### Lincoln University

### Investment Policy

**I. Scope**

The purpose of the Investment Policy shall be to establish the investment objectives of Lincoln University and provide a set of investment parameters to govern the type, quality, diversification and term of investments in order to realize those objectives.

The investment policy encompasses the General Fund, the Swimming Pool Fund and the Endowment Fund.

In developing and implementing any investment strategy for the custodial assets, Investment Advisors shall comply with the investment parameters set forth herein.

**II. General Objectives**

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

**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. The objective will be to mitigate credit risk and interest rate risk.

**a. Credit Risk.** Lincoln will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

* + - Limiting investments to the safest types of securities, as defined in Section V; and
		- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

**b. Interest Rate Risk.**  Lincoln will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

* + - Managing the duration of the portfolios in a manner which satisfies the anticipated liquidity needs of each.

**2. Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in money market mutual funds or local government investment pools that offer same-day liquidity for short-term funds.

**3. Yield.** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

* + A security with declining credit may be sold early to minimize loss of principal;
	+ A security exchange which would improve the quality, yield, or target duration in the portfolio; or
	+ Liquidity needs of the portfolio require that the security be sold.

**III. Standards of Care**

**1. Prudence.** The standard of prudence to be used by Lincoln investment officers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The standard of prudence to be used by Lincoln financial advisors shall be the "prudent expert" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence 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 and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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

**2. Ethics and Conflicts of Interest.** 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. Employees and investment officers shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of Lincoln.

**3. Delegation of Authority.** Authority to manage the investment program is granted to the Controller’s division within Lincoln. Responsibility for the operation of the investment program is hereby delegated to the Controller and his or her delegate, hereinafter referred to as investment officers, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officers. The investment officers shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officers.

**IV. Safekeeping and Custody**

**1. Authorized Financial Dealers and Institutions.** Lincoln’s Financial Institution/Safekeeping Agent shall retain principal collection subject to Lincoln’s direction and shall distribute income to the University. The Financial Institution/Safekeeping Agent shall provide monthly portfolio accounting reports on an accrual basis. All securities will be registered in the name of Lincoln University unless otherwise instructed. An annual review of the financial condition and registration of Lincoln’s Financial Institution/Safekeeping Agent will be conducted by the investment officers. Lincoln’s Financial Institution/Safekeeping Agent will supply the following information as requested:

* + Audited financial statements; and
	+ Certification of having read and understood and agreeing to comply with Lincoln’s investment policy.

**2. Internal Controls.** The investment officers are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of Lincoln are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the investment officers shall establish a process for an annual independent review by an auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

* + Control of collusion;
	+ Separation of transaction authority from accounting and record keeping;
	+ Custodial safekeeping;
	+ Avoidance of physical delivery securities;
	+ Clear delegation of authority to subordinate staff members;
	+ Written confirmation of transactions for investments and wire transfers;
	+ Development of a wire transfer agreement with the lead bank and third-party custodian;
	+ Timely check of internal trade tickets and dealer confirmations; and
	+ Periodic sufficiency check of repurchase agreement collateral.

**V. Suitable and Authorized Investments**

* 1. **Investment Types.** In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that Lincoln University will consider. Lincoln may directly invest in or purchase money market mutual funds with the following as underlying securities:
		1. United States Treasury Securities. Lincoln may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.
		2. Government Sponsored Enterprises(GSE). Lincoln University may invest in GSE’s including, but not limited to:
			+ Federal Farm Credit Banks
			+ Federal Home Loan Banks
			+ Federal National Mortgage Association
			+ Federal Home Loan Mortgage Corporation
			+ Tennessee Valley Authority
			+ Small Business Administration Guaranteed Loan Pool Certificates
			+ Government National Mortgage Association
		3. Repurchase Agreements. Lincoln may invest in contractual agreements between the University and commercial banks or primary government securities dealers. The purchaser in a repurchase agreement (repo) enters into a contractual agreement to purchase U.S. Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices. This includes the purchase of reverse repurchase agreements for not longer than ninety days.
		4. Collateralized Public Deposits (certificates of deposit). Instruments issued by financial institutions, which state that specified sums have been deposited for specified periods of time, and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by State statute.
		5. Bankers’ Acceptances. Time drafts drawn on and accepted by a commercial bank, otherwise known as bankers’ acceptances. Lincoln may invest in bankers’ acceptances issued by domestic commercial banks possessing the highest rating issued by Moody’s Investor Services, Inc. or Standard and Poor’s Corporation.
		6. Commercial Paper. Lincoln may invest in commercial paper issued by domestic corporations, which has received the highest rating issued by Moody’s Investor Services, Inc. or Standard and Poor’s Corporation. Eligible paper is further limited to issuing corporations that have total commercial paper program size in excess of five hundred million dollars ($500,000,000).
	2. **Security Selection.** The following list represents the entire range of United States Agency Securities that will be considered and which shall be authorized for the investment of funds by Lincoln. Additionally, the following definitions and guidelines should be used in purchasing the instruments:
1. U.S. Govt. Agency Coupon and Zero Coupon Securities. Bullet coupon bonds with no embedded options.
2. U.S. Govt. Agency Discount Notes. Purchased at a discount with maximum maturities of one (1) year.
3. U.S. Govt. Agency Callable Securities. Restricted to securities callable at par only with final maturities of seven (7) years.
4. U.S. Govt. Agency Step-Up Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed term. Restricted to securities with final maturities of seven (7) years.
5. U.S. Govt. Agency Floating Rate Securities. The coupon rate floats off one index. Restricted to coupons that reset at least semi-annually.
6. U.S. Govt. Mortgage Backed Securities (MBS). Restricted to securities with average life of seven (7) years or less and to those issued by the GSE’s outlined in section V.1.b. of the Investment Policy.
	1. Pass Through Securities (MBS)
	2. Collateralized Mortgage Obligations – Must pass Federal Financial Institutions Examinations Council (FFIEC) Test
	3. **Investment Restrictions and Prohibited Transactions.** To provide for the safety and liquidity of Lincoln’s funds, the investment portfolio will be subject to the following restrictions:
7. Borrowing for investment purposes (“Leverage”) is prohibited.
8. Instruments commonly known as ”Derivatives” and those containing leverage, such as inverse floaters, leveraged floaters, equity-linked securities, options, futures, swaps, caps, floors, and collars are prohibited.
9. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.
10. No more than 5% of the total market value of the portfolio may be invested in bankers’ acceptances issued by any one commercial bank and no more than 5% of the total market value of the portfolio may be invested in commercial paper of any one issuer.
	1. **Collateralization.** Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. The market value (including accrued interest) of the collateral should be at least 100%. For certificates of deposit, the market value of collateral must be at least 100% or greater of the amount of certificates of deposits plus demand deposits with the depository, less the amount, if any, which is insured by the Federal Deposit Insurance Corporation, or the National Credit Unions Share Insurance Fund. Additionally referenced in the Request for proposal document page 14, section 12, paragraph 12.2.

**VI. Investment Parameters**

1. **Diversification.** The aggregate investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:
	1. U.S. treasuries and securities having principal and/or interest guaranteed by the U.S. government…..……………..…………..…..…………….…..…..…… <= 100%
	2. Collateralized time and demand deposits………..…………………..…..…<= 100%
	3. Government Sponsored Enterprises..… <= 100%
		1. No more than 50% of the portfolio in any one Government Sponsored Enterprise.
	4. Collateralized repurchase agreements……….……………….………...…. <= 50%
	5. Commercial Paper……………………………………………….……………. <= 30%
	6. Bankers’ Acceptances……………………………..………………….……..<= 30%
	7. Mortgage Backed Securities…………………………………………………...<= 50%

**Maximum Maturities.** To the extent possible, Lincoln shall attempt to match its investments with anticipated cash flow requirements.

1. **Because of inherent** difficulties in accurately forecasting cash flow requirements, where advisable, a portion of the portfolio should be continuously invested in readily available funds such as in bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

**VII. Policy Considerations**

**1. Exemption.** Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

**2. Amendments.** This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officers and the Lincoln University Investment Advisory Board, as well as the individual(s) charged with maintaining internal controls.