

January 29, 2010

Members of the Board Finance Committee

Keith Sanders, Chair
John Simmons
Roger Tedrick
Stephen Wigginton
Marquita Wiley

Dear Members of the Finance Committee:

There will be a meeting of the Finance Committee on Thursday, February 11, 2010, immediately following the Academic Matters Committee in Ballroom B of the Student Center, Southern Illinois University Carbondale, Carbondale, IL. The following items have been suggested for the agenda:

1. Approval of Minutes of the December 10, 2009, meeting (enclosure).
2. Notice Item: Revisions to Investment Guidelines and Policy (enclosure)
3. Debt Policy (enclosure).
4. Other business.

Yours truly,

Duane Stucky
Senior Vice President for Financial and Administrative Affairs
and Board Treasurer

DS/lap

Enclosures

cc:	Frank William Bonan II	Glenn Poshard	Constituency Heads
	Nate Brown	Sam Goldman	Other Interested Parties
	Ed Hightower	Vaughn Vandegriff	
	Amber Suggs		

BOARD OF TRUSTEES

SOUTHERN ILLINOIS UNIVERSITY

Minutes of the Finance Committee Meeting

December 10, 2009

The Finance Committee met following the Academic Matters Committee in Ballroom B of the Student Center, Southern Illinois University Carbondale, Carbondale, IL. Present were: Marquita Wiley (Chair Pro Tem), John Simmons and Roger Tedrick. Absent were: Keith Sanders and Steve Wigginton. Other Board members present were: Frank William Bonan II, Nate Brown and Amber Suggs. Absent was: Ed Hightower. Executive Officers present were: President Glenn Poshard; Chancellor Samuel Goldman, SIUC; Chancellor Vaughn Vandegrift, SIUE; Vice President for Academic Affairs Paul Sarvela; and Senior Vice President for Financial and Administrative Affairs and Board Treasurer Duane Stucky.

Minutes

John Simmons recommended approval of the minutes of the September 10, 2009, meeting as submitted. The motion was seconded by Roger Tedrick and passed by the Committee.

Notice Item: Debt Policy.

Dr. Stucky reviewed the draft debt policy which will be brought to the February 2010 meeting for approval.

Other Business.

There being no further business, the meeting was adjourned.

DS/lap

SOUTHERN ILLINOIS UNIVERSITY
INTERMEDIATE FIXED INCOME PORTFOLIO
INVESTMENT GUIDELINES
(Approved ~~December 11, 2008~~ Month Year)

Objectives and Purpose

The goal is to provide a portfolio that emphasizes safety of principal and total return and provides a modest element of liquidity as necessary. Active management is expected to provide increased income and total return to Southern Illinois University. These guidelines should be reviewed periodically by the Southern Illinois University, its investment consultant and Western Asset Management to assure that the University's objectives are being achieved.

In addition to the guidelines outlined below, the investment manager will adhere to the Southern Illinois University Statement of Investment Policy attached hereto as Exhibit A, the Illinois Public Funds Investment Act, applicable state laws and applicable federal laws. The guidelines below are intended to summarize these documents and are not intended to supercede them.

Eligible Securities

Investments may be made in any of the following fixed income securities, individually or in commingled vehicles, subject to credit, diversification and marketability guidelines below. All securities must be authorized investments under the Illinois Public Funds Investment Act including the following:

1. ~~Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal agencies or U.S. government-sponsored corporations and agencies. For purposes of this restriction, Federal National Mortgage Association (Fannie Mae) is not considered an agency. As such, investments in Fannie Mae securities are restricted to short-term discount obligations with an original maturity of less than one year.~~ **United States of America, its agencies, and its instrumentalities.**
2. **Certificates of deposit, time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Banking Act.**
3. ~~Obligations of U.S. corporations such as debentures, commercial paper, certificates of deposit and bankers acceptances issued by industrial, utility, finance, commercial banking or bank holding company organizations;~~ **with assets exceeding \$500 million. Such obligations shall have with a maturity of 180 270 days or less, be rated**

in the three highest rating classifications by at least two standard rating services, and ~~have at least \$500 million in assets~~ **not exceed 10% of the corporation's outstanding obligations.**

4. U.S. Agency mortgage-backed securities (MBS); provided weighted average life is equal to or less than 10 years. No "derivative" MBS such as Interest Only (IO), Principal Only (PO), and inverse floaters will be allowed. Mortgage "to be announced" (TBAs) securities, and passthrough Planned Amortization Class Securities (PACS) are allowed. At no time shall the portfolio to be subjected to leverage.

Duration Exposure

The average weighted duration of portfolio security holdings shall not vary from that of the ~~Lehman Brothers~~ **Barclays Capital** Intermediate **U.S.** Government Bond Index, (the "Benchmark") by more than 15%.

Credit Quality

In all categories of investments, emphasis will be on high-quality securities and the weighted average of portfolio holdings will not fall below AA- or equivalent. Holdings are subject to the following limitations:

1. Rated Securities: All securities must be rated at least as high as the minimum acceptable rating, noted in the table below, of at least two of the following Nationally Recognized Statistical Rating Organizations (NRSRO).

	Minimum Acceptable Rating for Securities	Minimum Acceptable Rating for Commercial Paper
Standard & Poor's	A-	A-2
Moody's	A-3	P1
Fitch	A-	F1

2. Split Rated: Securities rated at or above the foregoing minimum acceptable ratings by two or more NRSRO and below the foregoing minimum acceptable ratings by two or more NRSRO are permissible only if Western Asset Management, based on its independent research, assigns the security the higher rating.
3. Downgrade Securities: Securities which fall below the stated minimum credit requirements subsequent to initial purchase may be held at Western Asset Management but must be approved by University staff. The University's staff will be notified of all such downgrades in writing.

Diversification

1. Maturity: Securities must be equal to or less than 10 years to maturity. In the case of MBS, average life will be used as a proxy for maturity.
2. Sector: The portfolio will at all times be diversified among the major market sectors, subject to the following limitations.
 - a) Maximum 33% in corporates.
3. Issuer: Holdings are subject to the following limitations:
 - a) Obligations issued or guaranteed by the U.S. government, ~~U.S. its agencies or U.S. government-sponsored corporations and agencies~~ **and its instrumentalities** are eligible without limit.
 - b) Obligations of other issuers are subject to a 5% of the market value of the portfolio limit to any single issuer excluding investments in commingled vehicles.

Marketability

All holdings will be of sufficient size and held in issues that are traded actively enough to facilitate transactions at minimum cost and accurate market valuation.

Performance Measurement and Objectives

Total portfolio return will be calculated each calendar month and reported at the end of each calendar quarter. The manager will be evaluated on an after-fees basis against the ~~Lehman Brothers~~ **Barclays Capital** Intermediate **U.S.** Government Bond Index (the "Benchmark").

The manager shall aim to exceed the ~~Lehman Brothers~~ **Barclays Capital** Intermediate **U.S.** Government Bond Index (the "Benchmark") by 50 basis points annually over the medium term (3 – 7 years).

Reporting

Formal management reporting will include:

1. A monthly accounting statement showing portfolio income, holdings and transactions;
2. A quarterly total return computation; and

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3. A quarterly market outlook and investment strategy.

- a. Credit risk will be mitigated by:
 - i) Limiting investments to those specified in the Illinois Public Funds Investment Act, which prohibits investment in corporate bonds with maturity dates longer than ~~six months~~ **270 days** from the date of purchase;
 - ii) Prequalifying the financial institutions with which we will do business; and
 - iii) Diversifying the investment portfolio so that the failure of any one issue or backer will not place an undue financial burden on the University.
- b. Interest rate risk will be mitigated by:
 - i) Maintaining significant balances in cash equivalent and other short maturity investments as changing interest rates have limited impact on these securities' prices;
 - ii) Establishing an asset allocation policy that is consistent with the expected cash flows of the University.

2. Liquidity

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

3. Investment Returns

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

B. Asset Allocation

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

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

Portfolio	Approximate Average Maturity Range	Target
Cash Equivalents	Less than 1 year; typically less than 30 days	Minimum \$40 million
Intermediate Term	Up to 10 years	\$65 - \$105 \$115 million

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

C. Definition of Funds

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

D. Prudence

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

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

II. INVESTMENTS

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

A. Eligible Securities

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

- Securities of the ~~U.S. Government or~~ **United States of America**, its agencies, **and its instrumentalities**;
- Interest bearing savings accounts, certificates of deposit, interest bearing time deposits, other direct obligations of any bank defined in the Illinois Banking Act;
- Certain short term obligations of U.S. Corporations rated in the highest three rating classifications by at least two standard rating services provided such obligations do not mature in longer than ~~180~~ **270** days from the time of purchase and the issuing entity has at least \$500 million in assets (limited to 33% of portfolio);
- Money market mutual funds provided they are comprised of only U.S. Treasuries, ~~and U.S. Agencies,~~ **and instrumentalities**;
- Public Treasurer's Investment Pool-State Treasurer's Office;
- Repurchase agreements of Government securities;
- Other specifically defined repurchase agreements.

B. Diversification

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

C. Collateralization Requirements

In accordance with the State Finance Act (30 ILCS 105/6a-1), deposits that exceed the amount of federal deposit insurance coverage shall be collateralized using eligible securities as listed in the Deposit of State Moneys Act (15 ILCS 520/11). The collateral for various investments shall be held by third parties or in a separate trust department of a participating bank. In order to anticipate market changes and provide for a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest. **In cases where collateral levels are set daily, the collateralization level may be 100% of market value of principal and accrued interest.**

D. Release of Collateral

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

E. Confirmation

Receipts for confirmation of purchase of authorized securities should include the following information: trade date, par value, rate, price, yield, settlement date,

description of securities purchased, agency's name, net amount due, and third party custodial information. These are minimum information requirements.

F. Pooling

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

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

A. Investment Advisors and Investment Managers

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

B. Qualification of Brokers, Dealers, and Financial Institutions

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

IV. INTERNAL CONTROL PROCEDURES

A. Purchase of Securities

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

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

B. Safekeeping of Assets

All securities (except collateral) owned by the University will be held by its safekeeping agents. The University will contract with a bank or banks for the safekeeping of securities which are owned by the University as a part of its investment portfolio or which have been transferred to the University under the terms of any repurchase agreements. Safekeeping reports shall be provided.

C. Sale of Securities

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

D. Wire/ACH Transactions

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

V. STRUCTURE AND RESPONSIBILITY

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

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

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

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

B. Responsibilities of the Treasurer

The Treasurer is appointed by the Board of Trustees and is chief custodian of all funds held in the name of the Board of Trustees. The Treasurer is responsible for recommending, as necessary, financial policies and procedures to ~~insure~~ ensure compliance with State and Federal laws, Board Policies and University Guidelines. Investment oversight and banking relations are also responsibilities of the office. The Treasurer is responsible for providing the Board a quarterly report of cash and investment activities.

C. Investment Managers

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

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

D. Ethics and Conflicts of Interest

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

VI. PERFORMANCE EVALUATION

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

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

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

The following benchmarks are currently being utilized:

Portfolio	Benchmark	Description
Cash Equivalents	Merrill Lynch Ready Asset	A monthly average of the daily yield on the Merrill Lynch Ready Assets Trust.

Intermediate Term	Lehman Brothers Intermediate Government Bond Index Barclays Capital Intermediate U.S. Government	A market value-weighted index of U.S. Treasury and Agency bonds with maturities between one and ten years.
Total Fund	Performance Benchmark	A weighted-average return of the above portfolio benchmarks. The weights assigned to each benchmark are based on the actual monthly allocations to each portfolio.

Results will be evaluated relative to the above benchmarks and relative to the risks incurred in generating the results.

VII. STATEMENT OF INVESTMENT POLICY REVIEW

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

VIII. PUBLIC NOTICE

A. Investment Policy

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

B. Investment Performance

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

C. GASB 3 and GASB 40

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

Approved by Finance Committee, Southern Illinois University Board of Trustees
~~December 11, 2008~~ [Month, Year]

SOUTHERN ILLINOIS UNIVERSITY

DEBT POLICY

A. Objectives:

- ❑ Prudent utilization of debt to provide a low cost source of capital to fund long-term capital investments to achieve the University's mission and strategic objectives.
- ❑ Manage the University's overall debt level to maintain the highest acceptable credit rating with appropriate access to capital. The minimum acceptable underlying rating for a University issue is the single "A" category by the major rating agencies.
- ❑ Limit risk within the University debt portfolio by balancing the goal of attaining the lowest cost of capital with the goal of managing interest rate risk.
- ❑ Manage outstanding debt over time to achieve a low cost of capital and to take advantage of interest rate cycles and refunding opportunities.
- ❑ Assure projects financed have a feasible plan of repayment and that secondary pledges are utilized prudently.

B. Review of Authority

1. Constitutional Authority

Article IX, Section 9 of the Constitution of the State of Illinois permits State colleges and universities to issue bonds or other evidences of indebtedness for such purposes and in such amounts as may be authorized by law, but such debt may not be secured by the full faith and credit or tax revenue of the State and cannot be repaid, directly or indirectly, from tax revenue.

2. Revenue Bonds

The Board is authorized to issue revenue bonds pursuant to the Southern Illinois University Revenue Bond Act (110 ILCS 525/1 et seq.) (the "Revenue Bond Act") for the purpose of acquiring "projects" as defined in Section 525/2(5) and to refund bonds as provided in Section 525/4 (B) and (C). The sources of payment of such revenue bonds, as provided by the Revenue Bond Act and as authorized by resolution of the Board of Trustees, are net revenues of the project or any group of projects. The Revenue Bond

Act authorizes the pledge of tuition and fees as additional security for revenue bonds.

In general, revenue bonds may be utilized for the purpose of acquiring, constructing, and equipping revenue-generating projects or for refunding previously issued revenue bonds.

3. Certificates of Participation

Pursuant to the provisions of the State University Certificates of Participation Act (110 ILCS 73) (the “COPS Act”) the Board is authorized to enter into financing agreements for the purpose of financing capital improvements through the issuance of certificates of participation. The COPS Act limits Southern Illinois University’s maximum annual debt service on all outstanding certificates of participation to \$20,000,000. The certificates of participation represent an interest in the installment payments to be made over time by the Board pursuant to an agreement to purchase such capital improvement. The certificates of participation are issued by a trustee under an indenture, which provides security for the certificates of participation.

In general, certificates of participation are used for acquiring, constructing, and equipping non-revenue producing projects, such as infrastructure, administrative or academic projects, and for the purpose of refunding previously issued certificates of participation.

4. Public University Energy Conservation Financing

The Public University Energy Conservation Act (110 ILCS 62/1 et seq.) (the “Energy Conservation Act”) authorizes the University to enter into a “guaranteed energy savings contract” with a “qualified provider” to provide “energy conservation measures” (as such terms are defined in the Energy Conservation Act). The Energy Conservation Act contains the methods for obtaining and evaluating proposals and awarding the contract. Under the guaranteed contract, the provider guarantees the University that the savings under the contract will meet or exceed the costs of the conservation measures within twenty years of the date of final installation of the measures.

Section 110 ILCS 62/25 provides that the University may issue debt certificates to finance an installment payment contract or lease purchase agreement for the purchase and installation of the energy conservation measures.

C. Approvals & Other Considerations

1. Illinois Procurement Code

The Illinois Procurement Code (30 ILCS 500) contains limitation provisions which apply both to the issuance of revenue bonds and to the issuance of installment contract certificates of participation. Service providers instrumental in the issuance of debt must be approved through a competitive request for proposal (RFP) process. Certain participants may be exempt from the procurement process.

2. Illinois Board of Higher Education

The Board of Higher Education Act (110 ILCS 205/0.01 et seq.) requires that the Board submit its plan for capital improvement of non-instructional facilities to the Illinois Board of Higher Education (the “IBHE”) for approval before final commitments are made. The IBHE shall determine whether or not any project submitted for approval is consistent with the master plan for higher education and with instructional buildings that are provided for therein.

3. Legislative Audit Commission Guidelines

The Legislative Audit Guidelines limit the purpose for which revenue bonds may be issued, the uses of funds, the sources of payment and the accumulation of excess reserves.

Plans for capital improvement of non-instructional facilities will be submitted to the Illinois Board of Higher Education (the “IBHE”) for approval. Non-instructional facilities include dormitories, stadiums, student centers, recreational facilities, and parking lots.

4. Commission on Government Forecasting and Accountability

The State University Certificates of Participation Act (110 ILCS 73) requires the Board to submit its plan for financing capital improvements using certificates of participation to the Commission on Government Forecasting and Accountability for approval prior to issuance of debt.

D. Overview of Process

1. Identify & Prioritize Projects

Debt financed projects will be identified as early as possible. Projects are prioritized by the President upon recommendation by the Chancellors. All potential debt financed projects under consideration for the next several years are discussed as to their budget, timeline, and priority.

2. *Internal Approval Process*

The Chancellors approve and bring forward to the President projects on a campus-by-campus and programmatic basis. The President recommends project financing and brings forward to the Board of Trustees for project financing approval.

3. *Authorization to Issue Debt*

Bonds and Certificates of Participation are authorized by resolution of the Board of Trustees prior to issuance.

E. Establish Debt Capacity Parameters

It is the objective of the University to maintain no less than a single “A” category underlying rating for all debt at the time of issue. Core financial ratios that are strongly correlated with single “A” rated higher education peers will be monitored to ensure central oversight of University-wide leverage levels. The following three ratios will be monitored and are strongly correlated to the rating level:

1. Expendable Financial Resources to Direct Debt – Measures coverage of direct debt by financial resources that are ultimately expendable.
2. Operating Margin – Indicates the excess margin (or deficit) by which annual revenues cover expenses.
3. Debt Service Coverage – Measures actual margin of protection for annual debt service payments from annual operations.

F. Debt Compliance and Reporting Requirements

1. *Continuing Disclosure Compliance*

The University will meet the ongoing disclosure requirements in accordance with SEC Rule 15c2-12. The University will submit all reporting required with respect to outstanding bonds or certificates of participation to which such Rule is applicable.

2. *Arbitrage Rebate Compliance*

The University will comply with arbitrage requirements on invested tax-exempt bond proceeds. Arbitrage calculations will be performed as needed.

3. *Certificates of Participation Compliance*

The University will submit a copy of its annual budget and report the status of all outstanding certificates of participation annually to the Commission on Government Forecasting and Accountability.

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

I. STATEMENT OF OBJECTIVES

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

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

A. Overall Risk Profile

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

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

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

1. Safety of Invested Funds

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

G. Investment of Bond Proceeds

1. Taxable

Bond proceeds of a taxable issue may be invested in accordance with the University's Investment Policy for operating funds unless further restricted by a bond insurance policy.

2. Tax-Exempt

Bond proceeds of a tax-exempt issue will be invested in accordance with the Internal Revenue Service rules for tax-exempt debt unless further restricted by a bond insurance policy. The Internal Revenue Service rules that apply to each tax-exempt debt issuance are typically summarized in the respective Tax Compliance Certificate and Agreement.

H. Debt Management Strategies

1. Fixed versus Variable Rate Allocation

Variable rate debt can provide a lower cost of capital, but introduces additional risks. The University will carefully examine the risks and rewards of variable rate exposure. Variable rate debt should only be used as an integral part of a long term strategy and should not exceed twenty percent of the total debt portfolio or 50% of total operating cash.

2. Methods of Sale

The University will consider various methods of sale. Negotiated, competitive, private placement, and bank qualified sales will be considered on an individual transaction basis. Issue size and complexity will be factors in determining which method of sale to pursue.

3. Purchase of Insurance or Credit Enhancement

The University will evaluate insurance and credit enhancement opportunities and utilize them if they are deemed cost effective.

4. Refunding Opportunities

The University will monitor its debt portfolio for refunding and/or restructuring opportunities. For a stand-alone refunding for savings, the University will generally enter into a transaction that produces at least a 3% present value savings (based upon the amount of callable bonds or certificates). Advance refunding transactions must weigh the current opportunity against possible future refunding opportunities.

5. Selection of Underwriters and Participants on the Selling Team

The University will utilize a request for proposal process from time to time to select senior and co-managing underwriters. The process will also be

utilized to pre-qualify a roster of minority and regional firms for participation in the underwriting team when debt is issued. The University will reserve the right to utilize a competitive process for any single debt issue.

Attribution

This policy was developed, in part, and incorporates language, based upon the University of Illinois Debt Policy. Because legal structure and debt issuance are governed by state and federal laws and statutes, this policy may look very similar to other institutions.