UNIVERSITY OF CENTRAL FLORIDA

INVESTMENT MANUAL

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General Information

The following are detailed procedures related to UCF Policy ______, accessible on the Policy Web site, http://policies.ucf.edu/.

The University establishes its investment parameters in accordance with sections 1011.42(5) and 218.415, Florida Statutes, and complies with all applicable state ordinances and covenants. The vice president for administration and finance (vice president) or designee will consolidate, where practicable and allowable, cash balances and investments from all funds covered by this policy to minimize risk exposure and maintain liquidity while maximizing investment earnings.

Investment Objectives

As required by F. S. 218.415, the investment objectives of the University for invested funds shall be to provide for safety of capital, liquidity of funds, and investment income, in that order. The optimization of investment returns shall be secondary to the requirements for safety and liquidity. Funds may be divided in four different pools of funds as follows: Pool I will be designated as cash reserves for operational expenses, based on specific criteria to be determined by the Finance Committee; Pool II will be designated to cover the University's medium term requirements such as debt service for the next year; Pool III will be considered excess cash reserves that may be invested in longer term investments (up to five years). Pool IV will be designated for long term investments such as the UCF Foundation, Inc. Safety and optimization of investment returns may be the investment objectives of funds invested in Pool IV only (liquidity is secondary).

1. Safety - Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks the preservation of capital in the overall portfolio. The objective will be to limit credit risk and interest rate risk to a level commensurate with the risks associated with prudent investment practices and the performance benchmarks stated herein, if applicable.

2. Credit Risk - The University will limit credit risk (the risk of loss due to the failure of the security issuer or backer) by diversifying the investment portfolio so that potential losses on individual securities will be minimized and by limiting investments to specified credit ratings.

3. 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 to meet anticipated demands (static liquidity). Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). The portfolio may be placed in local government investment pools, money market mutual funds or similar funds that perform similar to money market funds that offer same-day liquidity for short-term funds.

4. Yield - The investment portfolio shall be designed with the objective of attaining a market rate of return, as measured by specified benchmarks, 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. A security with declining credit risk may be sold early to minimize loss of principal.

B. A security swap that would improve the quality, yield, or target duration in the portfolio.

C. Liquidity needs of the portfolio require that the security be sold.

D. Adverse market or economic conditions.

5. Transparency - The University shall operate its portfolio in a transparent manner, making its periodic reports both available for public inspection and designed in a manner which communicates clearly and fully information about the portfolio, including market pricing, adjusted book value, and yields.

Performance Measurement

As a benchmark for investment returns, the University's investment portfolio, net of fees, should strive to equal or exceed the returns provided by the State Treasurer's Special Purpose Investment Account (SPIA). However, achieving this benchmark is secondary to the requirements for safety and liquidity.

Prudence and Ethical Standards

1. Prudence - The standard of prudence to be used by investment officials shall be the Prudent Person Rule and shall be applied in the context of managing an overall portfolio. University personnel, acting in accordance with this investment policy shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported to the University's governing board in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy. The Prudent Person Rule states that: "Investments should 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 from the investment."

2. Ethics and Conflicts of Interest - The Vice President and other authorized personnel 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. These investment officials shall disclose annually, in a written statement, 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. They shall refrain from undertaking personal investment transactions with the same individual(s) with whom business is conducted on behalf of the University.

3. Delegation of Authority - Authority to manage the investment program is granted to the Vice President. The Vice President may delegate authority to the Administration & Finance Associate Vice Presidents or the Treasurer. Additional authorized personnel include any other person or position approved by the University's governing board. The University may seek professional advice and therefore may contract with a federally registered investment advisory firm that specializes in public funds fixed income management, and it may also seek advice and counsel from the Finance Committee to assist with investment decisions. The Finance Committee will approve and, from time to time as they deem necessary, amend this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy. The Vice President shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Broker Dealers, Safekeeping and Custody

1. Authorized Financial Dealers and Institutions – The University shall list financial institutions consisting of banks and other depository institutions authorized to provide depository and investment services. In addition, a list will be maintained of security broker/dealers consisting of "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule) that are providing services to the University or that the University contemplates using. Both lists shall be reviewed by the Finance Committee and the Vice President at least annually.

2. Annual Review - An annual review of the financial conditions and registration of qualified financial institutions and broker/dealers will be conducted by the Vice President or Investment Advisor under the direction of the University. The distribution of trading among the approved broker/dealers of securities which at the time of purchase had maturities greater than 7 days shall be reported annually to the Finance Committee.

3. Delivery vs. Payment - Securities transactions between a broker-dealer and the safekeeping agent or custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

4. Safekeeping, Custody & Perfection of Interest - Securities shall be held with a third party; and all securities purchased by, and all collateral obtained by, the University should be properly designated as an asset of the University. No withdrawal of securities, in whole or in part, shall be made from safekeeping or custody, except by an authorized staff member of the University.

Authorized Investments

This investment policy is authorized by the University's Board of Trustees. The following investments are authorized to be utilized in achieving the objectives of this policy. Investments not listed are prohibited. The investment portfolio must be structured in such manner as to provide sufficient safety and liquidity to pay obligations as they come due. Investment maturities should anticipate cash flow requirements.

Prior to conducting transactions as authorized by this policy the Vice President shall determine the approximate maturity date based on cash-flow needs and market conditions, analyze and select one or more optimal types of investments, and competitively bid the security in question when feasible and appropriate. Except as otherwise required by law, the bid deemed to best meet the investment objectives shall be selected.

Investments shall be limited to securities selected from the following types:

1. The United States Treasury and Agency securities - Securities that are issued by the United States Treasury or those for which the full faith and credit of the United States government guarantees fully all principal and interests payments.

   A. Credit Ratings
      Ratings are not required for U.S. Treasury securities. Agencies backed by the full faith and credit of the United States government, such as Government National Mortgage Association (GNMA), must have at least two AAA/Aaa/AAA long-term credit ratings from Standard & Poor's, Moody's or Fitch respectively. The Finance Committee may direct the University to use other ratings that may be more appropriate for the prevailing economic situation.

   B. Interest Rate Risk Restrictions
      The United States Treasury and Agency securities backed by the full faith and credit of the United States government - At the time of purchase, securities must have a maturity no greater than five years from the date of settlement to the maximum possible maturity date. The forward delivery period on such securities may not exceed 60 days.

2. Government Sponsored Enterprises (GSE) - Securities issued by the Federal Farm Credit Bank, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, the Federal National Mortgage Association, or the Federal Agricultural Mortgage Corporation. Any other GSE shall be considered as corporate debt for the purposes of this Policy and shall be authorized under the criteria set forth in section V-7, Corporations.

   A. Credit Ratings
      Authorization of the listed GSE in section V-7 is predicated upon these institutions maintaining at least two AAA/Aaa/AAA long-term credit ratings from Standard & Poor's, Moody's or Fitch respectively. The Finance Committee may direct the University to use other ratings that may be more appropriate for the prevailing economic situation.

   B. Interest Rate Risk Restrictions
      At the time of purchase, securities must have a maturity no greater than five years from the date of settlement to the maximum possible maturity date. The forward delivery period on such securities may not exceed 60 days.

3. The State Board of Administration's Local Government Investment Pool (SBA), the State Treasurer's Special Purpose Investments Account (SPIA) or any intergovernmental

investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in s. 163.01.

A. Credit Rating
Local Government Investment Pools - At the time of purchase, local government investment pool must carry a AAA rating from Standard & Poor's (if applicable). The Finance Committee may direct the University to use other ratings that may be more appropriate for the prevailing economic situation.

B. Interest Rate Risk Restrictions
At the time of purchase, shares in the local government investment pool must be fully redeemable on the next business day.

4. Money Market Mutual Funds - Shares of any money market fund that is registered as an investment company under the federal "Investment Company Act of 1940", as amended.

A. Credit Rating
At the time of purchase, money market funds must carry a AAA rating from Standard & Poor's. The Finance Committee may direct the University to use other ratings that may be more appropriate for the prevailing economic situation.

B. Interest Rate Risk Restrictions
At the time of purchase, shares in the money market fund must be fully redeemable on the next business day.

5. Interest-bearing time deposits or savings accounts in Qualified Public Depositories (QPD) as defined in s. 280.02.

A. Credit Rating or Limitations
Bank deposits for the University must comply with Chapter 280.16 Florida Statutes. Such deposits in QPD's must be collateralized according to the statutory requirements.

6. Repurchase Agreements - Securities referred to in section 4 or 5 and that can otherwise be purchased under this Policy may be subject to a Repurchase Agreement. Such securities subject to this agreement must have a coupon rate that is fixed from the time of settlement until its maturity date, and must be marketable. Such securities must be delivered to the University or to a third-party custodian or third-party trustee for safekeeping on behalf of the public entity. The collateral securities of any repurchase agreement must be collateralized at no less than one hundred two percent and marked to market no less frequently than weekly. All approved institutions and dealers transacting repurchase agreements shall execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.

A. Credit Ratings

At the time of purchase the counter-party to any such agreements must carry short-term credit ratings which conform to those required by section V-7.

B. Interest Rate Risk Restrictions
For repurchase agreements, at the time of purchase such agreements must have a maturity no greater than one year from the date of settlement. The forward delivery period on such securities may not exceed 60 days.

7. Corporations - United States dollar denominated debt instruments issued by a corporation or bank which is organized and operated within the United States.

   A. Credit Ratings
   At the time of purchase, all non-money market instruments must carry at least two long-term credit ratings from Standard & Poor's, Moody's or Fitch's of at least AAA/Aaa/AAA respectively. For money market instruments, which comply with rule 2a7 at the time of purchase, such securities must carry at least two short-term credit ratings and no short-term credit rating may fall below A1+ from Standard & Poor's, P1 from Moody's, or F1+ from Fitch. The Finance Committee may direct the University to use other ratings that may be more appropriate for the prevailing economic situation.

   Should a security's credit rating drop below these standards after purchase, the University's authorized personnel shall act as Prudent Persons in managing the risks associated with this security, and shall timely notify the Finance Committee of such an event.

   B. Interest Rate Risk Restrictions
   At the time of purchase, such securities must have a maturity no greater than three years from the date of settlement to the maximum possible maturity date. The forward delivery period on such securities may not exceed 60 days.

8. Other investments authorized by law or by ordinance for a county or a municipality.

9. Other investments authorized by law or by resolution for a school district or a special district.

10. Direct Support Organizations (DSO) duly authorized by the University's Board of Trustees. An agreement or memorandum of understanding must be executed prior to the placement of funds with any DSO.

11. Mutual funds, unit investment trusts or professionally managed securities or other investment vehicles specifically authorized by the Finance Committee.

Portfolio Composition

The portfolio managed by the University, as opposed to funds placed with the Foundation, shall be maintained as a short-term maturity portfolio. The following restrictions apply in the management and investment of the University portfolio:

1. The effective maturity of floating rate securities shall be considered as the time until the next full reset of the coupon. The maximum effective duration of a floating rate security shall be five years from the date of purchase.

2. To provide sufficient liquidity and stability of principal, at least 25% of the Fund shall have an effective duration of one year or less.

University Endowment

The preferred recipient of gifts for the University is the UCF Foundation, Inc. However, there may be special circumstances whereby a monetary gift or other asset is received by the University directly, or the University may choose to establish a quasi-endowment with funds available for such purpose from other sources. In these instances, the University may choose to enter into an agreement with the UCF Foundation, Inc. to manage the investment of a portion or all of a particular University endowment or quasi-endowment. The Foundation has several investment options. The decision as to which of the options to be utilized for University funds would be specified in an contractual document between the University and the Foundation, with specific instructions as to the authorization and manner in which receipts and disbursements would be processed. The University's assets may be pooled with Foundation assets for investment purposes, but with procedures in place for detailed accounting and reporting of the University's shares in the pool. These investments may deviate from the balance of this policy's direction to limit investments to no more than five years duration.

Risk and Diversification

The University portfolio shall be diversified to the extent practicable to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold. The diversification strategies laid out in this policy shall be reviewed and revised periodically, as deemed necessary by the Vice President and any revisions shall require the approval of the Finance Committee.

Investments that vary in length to maturity will be made to correlate with the University's cash flow projections. The correlation will be made conservatively, considering the University's projected need for liquidity. As the University develops a history with these guidelines, it is anticipated that the Finance Committee will refine and further define the maturity risks and diversification requirements. It is anticipated that the University Controller will provide annual cash flow projections, taking into consideration revenue receipt timing, payroll disbursements, debt service schedules and other historical operational expenditures. This information will be used as a basis for informed decisions regarding the allocation of cash balances into categories of investments with varying maturities. The investment vehicles used in the four categories will be determined by the Vice President in consultation with an investments consultant, the chair of the Finance Committee and other appropriate University staff.

In order to ensure liquidity and diversify risk to principal, multiple depository banks, in addition to the bank(s) currently under contract with the University to provide treasury services, may be utilized to hold and invest short term cash.

Qualified Public Depositories, Investment Institutions and Dealers

The University Treasurer will maintain an approved list of qualified public depositories (as defined in Florida Statute 280.02), investment institutions and dealers for the purchase and sale of securities.

Third Party Custodial Agreements

Securities will be held with a third party; and all securities purchased by, and all collateral obtained by the University will be properly designated as an asset of the University. If a bank serves in the capacity of Investment Manager, said bank could also perform the required custodial and reporting services. No withdrawal of securities, in whole or in part, shall be made from safekeeping, except by those designated within the Investment Management and Custodial Agreement between the Custodian and the University. Securities transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

Master Repurchase Agreement

The University Treasurer or the Investment Manager, if applicable, will maintain a master repurchase agreement and require all approved institutions and dealers transacting repurchase agreements to adhere to the requirements of the master repurchase agreement. The master repurchase agreement is a separate document.

Bid Requirement

The University shall require purchases and sales to be executed in a competitive bid environment wherein a least three (3) offers or bids are obtained for each security. Exceptions to this approach may be made when (1) prices for purchases or sales are compared to systems providing current market prices and deemed reasonable, (2) when the security to be purchased is unique to one institution or (3) the security has recently been issued and is trading at the same price by all financial institutions.

Internal Controls

The University Treasurer shall establish a system of internal controls and operational procedures, which will be documented in writing. The internal controls will be reviewed by the University Audit staff and are subject to audit by the Auditor General of the State of Florida. The controls will be designed to prevent losses of public funds arising from fraud, employee error, imprudent actions by employees and misrepresentation by third parties. The internal controls and operational procedures is a separate document.

Continuing Education

The Vice President and the University Treasurer will annually (during each calendar year) complete 8 hours of continuing education in subjects or course of study related to investment practices and products.

Reporting

1. Methods - The Vice President, or designee, shall or shall have prepared and provide to the Finance Committee an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. An outside investment advisor or other third party may be utilized to prepare the report. The management summary will be prepared in a manner that will allow the University to ascertain whether investment activities during the reporting period have conformed to the investment policy. This investment report shall include a list of securities in the portfolio by class or type, book value, income earned, and market value as of the report date. Such reports shall be available to the public.

2. Performance Standards - The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. The appropriate benchmark against which the portfolio performance shall be the 90-day Treasury Bill rate. At a minimum, portfolio performance shall be measured by comparing its year-to-date earnings to budgeted year-to-date earnings and its monthly "effective rate of return" to the 90-day Treasury Bill rate of return. Benchmarks may change over time based on the portfolio's weighted average maturity.

3. Marking to Market - The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. Information will be included in the report provided to the Finance Committee during scheduled meetings.

Implementation 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 Finance Committee.

Glossary

Benchmark. A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bid. The price offered by a buyer of securities.

Collateral. Securities, evidence of deposit, or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Delivery vs. Payment. Delivery versus payment is delivery of securities to a third party with an exchange of money for the securities. The transaction is not complete until both parties provide their commitments.

Diversification. Dividing investment funds among a variety of securities offering independent returns.

DSO. Direct Support Organization, pursuant to Section 1004.28 Florida Statutes, as certified by the University Board of Trustees.

Federal Deposit Insurance Corporation (FDIC). A federal agency that insures bank deposits, currently up to $100,000 per deposit.

Federal Farm Credit Bank (FFCB). The Federal Farm Credit Banks Funding Corporation issues debt securities as fiscal agent for the Farm Credit System, which is a nationwide network of borrower-owned lending institutions and service organizations specializing in agricultural and rural America. The mission of this government-sponsored enterprise is to ensure the availability of sound, dependable funding for agricultural producers, cooperatives, and certain farm related business.

Federal home Loan Bank (FHLB). Government sponsored wholesale banks that lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

Federal Home Loan Mortgage Corporation (FHLMC). FHLMC, commonly referred to as Freddie Mac, is a government sponsored enterprise that provides liquidity to the mortgage markets, much like FNMA and FHLB.

Federal National Mortgage Association (FNMA). FNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The Corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

LIBOR. London Interbank Offer Rate.

Liquidity. A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Market Value. The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement. A written contract covering all future transactions between the parties to repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Maturity. The date upon which the principal or stated value of an investment becomes due and payable.

Portfolio. Collection of securities held by an investor.

Prudent Person Standard. An investment standard in which 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.

Qualified Public Depository. Any bank, savings bank, or savings association that is organized under the laws of the United States or the State of Florida; has its principal place of business or a branch office to receive deposits in Florida; has deposit insurance under the provisions of the Federal Deposit Insurance Act; meets the requirements of Chapter 280, Florida Statutes (Florida Security for Public Deposits Act); and has been designated by the Chief Financial Officer of the State of Florida as a qualified public depository.

Repurchase agreement (REPO). A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use REPOs extensively to finance their positions. Exception: When the Fed is said to be doing REPOs, it is lending money that is increasing bank reserves.

Safekeeping. A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

Spread. (1) The yield or price difference between the bid and offer on an issue. (2) The yield or price difference between different issues.

State Board of Administration's Local Government Investment Pool (SBA). The aggregate of all funds from political subdivisions that are placed in the custody of the State Board of Administration for investment and reinvestment.

State Treasury Special Purpose Investment Account (SPIA). The aggregate of all funds from governmental entities that are placed in the custody of the State Treasury for investment and reinvestment.

Treasury Bills. A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in one month, three months, or six months.

Yield. The rate of annual income return on an investment, expressed as a percentage.
(1) Income yield is obtained by dividing the current dollar income by the current market price for the security. (2) Net yield or yield to maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.