



9.0 Banking and Investments

Introduction

University System of Georgia (USG) institutions are authorized to establish and manage bank accounts, and to make investments of funds subject to restrictions of Board policy and state law.

This section describes the banking and investment process for the University System of Georgia.

Topics in this section include:

- ❑ Banking
- ❑ Investments
- ❑ Relevant Georgia Codes



9.1 Banking

9.1.1 Treasurer's Responsibilities

The Treasurer of the Board of Regents has the responsibility of providing the corporate approval for setting up all new accounts and advising the banks as to approved signatories. The Vice Chancellor for Fiscal Affairs, as the Treasurer of the Board, is responsible for appointing a person or persons at each of the institutions of the University System with authority to sign checks drawn on banks where funds of the respective institutions are deposited. Persons so appointed shall be authorized to sign any documents that may be required by the banks concerned.

When new bank accounts are established, the Treasurer of the Board of Regents must be notified of the planned change and the following information must be provided:

- New bank name (if applicable)
- The bank's Federal Reserve number
- The institution's bank account number
- The name and number of the Federal Reserve Bank in Atlanta with whom the local bank corresponds
- The name or names of the signatories for the account

This information should reach the Vice Chancellor for Fiscal Affairs' Office at least ninety (90) days before the effective date of the proposed change.

The Treasurer of the Board is then responsible for sending certified copies of the minutes of the Board of Regents to the new bank, which advises it of corporate authority for the signers to execute checks drawn on University System funds.

Upon accomplishing the above, the old bank account must be closed as soon as all outstanding checks have cleared, since the old account is no longer the bank account of record. Any transactions clearing through the old account, other than clearing outstanding checks and transferring any remaining cash balances, are unauthorized.

9.1.2 Selection of Banks for General Operating and/or Payroll Accounts

Board policy requires that banking services be subject to competitive bid every five (5) years. The process by which banking services are to be competitively bid is governed by the rules and regulations of the state of Georgia Office of Treasurer and Fiscal Services (OTFS) and the state Depository Board. These rules and regulations require that all banks under contract with a USG institution are expected to meet state Depository Board approved criteria. In addition, USG institutions must first contact OTFS when seeking a new banking service. OTFS will recommend a bidding format. Proposals received by the



institution must be sent to OTFS, which will provide a pro forma analysis to the institution to make comparisons. Institutions are free to choose a bank among those filing bids if the bank meets approved criteria and is not the highest bidder. Institutions pay fees directly to the bank and receive any interest earned on deposits.

For further information on OTFS banking requirements, institutions are advised to contact the state Office of Treasury and Fiscal Services directly.

9.1.3 Placement of Cash in Time Deposits

All units of the University System of Georgia placing funds in time deposits shall restrict such placements to banks located in the state of Georgia.

The placement of funds in time deposits is usually associated with resources that must be converted periodically to cash to accommodate operational needs. The term of such placements should be in short periods, but should in no case be more than twenty-four (24) months.

When the source of funds placed in time deposits are trust funds, the period should be short-term in anticipation of appropriate placement in longer-term, permanent-type investments that produce not only income, but also growth.

Authority for investments of any and all funds resides exclusively with the Treasurer of the Board of Regents. When the Treasurer deems delegation of such authority appropriate, such delegation of authority must be in writing and on file in both the Treasurer's Office and office of the chief fiscal officer of the institution.

9.1.4 Recording of Interest Earned on Bank Accounts

The following guidelines should be used to record interest earned from bank deposits:

1. Interest earned on CASH IN BANKS – DEMAND DEPOSITS (invested in accounts known as Negotiable Orders of Withdrawal or N.O.W. accounts) is to be budgeted and receipted in unexpended plant funds and, thus, be used for capital outlay purposes.
2. Interest earned on CASH IN BANKS – TIME DEPOSITS, in most instances Certificates of Deposit (C.D.), is to be budgeted and receipted as interest earned in the fund group that provides the resource to purchase the certificate(s).

Resources from restricted funds, auxiliary enterprises funds, loan funds, endowment funds, unexpended plant funds, and student activity funds, which are invested in time deposits, shall appear on the Statement of Net Assets as "Cash and Cash Equivalents". Further, interest earned on said time deposits shall be reflected in the fund group providing the resource as "Non Operating Revenue – Interest Income".



9.1.5 Bank Depositories

All depositories, where funds of the Board of Regents of the University System are held in time deposits, shall either give a depository bond in some acceptable security company qualified to do business in Georgia, or, in lieu thereof, may deposit with some other depository satisfactory to the Treasurer of the Board of Regents and the state of Georgia Office of Treasury and Fiscal Services, securities of the following classes, the current market value of which shall be equal to or in excess of the amount of the time deposits:

- Direct obligations of the United States Government
- Obligations unconditionally guaranteed by the United States Government
- Direct obligations of the state of Georgia
- Direct obligations of any political subdivision of the state of Georgia
- Georgia municipal, county, or state of Georgia Authority Bonds acceptable to the Treasurer of the Board of Regents

9.1.6 Service on Bank Governing Boards

The chief business officer of each institution of the University System of Georgia and any other officer or employee who participates in the selection of the institution's depository (bank) are prohibited from serving on the governing boards of banks and other financial institutions, if such banks or other financial institutions have or seek a commercial relationship with that institution.

The president of an institution may serve on the governing board of a bank or financial institution that does not have a commercial relationship with the institution. However, such a bank or financial institution may not be considered by the institution for establishment of a commercial relationship with that institution of the University System of Georgia for not less than two years after the termination of the president as a member of the board.



9.2 Investments

9.2.1 Investment Policy

Each institution must develop a written investment policy that must be filed with the Vice Chancellor for Fiscal Affairs and Treasurer. The policy must be reviewed and updated at least once every two (2) years. Each institution shall submit an annual report on its investment performance to the Vice Chancellor for Fiscal Affairs and Treasurer, which asserts that investments have been made in accordance with the institution's written investment policy.

Note: For the schedule of reporting of investment policy changes and annual investment performance, see Section 20.0, Required Reports.

1. The investment policy should specify overall investment objectives. There may be several different investment objectives depending on the type of funds to be invested and period of investment to be considered. These may include objectives that attempt to preserve the purchasing power of income and principal, maximize current income, or maximize capital values. Each investment objective should clearly state the time horizon for achieving investment objectives.
2. The investment policy should also identify the general type of investments permitted under each investment objective. Investment must be consistent with donor intent, Regents policy and applicable federal and state laws.
3. The investment policy should include asset allocation guidelines, which outline the asset classes and subclasses that will constitute permissible areas for investment of funds. The guidelines should indicate the maximum and normal distribution of funds among the different asset classes or subclasses and the rationale for selecting these criteria. Asset allocation guidelines should also be tied to the investment objective and consider the potential risks associated with different asset allocations. The investment policy should outline the factors to be considered when an institution proposes a change in asset allocation such as during times of significant rate shift affecting the investment portfolio and instability in inflationary trends.
4. Diversification is fundamental to the management of risk, and is, therefore, a pervasive consideration in prudent investment management. The investment policy should include a diversification plan that considers the asset classes and investment products to be utilized in an attempt to achieve desired return with an acceptable level of risk.
5. The investment policy should include spending rules and relate these to investment objectives. Variables to be considered include the percentage of return allocated to prevent principal erosion by inflation versus the percentage to be expended currently.



6. The investment policy should provide for appropriate collateralization of invested funds that, by law, require the pledge of collateral.
7. Management's plan for authorization of investment activity, periodic reporting of investment activity, and monitoring of investment results should be outlined in detail in the investment policy.
8. Criteria to be used in the selection of investment managers and the evaluation of their performance should be described in the investment policy, if the institution chooses to use outside investment managers. These criteria should address the investment manager's:
 - Professional background and experience;
 - Investment philosophy relative to the institution's stated investment objectives;
 - Organizational structure and overall product line;
 - Control with respect to ensuring that individual managers adhere to policy objectives and guidelines;
 - Total size of managed assets;
 - Record of performance measured against appropriate benchmarks;
 - Ability to communicate results effectively and in timely fashion;
 - Written contract, executed once an investment manager is selected, that specifies, at a minimum, the requirements listed in section 705.02, Investments, in the Board of Regents Policy Manual. In addition, state funds invested must be separately identifiable.

9.2.2 Pooled Investment Funds

Units of the University System of Georgia and their affiliated organizations may participate in the Pooled Investment fund program. The characteristics and investment objectives of the four types of pooled funds are detailed below.

Short Term Fund

The Short Term investment fund provides a current return and stability of principal while affording a means of overnight liquidity for projected cash needs. The investment maturities in this fund will range between daily and two (2) years.

INVESTMENT OBJECTIVES

1. The primary investment objective shall be preservation of principal.
2. The secondary investment objective shall be to provide a competitive return on the short term funds of the University Systems of Georgia participants, while providing for periodic cash needs.



3. The overall character of the portfolio shall be of U.S. treasury and agency quality, and holdings shall be well diversified as to issuer and maturity.
4. It is anticipated that liquidity needs generally will be met through maturities, portfolio structure, and interest income.

GENERAL INVESTMENT GUIDELINES

1. The investments shall be in conformity with donor intent, Regents policy and applicable federal and state laws.
2. The investment manager is authorized to make investment changes as deemed necessary and in accordance with the objectives and guidelines set forth in this document on a discretionary basis.
3. The investment manager will meet as necessary, but at least once a year, with the Board of Regents to review investment strategies and investment objectives.
4. Investments shall be limited to fixed income securities.
5. The investment manager shall prepare investment performance results on a quarterly basis. Results will be compared against the Money Net All Taxable Index and the Georgia Fund (LGIP Pool).

SPECIFIC INVESTMENT GUIDELINES

1. The average maturity (average life) of the portfolio shall not exceed two (2) years.
2. The maturity (average life) of any individual holding shall not exceed three (3) years.
3. Adequate liquidity will be maintained to meet the forecasted working capital requirements of the fund participants.
4. For purposes of determining maturities, the next Reset Date will be used for floating rate securities, the Put Date for puttable securities, the Call Date for securities trading on a yield-to-call basis, and the average life on securities with periodic principal payments prior to maturity such as mortgage backed securities and asset backed securities.

Legal Fund

The Legal fund provides an opportunity for greater income and modest principal growth to the extent possible with the securities allowed under Georgia Code sections 50-17-59 and 50-17-63. The average maturity of in this fund will typically range between five (5) and ten (10) years, with a maximum maturity of thirty (30) years for any individual investment.



INVESTMENT OBJECTIVES

1. The overall character of the portfolio should be one of treasury and agency quality, possessing virtually no degree of financial risk.
2. The investment objective shall be to preserve principal and generate competitive fixed income returns.
3. The portfolio will be measured against the Lehman U.S. Government Index.

GENERAL INVESTMENT GUIDELINES

1. The investments shall be in conformity with donor intent, Regents policy and applicable federal and state laws.
2. The investment manager will give frequent and active attention to the fund to develop and implement strategy.
3. The investment manager is authorized to make investment changes as deemed necessary and in accordance with the objectives and guidelines set forth in this document on a discretionary basis.
4. The investment manager will meet as necessary, but at least once a year, with the Board of Regents to review investment strategies and investment objectives.

SPECIFIC INVESTMENT GUIDELINES

The portfolio shall have the following characteristics:

1. The maximum maturity of an individual investment will be thirty (30) years.
2. Maturities should generally be of intermediate to longer term length, but may emphasize shorter or longer maturities, depending on yield differentials.
3. The average maturity of the portfolio shall not exceed ten (10) years.

Balanced Income Fund

The Balanced Income fund is designed to be a vehicle to invest funds that are not subject to state regulations concerning investing in equities. This fund is comprised of fixed income, equity, and cash equivalent instruments.

INVESTMENT OBJECTIVES

1. The overall character of the portfolio should be one of above-average quality, possessing, at most, an average degree of investment risk.



2. The investment objective shall be to seek a reasonable and meaningful total rate of return with emphasis on current income.
3. For comparative purposes, the stock portion of the portfolio will be reviewed over a full market cycle relative to the results achieved by the Standard & Poor's 500 Index and the Lipper Large Cap. Core Average.
4. The bond portion of the portfolio will be measured against the Lehman Aggregate Index.

GENERAL INVESTMENT GUIDELINES

1. The investment manager will give frequent and active attention to the fund to develop and implement strategy.
2. The investment manager is authorized to make investment changes as deemed necessary and in accordance with the objectives and guidelines set forth in this document on a discretionary basis.
3. The investment manager will meet as necessary, but at least once a year, with the Board of Regents to review investment strategies and investment objectives.

SPECIFIC INVESTMENT GUIDELINES

1. The equity allocation range shall be between 30%-40%, with a target of 35% of the total portfolio, and shall have the following characteristics:
 - High overall quality.
 - Reasonable diversification.
 - Companies with a history of consistent or growing earnings and/or dividends.
 - Prospects of future earnings and/or dividend increases.
 - Strong or improving financial position.

Note: Foreign common stocks that fulfill the above criteria are eligible investments, as long as they are listed or have ADRs.

2. The fixed income (bond) portion of the portfolio shall be between 60%-70%, with a target of 65% of the total portfolio, and shall have the following characteristics:
 - All issues must be investment grade at the time of purchase.
 - Well diversified as to issuer and maturity.
 - Maturities should generally be of intermediate to longer term length, but may emphasize shorter or longer maturities, depending on yield differentials.
 - The maximum maturity of any individual issue shall not exceed thirty (30) years at the time of purchase.
 - The average maturity of the portfolio shall not exceed ten (10) years.



3. Reserves for contingencies and stock and bond purchases are expected to comprise the balance of the fund:
 - Reserves and excess income should be invested at all times in practical amounts.
 - Reserves can be invested in high quality institutional money market mutual funds or other high quality short term instruments.

Total Return Fund

The Total Return fund is another pool designed to be a vehicle to invest funds that are not subject to state regulations concerning investing in equities. This pool offers the greatest percentage of overall equity exposure, with well over half of the funds typically invested in equities.

INVESTMENT OBJECTIVES

1. The overall character of the portfolio should be one of above-average quality, possessing, at most, a moderate degree of investment risk.
2. The investment objective shall be to seek a reasonable and meaningful total rate of return with an emphasis on capital appreciation.
3. For comparative purposes, the stock portion of the portfolio will be reviewed over a full market cycle relative to the results achieved by the Standard & Poor's 500 Index and the Lipper Large Cap. Core Average.
4. The bond portion of the portfolio will be measured against the Lehman Aggregate Index.

GENERAL INVESTMENT GUIDELINES

1. The investment manager will give frequent and active attention to the fund to develop and implement strategy.
2. The investment manager is authorized to make investment changes as deemed necessary and in accordance with the objectives and guidelines set forth in this document on a discretionary basis.
3. The investment manager will meet as necessary, but at least once a year, with the Board of Regents to review investment strategies and investment objectives.

SPECIFIC INVESTMENT GUIDELINES

1. The equity allocation range shall be between 60%-70%, with a target of 65% of the total portfolio, and shall have the following characteristics:
 - High overall quality
 - Reasonable diversification



- Companies with a history of consistent or growing earnings and/or dividends
- Prospects of future earnings and/or dividend increases
- Strong or improving financial position

Note: Foreign common stocks that fulfill the above criteria are eligible investments, as long as they are listed or have ADRs.

2. The fixed income (bond) portion of the portfolio shall be between 30%-40%, with a target of 35% of the total portfolio, and shall have the following characteristics:
 - All issues must be investment grade at the time of purchase.
 - Well diversified as to issuer and maturity
 - Maturities should generally be of intermediate to longer term length, but may emphasize shorter or longer maturities, depending on yield differentials.
 - The maximum maturity of any individual issue shall not exceed thirty (30) years at the time of purchase.
 - The average maturity of the portfolio shall not exceed ten (10) years.
3. Reserves for contingencies and stock and bond purchases are expected to comprise the balance of the fund.
 - Reserves and excess income should be invested at all times in practical amounts.
 - Reserves can be invested in high quality institutional money market mutual funds or other high quality short term instruments.

Diversified Fund

The Diversified fund is designed to gain further diversification and increase exposure to assets that have lower correlation to equity and bond markets by utilizing alternative asset classes. In addition, this fund is constructed to build an optimal portfolio where return is increased and risk is reduced.

INVESTMENT OBJECTIVES

1. The overall character of the portfolio should be one of above-average quality, possessing, at most, a moderate degree of investment risk.
2. The investment objective shall be to seek a reasonable and meaningful total rate of return with emphasis on capital appreciation.
3. For comparative purposes, the stock portion of the portfolio will be reviewed over a full market cycle relative to the results achieved by the Standard & Poor's 500 Index.
4. The bond portion of the portfolio will be measured against the Lehman Aggregate Index.



GENERAL INVESTMENT GUIDELINES

1. The investment manager will give frequent and active attention to the fund to develop and implement strategy.
2. The investment manager is authorized to make investment changes as deemed necessary and in accordance with the objectives and guidelines set forth in this document on a discretionary basis.
3. The investment manager will meet as necessary, but at least once a year, with the Board of Regents to review investment strategies and investment objectives.

SPECIFIC INVESTMENT GUIDELINES

1. The equity allocation range shall be between 50%-75%, and shall have the following characteristics:
 - Broad diversification among large, mid, and small cap stocks, including value and growth equity styles.
 - Growth equity style stocks should be from companies with:
 - High overall quality.
 - A history of consistent or growing earnings and/or dividends.
 - Prospects of future earnings and/or dividend increases.
 - Strong or improving financial position.

Note: Foreign common stocks that fulfill the above criteria are eligible investments, as long as they are listed or have ADRs.

2. The fixed income (bond) portion of the portfolio shall be between 20%-40%, and shall have the following characteristics:
 - Allowable issues include investment grade, high yield, and non dollar denominated debt.
 - Well diversified as to issuer and maturity.
 - Maturities should generally be of intermediate to longer term length, but may emphasize shorter or longer maturities, depending on yield differentials.
 - The maximum maturity of any individual issue shall not exceed thirty (30) years at the time of purchase.
 - The average maturity of the portfolio shall not exceed ten (10) years.
3. Hedge Funds. The investment approach to this asset class is to use a multi-strategy, multi-manager fund of hedge funds. The Board of Regents believes that a fund of funds strategy will provide the best access to a highly diversified pool of hedge fund strategies and managers. The Board seeks absolute returns by investing in a fund of funds manager. The specific portfolio characteristics should approximate:
 - 4-6% volatility.



- Beta to the Standard & Poor's 500 Index < 0.25.
 - 8% worst expected decline from peak to trough.
 - Consistent monthly returns.
 - Expected return of 5% above LIBOR net of fees over a rolling three (3) year time period.
4. Real Estate. The Board of Regents' approach for investing in this asset class is to use real estate investment trusts (REITs). REITs are more liquid than owning commercial real estate, and diversification can be achieved by purchasing a mutual fund. The objectives for investing in real estate are:
- Diversification, having lower correlation with major asset classes such as stocks and bonds.
 - Return characteristics of steady income, high single-digit returns with lower volatility within a total portfolio context.
5. Venture Capital/Private Equity/Post Venture Capital. This asset class is the riskiest and most volatile permitted investment opportunity. This asset should be considered as an additional diversification investment strategy due to the low correlation with stocks and bonds.
6. Reserves for contingencies and stock and bond purchases are expected to comprise the balance of the fund.
- Reserves and excess income should be invested at all times in practical amounts.
 - Reserves can be invested in high quality institutional money market mutual funds or other high quality short term instruments.



9.3 Relevant Georgia Codes

9.3.1 Georgia Code 50-17-2

http://www.legis.state.ga.us/cgi-bin/gl_codes_detail.pl?code=50-17-2

9.3.2 Georgia Code 50-17-59

http://www.legis.state.ga.us/cgi-bin/gl_codes_detail.pl?code=50-17-59

9.3.3 Georgia Code 50-17-63

http://www.legis.state.ga.us/cgi-bin/gl_codes_detail.pl?code=50-17-63