

University of Wisconsin System Intermediate Term
Cash Management Fund

Statement of Investment Policy December 2023

Introduction and Background

This Statement of Investment Policy (IPS) is created pursuant to Regent Policy Document 31-18 “Intermediate Term Cash Management Fund Investment Policy Statement: Key Elements and Review Process” (RPD 31-18) and applies to the invested assets of the University of Wisconsin System (UW) Intermediate Term Cash Management (ITF) Fund (the Fund). As allowed under Wis. Stat. s. 36.11(11m) and RPD 31-18, the Fund’s assets can include any revenues designated by the Board of Regents of the University of Wisconsin System (Board), including revenues from gifts, grants, and donations not already covered under Regent Policy Document 31-9 “Investment Policy Statement: Key Elements and Review Process” (RPD 31-9) or its corresponding IPS.

Purpose

The purpose of this IPS is to serve as a detailed stand-alone document and details the guiding principles for all aspects of the management of the Fund and the premises on which these principles rest to provide the Board with an intermediate duration investment option for effective management of cash balances, including obtaining capacity to benefit from both term structures of interest rates and credit spreads. “Intermediate duration” is an average duration of between one and five years for the fixed-income investments held by the Fund.

Organization and Format

The IPS is organized into these five major Sections:

- Section I - General Policy Statement – which discusses the underlying bases for the policies and their implementation, and includes the investment objectives, constraints and competencies and the role of the internal Intermediate Term Cash Management Fund (ITF) Investment Committee
- Section II - Investment Policies – which describes specific policies adopted to attain identified objectives while conforming with the major premises, and includes asset allocations, policy portfolios, and benchmarks, as well as other investment and risk management policies and practices
- Section III - Implementation - which describes by whom and how the policies are to be implemented, and includes roles and responsibilities; investment consultant selection, retention, termination and responsibilities; investment manager selection, retention, termination and responsibilities; and conflicts of interest.
- Section IV - Reporting - which describes how investment performance will be monitored, and includes monitoring and measuring investment performance, and reporting and communication standards.

- Section V - Appendices – which provide greater detail on various policy elements discussed at a broader level in the main body of the document and includes detailed asset allocations and benchmarks for the investment fund.

Review of the IPS

Given the centrality of the IPS itself in ensuring that the Board meets its fiduciary responsibilities and effectively oversees the management of the investment program, it is imperative that the Board review, reaffirm, and/or adopt any necessary revisions to the full IPS document on an on-going basis. The IPS should be considered a living document; revisions and further refinements may be required as and when goals, constraints, or external market conditions change significantly.

I. GENERAL POLICY STATEMENT

A. Investment Objective, Constraints and Competencies

The objective of the Fund is to manage principal, ensure liquidity enough for anticipated needs while obtaining a reasonable return for a prudent level of risk. The ITF Investment Committee, and any UW Official, UW employee or designated investment consultant or investment manager shall manage the Fund as required under Wis. Stat. s. 112.11(3) and as required by any other applicable state or federal law, or Regent Policy.

B. Role of the internal Intermediate Term Cash Management Fund (ITF) Investment Committee

The ITF Investment Committee, along with the Trust Officers of the Board, are delegated by the Board through RPD 31-18 the authority and have the duty to otherwise implement, conduct, oversee, and monitor all aspects of the management and administration of the Fund consistent with the IPS.

II. INVESTMENT POLICIES

A. Asset Allocation, Policy Portfolio and Benchmarks

1. Asset Allocation

The Fund shall maintain an asset allocation as deemed appropriate by the ITF Investment Committee, as advised by an investment consultant. The ITF Investment Committee and investment consultant will review the asset allocation periodically and consider changes consistent with IPS. The ITF Investment Committee has adopted the target asset allocation outlined below to serve as a guide.

	Minimum	Target	Maximum
Short-Term Fixed Income	23.3%	33.3%	43.3%
Intermediate Fixed Income	6.7%	16.7%	26.7%
Broad Fixed Income	11.7%	16.7%	26.7%
High Yield	3.3%	8.3%	13.3%
Bank Loans	3.3%	8.3%	13.3%
Global Equity	11.7%	16.7%	21.7%

2. Policy Portfolio and Benchmarks

Asset Class	Relative Index	% of Composite Benchmark
Short-Term Fixed Income	Bloomberg Universal 1-5 Year Index	33.3%
Intermediate Fixed Income	Bloomberg Intern. Gov't/Credit	16.7%
Broad Fixed Income	Bloomberg U.S. Aggregate	16.7%
High Yield	S&P/LSTA Leveraged Loan Index	8.3%
Bank Loans	Bloomberg US Corporate High Yield 2% Cap Index	8.3%
Global Equity	MSCI ACWI IMI Index	16.7%

B. Other Policies and Practices

The Fund will use low-cost index-based fund vehicles in asset classes with liquid public markets and efficient and replicable benchmark indexes. The Fund will employ active management in asset classes without efficient benchmark indexes or where active management has a demonstrated ability to generate excess return net of fees.

III. IMPLEMENTATION

A. Roles and Responsibilities

1. Board of Regents and its Business and Finance Committee

The Board is the principal and ultimate fiduciary for the Fund. The Board's Business & Finance Committee is delegated oversight of the management and administration of Fund. The Board and/or its Business & Finance Committee shall regularly review and approve the IPS.

2. The ITF Investment Committee

Membership of the ITF Investment Committee is comprised of the UW System Administration Trust Funds Executive Director as Chair; the UW System Administration Vice President for Finance & Administration (or designee); and additional representatives appointed from participating UW institutions by the Chancellors of those participating UW institutions providing more than 10% of total Fund assets, consistent with the Memorandums of Understanding (MOUs) developed by UW with each participating UW institution.

In addition to broad responsibilities identified in Section I.B. above, the ITF Investment Committee shall:

- a. Approve investment asset allocations, policy portfolios, benchmarks and other policies and practices.
- b. Provide periodic reports to the Board's Business & Finance Committee.
- c. Review the IPS and recommend changes or revisions to the Board's Business & Finance Committee.
- d. Retain and terminate investment consultants.
- e. Retain and terminate investment managers.
- f. Receive periodic reports on investment performance results.

b. Accounting, Recordkeeping, and Administrative Staff

Primary responsibilities of accounting, recordkeeping and administrative staff are the following:

- i. In general, maintain all accounting and recordkeeping systems related to the ITF Investment Committee, including a record of all agendas and meeting minutes, Fund and Fund accounts, contracts with investment consultants and investment managers, and MOUs with participating Institutions.
- ii. Assist benefiting campuses and departments in their utilization of Fund accounts.

6. General Counsel's Office

Primary responsibilities are the following:

- a. Help ensure compliance with all applicable laws and regulations
- b. Provide assistance on any legal matters pertaining to the ITF Investment Committee, IPS and the Fund
- c. Provide legal assistance on matters pertaining to any Fund related contracts and agreements
- d. Manages any outside counsel relationships on behalf of the ITF investment committee

B. Investment Consultant selection, retention, termination and responsibilities

1. Selection

Selection of an investment consultant will be pursuant to Wis. Stat. s. 36.11(11m)(a)3. using the competitive sealed proposal process described in Wis. Stat. s. 16.75(2m).

2. Retention

Hiring of an investment consultant will be made upon recommendation of the Director of the Office of Trust Funds by the ITF Investment Committee as identified in Section III.A.2.d.

3. Termination

Termination of an investment consultant will be made upon recommendation of the Director of the Office of Trust Funds by the ITF Investment Committee as identified in Section III.A.2.d.

4. Responsibilities

The Investment consultant shall regularly communicate with the ITF Investment Committee and advise on:

- a. Investment policy and investment opportunities including:
 - i. Periodic review and evaluation of investment objectives and asset allocation of the investments for the Fund and specific recommendations about maintaining or modifying investment strategies and rebalancing of such investments.

- ii. Recommendations and advice on matters regarding investment manager selection, retention, and termination.
 - iii. Development of written investment guidelines specific to each investment manager including the use of derivatives, if allowed, for a manager and mandate where applicable.
 - iv. Recommend performance benchmarks for individual investment managers and for the Fund as a whole.
- b.** Investment performance that includes:
- i. Periodic reports, including formal written quarterly reports, on the performance of the investments and performance of individual investment managers.
 - ii. Periodic evaluation of investment manager ability to exceed the established benchmark over a full market cycle in comparison with investment markets and other investment managers.
 - iii. Evaluation of investment manager adherence to the terms and conditions of the investment manager agreement, including compliance with ITF Investment Committee policy and the guidelines provided to each investment manager.
 - iv. Monitoring of investment manager soft dollar policies and practices to ensure an appropriate relationship to the management of the ITF Investment Committee's investment account.
 - v. Reviewing of investment and management fees and report on reasonableness.

The investment consultant shall provide immediate notification to the ITF Investment Committee of any major change in its confidence in a particular asset class or individual managers or funds.

C. Investment Managers selection, retention, termination and responsibilities

1. Selection

Selection of an investment manager will be pursuant to Wis. Stat. s. 36.11(11m)(a)3. using the competitive sealed proposal process described in Wis. Stat. s. 16.75(2m).

2. Retention

Hiring of an investment manager will be made upon recommendation of the Director of the Office of Trust Funds by the ITF Investment Committee as identified in Section III.A.2.e.

3. Termination

Termination of an investment manager will be made upon recommendation of the Director of the Office of Trust Funds by the ITF Investment Committee as identified in Section III.A.2.e.

4. Responsibilities

Each investment manager is authorized to execute investment transactions within established investment guidelines, subject to any restrictions established by the ITF Investment Committee, investment management agreement or relevant contract terms.

External investment managers shall manage the Fund as required under Wis. Stat. s. 112.11(3) and as required by any other applicable state or federal law, or Regent Policy.

Investment managers shall:

- a. Adhere to stated objectives, guidelines, and restrictions as noted above.
- b. Always seek best price/execution when purchasing or selling securities.
- c. Provide quarterly reports on performance and other appropriate matters including:
 - i. The investment manager's current outlook for the economy and capital markets and how the firm intends to adapt to these expectations.
 - ii. Investment portfolio structure, past investment manager performance, and the appropriateness of the present investment portfolio given these expectations and the ITF Investment Committee's investment policies.
- d. Recommend changes to investment guidelines developed under Section III.B.4.a.iii.
- e. Report any substantive changes expected in the portfolio or in the investment manager's organization.
- f. Report notice of any regulatory actions against the investment manager's organization, its principals, owners or employees.
- g. Meet with the ITF Investment Committee upon request.
- h. Use of soft dollar trades to acquire products or services to be used in the administration of the Fund are permissible only if the trade provides best execution and price. Investment managers shall report soft dollar policies and practices to the ITF Investment Committee's investment consultant.
- i. Provide immediate written notification to the Director of the Office of Trust Funds and investment consultant of any extraordinary losses or conditions which could reasonably be expected to lead to an extraordinary loss or substantial violation of the ITF Investment Committee's investment policies or any of the following circumstances:
 - i. Any material changes in the investment outlook, strategy, portfolio structure, and ownership or senior personnel of the investment management organization.
 - ii. Any noncompliance with any provision of the IPS and investment guidelines, or the terms and conditions established in its investment management agreement or relevant contract with the ITF Investment Committee, and a recommended plan of action and timetable to correct any violations or breach.
 - iii. Any regulatory authority's citation of the existence of a material weakness in internal control structure, or regulatory orders or sanctions against the investment manager's organization or any of its personnel, about the type of services being performed under its investment management agreement or relevant contract.

D. Codes of Ethics and Avoiding Conflicts of Interest

All Regents, UW public officials, employees must follow applicable Wis. Stat. Ch. 19, Wis. Admin. Code ch. UWS 8, and relevant Regent and campus ethics policies. Pursuant to these requirements, it is expected that no Regents, UW public officials, UW employees will make, participate in making, or influence a decision in which such individuals have a financial interest. Also, no Regents, UW public officials or UW employees may solicit or accept from any person or organization anything of value pursuant to an express or implied understanding that his or her conduct of UW business would be influenced thereby.

IV. REPORTING

1. Monitoring and measuring investment performance

Responsibilities for monitoring and measuring investment performance are included throughout the IPS, and are shared to various degrees as but are cross-referenced here for convenience as follows:

- a. Board and its Business and Finance Committee – “Review of the IPS” introductory Section, Section III.A.
- b. ITF Investment Committee – Section I.B., Section III.A.2.c., f., g. and h.
- c. Vice President for Administration and Finance/Trust Officer – Section I.B., Section III.A.4.a.
- d. Director of the Office of Trust Funds/Assistant Trust Officer – Section I.B., Section III.A.5.i., iii., iv., v. and vi.
- e. Investment Consultant – Section III.B.4.
- f. Investment Manager – Section III.C.4. a. and c.

2. Reporting and communication standards

Responsibilities for Reporting and communication standards are included throughout the IPS, but are organized here for convenience as follows:

- a. ITF Investment Committee –Section III.A.2.b., c. and f.
- b. Director of the Office of Trust Funds/Assistant Trust Officer –Section III.A.5. ii., viii. and x.
- c. General Counsel – Section III.A.6.a. and d.
- d. Investment Consultant – Section III.B.4.b.i. and v.
- e. Investment Manager – Section III.C.4.c., d., e., f., g., h. and i.

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V. APPENDICES

A. Appendix A

Investment Vehicles

Asset Class	Investment Strategy	Description
Short-Term Fixed Income	iShares Core1-5 Year Bond Fund	Passive strategy that seeks to track the investment results of the Bloomberg U.S. Universal 1-5 Year Index, an index composed of U.S. dollar-denominated bonds that are rated either investment grade or high yield with remaining maturities between one and five years.
Intermediate Fixed Income	Intermediate Government /Credit Bond Index Fund B	Passive strategy that seeks to track the investment results of the Bloomberg U.S. Intermediate Government/Credit Bond Index, an index composed of U.S. dollar-denominated government, government-related and investment-grade U.S. corporate bonds with remaining maturities between one and ten years.
Broad Fixed Income	U.S. Debt Index Fund B	Passive strategy that seeks to track the investment results of the Bloomberg U.S. Aggregate Bond Index, an index comprised of U.S. Government securities and corporate bonds, as well as mortgage-backed securities, asset-backed securities, and commercial mortgage-backed securities.
High Yield	U.S. High Yield Bond Index Non-Lendable Fund B	Passive strategy that seeks to track the investment results of the ICE VofA US High Yield Constrained Index in a portfolio of debt securities that are included in the Index, or which BlackRock believes will allow the portfolio to better track the Index.

Bank Loans	BlackRock Floating Rate Income Portfolio	Active strategy that seeks to provide high current income by investing, under normal market conditions, at least 80% of its assets in floating rate debt securities.
Global Equity	MSCI ACWI IMI Index	Passive strategy that seeks to track the investment results of the MSCI ACWI IMI, a global equity index comprised of large, mid, and small cap equity securities across developed and emerging markets.