicable laws or regulations now or in the future. Under the "prudent person" standard, investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

   Investment officers acting in accordance with written procedures and this short-term investment policy and exercising due diligence in good faith shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion.

2. **Ethics and Conflicts of Interest -** The University's officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions or otherwise be in violation of country law and/or University policy.

3. **Delegation of Authority -** Authority to manage the investment program in accordance with this investment policy is granted to the University Bursar (in the case of the University Centre) and the Campus Bursar (in the case of individual campuses), who shall act and may further delegate in accordance with any procedures and internal controls for the operation of the investment program consistent with this investment policy.

V. Internal Controls

Treasury operation within each Bursary and the Office of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the University are protected from loss, theft, or misuse.

VI. Suitable and Authorized Investments

1. **Capital Adequacy Ratio (CAR) –** Local and foreign (hard) currency-denominated securities, issued by entities with CAR of not less than 10 percent which are in compliance with the relevant country law(s) and financial regulation will be permitted under this policy. However, from time to time, more stringent requirements may be imposed and approved by the officers with the delegated authority, in order to ensure that the University's goals, as set forth in this policy, are met.

2. **Duration[1] -** The average duration of the University short-term investment portfolio should be targeted to six (6) months. However, if and when duration of the short-term investment portfolio exceeds one year (12 months) resulting from external factors, then the applicable rebalancing of the portfolio would need to be effected. Duration will have an impact on the relative performance of fixed interest funds or portfolio of individual bonds. A portfolio with a duration that is above its benchmark can be expected to outperform if rates are falling, and underperform if rates are rising. Conversely, a portfolio with a below-benchmark duration will typically outperform when rates are rising and underperform when rates are falling.

3. **Collateralization -** Where appropriate and allowed by campus country's law, the University (Campus) may require full collateralization of any investment assets.

4. **Permitted investments -** Subject to the foregoing, the University may invest in the following investment vehicles:

   - **Government Treasury Obligations -** Bills, Notes, and any other obligation or security issued by or backed by the full faith and credit of the respective campus Government.

   - **Negotiable Certificates of Deposit, Bank Deposit Notes and Non-Negotiable Certificates of Deposit / Time Deposits -** Negotiable and non-negotiable certificates of deposit, time deposits and negotiable bank deposit notes of domestic banks.

[1]A portfolio is "overweight" or "long" duration, meaning that their duration is higher than that of their particular benchmark. Alternatively, the portfolio could be "underweight" or "short" duration meaning that their duration is below a particular benchmark.

- **Corporate Debt Obligations** - High quality corporate notes with a rating of at least P1/P1+[2] (or its equivalent) by at least one of the regionally or nationally recognized rating organizations, such as CariCRIS and a maturity of no more than one year (12 months) from the date of purchase.

- **Commercial Paper -** "Prime quality" commercial paper, with a maturity of Two Hundred and Seventy (270) days or less, issued by domestic corporations (corporations organized and operating under the laws of the respective campus country) provided that the issuing corporation, or its guarantor, has a short-term debt rating of no less than P1/P1+ (or its equivalent).

- **Reverse Repurchase Agreements -** Overnight, term, and open reverse repurchase agreements provided that the following conditions are met:

    1. the contract is fully secured by deliverable Government Treasury as described above (with a maximum maturity of one (1) year), having a market value at all times of at least 102 percent of the amount of the contract;

    2. a master reverse repurchase agreement or specific written reverse repurchase agreement governs the transaction and which in each case contains terms, qualifying each transaction as a securities loan;

    3. the securities are free and clear of any lien and held by an independent third-party custodian acting solely as agent for the University, provided such third party is not the seller under the reverse repurchase agreement;

    4. for reverse repurchase agreements with terms to maturity of greater than one (1) day, the University will have the collateral securities valued daily and require that if additional collateral is warranted, then that collateral must be delivered within one (1) business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);

    5. the counterparty is a primary Government securities dealer who reports daily to the respective central bank in the campus country, or a bank, savings and loan association, or diversified securities broker/dealer having a capital adequacy ratio (CAR) of at least 10 percent and subject to regulation of capital standards by any Government regulatory agency; and the counterparty meets the following criteria:

        a) a long-term credit rating of at least BBB+ or the equivalent from at least one of the regionally or nationally recognized rating organizations, such as CariCRIS; and

[2] P1/P1+ is as denoted by CariCRIS. This is based on the short-term rating scale and not the more frequently used rating such as "A-" which is based on a long-term rating scale. Please see Appendix 1 for comparative rating scales.

b) has been in operation for at least five (5) years.

Collateral under reverse repurchase agreements with a maturity of fourteen (14) calendar-days or less may be held by the agreement counterpart. Collateral under reverse repurchase agreements with a maturity of over fourteen (14) calendar days must be held by an independent custodian.

- **Money Market Mutual Funds (Open-Ended Investment Funds)** - Shares in open-ended, no-load, money market investment funds, provided such funds are registered under the relevant legislation and rated at least BBB+ or the equivalent by at least one of the nationally or regionally recognized rating organizations, such as CariCRIS. The investment style of mutual fund must be consistent with the diversification, quality, and maturity requirements parameters stated within the University's investment policy.

- **Equity Securities** - The allocation will consist of public and private equity securities. Public equity securities shall generally be restricted to readily marketable securities of corporations (domestic and international common stocks, preferred stocks, and convertible securities) that are traded on established stock markets. Equity holdings must generally represent companies meeting an adequate Capital Adequacy Ratio (CAR) of not less than 10 percent with reasonable market liquidity. It is expected that no investment will be made in securities whose issuers are or are reasonably expected to become insolvent, or who are the subject of any bankruptcy or similar proceeding.

- **Derivatives –** For the most part, the use of derivatives within the short-term investment portfolio should be restricted. Where the use of derivatives as part of the risk management tool kit is considered appropriate, approval must be received from the Investment Committee.

VII. Portfolio Risk Management

The University on a consolidated basis will periodically evaluate (on a quarterly basis) the overall short-term investment portfolio risk. Individual Campus and the Centre will continually monitor, manage and report on the following primary risks as part of their day-to-day short-term investment management:

1. **Interest Rate Risk/Duration -** The University (Campuses and the Centre) seeks to manage the impact of interest rates on the market value and cash flows of its short-term investments. The University (and individual Campuses and the Centre) develops an annual cash flow forecast and, through the use of sensitivity modeling, determines its tolerance for interest rate risk. This risk is to be managed by consistently analyzing and adjusting the portfolio of interest-earning assets depending on the direction in which interest rates are going in the opinion of management.

2. **Credit Risk -** The University will invest in securities with a short-term rating of no lower than P3/P3+ by at least one of the regionally or nationally recognized rating organizations, such as CariCRIS. However, short-term Corporate Debt Obligations and Commercial Paper must be rated no lower than P1/P1+ or its equivalent; the higher risk considerations with debt issued by non-government/ non-bank entities (e.g. private / publicly–traded corporations).

3. **Liquidity Risk -** The University assesses its need for liquidity by (a) using its cash flow forecast to predict periods of greater liquidity needs and (b) by providing for sufficient liquidity to support outstanding debt.

4. **Currency Risk** - The University will invest in securities denominated in non-domestic currency, to the extent that all prevailing market conditions are taken into consideration. While the interest rate might be more attractive in another country, the exchange rate volatility and currency movement controls must also be taken into consideration. The University will adopt measures to monitor and manage its net FX exposure, thereby, minimizing currency mismatch.

5. **Reporting -** Individual campuses will be required to measure, monitor and report on their short-term investment portfolio as it relates to the above risks. Standardized templates capturing the data used to measure such risks should be prepared on a monthly basis and submitted to the Office of Finance for review, analysis and consolidation. Additionally, the campuses should monitor local, regional and international financial reports for information on security downgrades and take the appropriate action as specified by this policy document**.**

VIII. Investment Parameters & Diversification

It is the policy of the University to diversify its investment portfolios to eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities. The portfolio should consist largely of securities with active secondary or resale markets. The University will diversify its short-term investments within the following categories:

1. **Portfolio Diversification –** The Investment Portfolio shall be diversified by security type and institution. The maximum percentage of the portfolio permitted in each eligible security is as follows:

Permitted Investments	Portfolio Limit	Issuer Limit
Government Treasury Obligations	100%	100%
Commercial Paper	15%	5%
Corporate Notes	15%	5%
Negotiable Certificates of Deposit and Bank Deposit Notes	25%	25%
Non-negotiable Certificates of Deposit	10%	10%
Reverse Repurchase Agreements[3]	Limited by underlying asset limits above	10%
Money Market Mutual Funds	Limited by underlying asset limits above	25%
Equity Securities	15%	5%

The Portfolio Limit and Issuer Limit shall be applied to the total Investment Portfolio value at the date of acquisition. For all pooled investments (e.g. mutual funds, etc.) the University's holding must represent no more than 25 percent of the net assets of the pool.

2. **Security Downgrades -** In the event that any security held in the Investment Portfolio is downgraded below the rating required by this investment policy, the security shall be sold within sixty (60) days of such downgrade.

3. **Selection of Brokers / Dealers -** All brokers/dealers, and their affiliates, who desire to provide investment services to the University, shall be provided with current copies of this short-term investment policy. Before an organization, or its affiliates, can provide investment services to the University, it must confirm in writing that it has received and reviewed this investment policy and is able to comply with it.

   Brokers/dealers, and their affiliates, shall supply the University with information sufficient to adequately evaluate their financial capacity and creditworthiness. The following information shall be provided:

   a) audited financial statements;
   b) regulatory reports on financial condition;
   c) proof of the applicable certification and of Government registration;
   d) a sworn statement by an authorized representative of the broker/dealer pledging to adhere to any "capital adequacy standards" established by the country's Central Bank or regulatory agency and acknowledging that the broker/dealer understands that the University has relied upon this pledge; and

[3] For both the Reverse Repurchase Agreements and the Money Market Mutual Funds, the underlying asset may vary, i.e., it could be backed by government treasury obligations, commercial paper, corporate notes, etc. As such, the portfolio limits for these permitted investments would be used as a guide in determining the respective portfolio limit for these investments.

e) any additional information requested by the University in evaluating the creditworthiness of the institution.

Only firms meeting the following requirements shall be eligible to serve as brokers/dealers for the University:

a) “primary” dealers and regional dealers that qualify under the relevant legislation and regulation;
b) capital adequacy ratio (CAR) of no less than 10 percent;
c) registered as a dealer under the respective country’s securities act; and
d) engaged in the business of effecting transactions in Government obligations for at least five (5) consecutive years.

A list of eligible firms will be established and approved by the University’s F&GPC annually.

4. **Engagement of Investment Managers -** The University Bursar and the respective Campus Bursars may engage one or more qualified firms to provide investment management services for the University or their campus respectively. All investment management firms who desire to provide investment management services to the University shall be provided with current copies of this Short-term IPS. Before an organization can provide investment management services to the University, it must confirm in writing that it has received and reviewed this Short-term IPS and is able to comply with it.

   Only firms meeting the following requirements will be eligible to serve as investment manager for the University:

   a) registered with the relevant association and under the relevant legislation as follows for the respective campus countries;

   b) must have provided to the University an annual updated copy of their annual audited statements for the previous year of operation (if the contracting period is no less than three (3) months post year end; and

   c) must have proven experience in providing investment management services.

   Any firm engaged by the University to provide investment services shall:

   a) select security brokers/dealers who meet the requirements defined under this policy;

   b) provide monthly (or otherwise agreed period) reports of transactions and holdings to the University;

c) provide performance reports at least quarterly;

d) report on performance in comparison to the University's investment benchmarks and provide evidence that the manager has solicited at least three (3) bids for any security purchased or sold on behalf of the University; and

e) not collect any soft dollar commissions or credits, from mutual funds or others, in exchange for services directly provided to a customer.

IX. Portfolio Benchmarks

The University structures a portfolio benchmark that is consistent with the security types and duration, or weighted average maturity, guidelines established under this policy. The University will use the respective campus country's six-month T-Bill rates as its benchmark.

Below are the links to the rates as determined by each Campus Country Central Bank:

http://www.boj.org.jm/statistics/econdata/stats_list.php?type=5
http://data.centralbank.org.bb/InterestRates.aspx#
http://www.central-bank.org.tt/content/public-finance-monthly-0

X. Glossary

Capital Adequacy Ratio (CAR) – The amount of capital relative to an institution's risk weighted credit exposures. It is calculated as:

$$\text{CAR} = \frac{\text{Tier one Capital} + \text{Tier two Capital}}{\text{Risk Weighted Assets}}$$

where tier one capital can absorb losses without an institution being required to cease trading; and tier two capital they can absorb losses in the event of a winding-up.

The minimum requirement prescribed by the Basel II Capital Accord for CAR is 8%. In Barbados, this 8% is statutory; however, in Jamaica and Trinidad and Tobago, a minimum of 10% is stipulated.

Collateralization – The act where a borrower pledges assets as recourse to the lender in the event that the borrower defaults on the initial loan.

Credit risk – The possibility that the issuer of a debt instrument will not be able to make expected interest rate payments and/or principal repayment.

Currency risk – The uncertainty associated with the potential changes in the foreign exchange value of a currency.

Duration – A measure of the sensitivity of the price (the principal value) of a fixed income investment to change in interest rates. It is expressed as a number of years (or equivalent months). Duration also measures how quickly a bond will repay its true cost. The longer it takes to repay, the greater exposure the bond has to changes in the interest rate environment.

Some of the factors that affect a bond's duration:

- **Time to maturity:** Consider two (2) bonds that each cost $1,000 and yield 5%. A bond that matures in one year would more quickly repay its true cost than a bond that matures in 10 years. As a result, the shorter-maturity bond would have a lower duration and less price risk. The longer the maturity, the higher the duration.

- **Coupon rate:** A bond's payment is a key factor in calculating duration. If two otherwise identical bonds pay different coupons, the bond with the higher coupon will pay back its original cost quicker than the lower-yielding bond. The higher the coupon, the lower the duration.

Interest rate risk – The uncertainty associated with the effects of changes in the market interest rates; i.e., that an investment's value will change due to a change in absolute levels of interest rates or spread between two rates.

Liquidity risk – The uncertainty associated with the ability to buy and sell an investment as and when desired or in sufficient quantities because the opportunities are limited.

No-load mutual funds – Mutual fund where shares are sold without a commission or sales charge.

Open-ended investment funds – A type of mutual fund that does not have restrictions on the amount of shares the fund will issue.

Reverse Repurchase Agreement – The purchase of a security with an agreement to sell them at a higher price at a specific future date. For the party selling the security (and agreeing to repurchase it in the future), it is a **repurchase agreement**. For the party on the other end of the transaction (buying the security and agreeing to sell it in the future), it is a **reverse repurchase agreement**.

XI. Appendix 1

Table 1 - Comparative Long-term and Short-term Rating Scales

<table>
<tr><th colspan="2">Moody's</th><th colspan="2">S&P</th><th colspan="2">Fitch</th><th colspan="2">CariCRIS</th><th>Definition</th></tr>
<tr><th>Long-term</th><th>Short-term</th><th>Long-term</th><th>Short-term</th><th>Long-term</th><th>Short-term</th><th>Long-term</th><th>Short-term</th><th></th></tr>
<tr><td>Aaa</td><td rowspan="6">P-1</td><td>AAA</td><td rowspan="4">A-1+</td><td>AAA</td><td rowspan="4">F1+</td><td>AAA</td><td>P1/P1+</td><td>Prime</td></tr>
<tr><td>Aa1</td><td>AA+</td><td>AA+</td><td rowspan="3">AA (+/-)</td><td rowspan="3">P2/P2+</td><td rowspan="3">High grade</td></tr>
<tr><td>Aa2</td><td>AA</td><td>AA</td></tr>
<tr><td>Aa3</td><td>AA-</td><td>AA-</td></tr>
<tr><td>A1</td><td>A+</td><td rowspan="2">A-1</td><td>A+</td><td rowspan="2">F1</td><td rowspan="3">A (+/-)</td><td rowspan="3"></td><td rowspan="3">Upper medium grade</td></tr>
<tr><td>A2</td><td>A</td><td>A</td></tr>
<tr><td>A3</td><td rowspan="2">P-2</td><td>A-</td><td rowspan="2">A-2</td><td>A-</td><td rowspan="2">F2</td></tr>
<tr><td>Baa1</td><td>BBB+</td><td>BBB+</td><td rowspan="3">BBB (+/-)</td><td rowspan="3">P3/P3+</td><td rowspan="3">Lower medium grade</td></tr>
<tr><td>Baa2</td><td rowspan="2">P-3</td><td>BBB</td><td rowspan="2">A-3</td><td>BBB</td><td rowspan="2">F3</td></tr>
<tr><td>Baa3</td><td>BBB-</td><td>BBB-</td></tr>
<tr><td>Ba1</td><td rowspan="12">Not prime</td><td>BB+</td><td rowspan="6">B</td><td>BB+</td><td rowspan="6">B</td><td rowspan="3">BB (+/-)</td><td rowspan="3">P4</td><td rowspan="3">Non-investment grade speculative</td></tr>
<tr><td>Ba2</td><td>BB</td><td>BB</td></tr>
<tr><td>Ba3</td><td>BB-</td><td>BB-</td></tr>
<tr><td>B1</td><td>B+</td><td>B+</td><td rowspan="3">B (+/-)</td><td rowspan="3"></td><td rowspan="3">Highly speculative</td></tr>
<tr><td>B2</td><td>B</td><td>B</td></tr>
<tr><td>B3</td><td>B-</td><td>B-</td></tr>
<tr><td>Caa1</td><td>CCC+</td><td rowspan="5">C</td><td rowspan="5">CCC</td><td rowspan="5">C</td><td rowspan="5">C</td><td rowspan="5"></td><td>Substantial risks</td></tr>
<tr><td>Caa2</td><td>CCC</td><td>Extremely speculative</td></tr>
<tr><td>Caa3</td><td>CCC-</td><td rowspan="3">Default imminent with little prospect for recovery</td></tr>
<tr><td rowspan="2">Ca</td><td>CC</td></tr>
<tr><td>C</td></tr>
<tr><td>C</td><td>D</td><td></td><td>DDD</td><td></td><td>D</td><td>P5</td><td>In default</td></tr>
</table>

Note: *According to CariCRIS, the long-term rating scale is used for debt instruments with original tenure of more than 1 year; while the short-term ratings scale is used for commercial paper or debt instruments with original tenure of up to 1 year. Similar definitions are used by the other rating agencies with short-term based on the typical market convention.*