

**TITLE: INVESTMENTS**

**PURPOSE:** To govern the investment of all Center funds with the exception of the pension funds. This is a revised policy and supersedes the Investments Policy dated November 26, 2007.

[Key Words: Investments, Investment Strategy, Public Funds Investment Act, Investment Officer, Audit]

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**POLICY STATEMENT:**

The Center shall follow the Public Funds Investment Act guidelines to purchase, sell, and invest its funds, using investment strategies and procedures that will most effectively accomplish the goals of preservation of capital, liquidity to meet all obligations in a timely manner, maximization of earnings and public trust. This policy does not apply to the Center's 401(a) Retirement Plan.

**POLICY ELABORATION:**

**I. DEFINITIONS**

- A. Capital - the net worth of a business after all liabilities have been deducted.
- B. Derivatives - instruments which have embedded features that alter their character or income stream or allow holders to hedge or speculate on a market or spreads between markets that are external to the issuer, or are not correlated on a one-to-one basis to the associated index or market.
- C. Funds - public funds in the custody of a state agency or local government that:

1. Are not required by law to be deposited in the state treasury; and
  2. The investing entity has authority to invest.
- D. Investments – are possessions, (such as property) acquired for future income or benefit.
- E. Investment Management Firm - any issuer which:
1. Is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, or trading in securities;
  2. Is engaged or proposes to engage in the business of issuing face-amount certificates of the installment type, or has been engaged in such business and has any such certificate outstanding; or
  3. Is engaged or proposes to engage in the business of investing, reinvesting, owning, holding, or trading in securities, and owns or proposes to acquire investment securities having a value exceeding 40 per centum of the value of such issuer's total assets (exclusive of Government securities and cash items) on an unconsolidated basis.
- F. Market value - the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market-pricing source quoted on the valuation date.
- G. Principal - the capital or main body of an estate or financial holding; a sum of money owed as a debt, on which interest

is figured.

- H. State Securities Board - state agency established to regulate the sale of stocks, bonds, and other securities in Texas, as well as to license the persons and corporations selling such securities.

## **II. STANDARD OF CARE**

- A. 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.
- B. The primary investment objectives of the Center shall be:
  - 1. Preservation of capital and protection of principal;
  - 2. Safety of funds and investments;
  - 3. Maintenance of sufficient liquidity;
  - 4. Diversification to avoid unreasonable or avoidable risks;
  - 5. Yield and maturity; and
  - 6. Quality and capability of investment management.

### **III. ADMINISTRATION**

#### **A. Annual Review**

The Board of Trustees shall review this Investment Policy annually. The policy will be revised as needed to ensure that it adequately reflects the changes to the Center's Investment Program. The annual review of the policy shall be documented by formal action of the Board of Trustees.

#### **B. Procurement**

The Center shall ensure that all securities purchased for the Center will be procured through a documented competitive bidding process and that the investment management firm or other contractor used to assist the Center in providing for the investment and management of its public funds or other funds under its control will meet the requirements of the Public Funds Investment Act, including the requirement to be registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 *et seq.*) or with the State Securities Board.

#### **C. Designation of Investment Officer**

The Chief Administrative Officer or designee shall be the Center's Investment Officer. The Investment Officer shall be responsible for:

1. Investment of the Center's funds under policies set by the Board;

2. Submitting written reports of investment transactions, as part of the financial reports, at least quarterly to the Board of Trustees; and
3. Ensuring that the Center, in conjunction with its annual financial audit, performs an audit of management controls and transactions on investments and compliance with the Center's investment policies.
4. The Investment Officer may delegate the daily responsibilities and operations of investments to the Accounting Manager. No other person may deposit, withdraw, invest, transfer, or manage in any other manner the funds of the Center without express written authority of the Board. Authority granted under this section is effective until rescinded by the Board.
5. The Center shall ensure that the investment officers are trained in investment controls and investment risks as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code.

D. 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 officials 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 whom business is conducted on behalf of their entity.

#### **IV. AUTHORIZED INVESTMENTS**

The Center shall limit the maximum stated maturity of an investment to five years, with the exception of the Board Funds, unless specific authority is given to exceed. This exception shall be granted upon recommendation of the Chief Administrative Officer with joint signatures of the Chairman or the Vice Chairman of the Board, and of the Executive Director.

The Center's Investment authority is derived from the Public Funds Investment Act. The Board of Trustees has authorized the use of the Texas Government Pool (TexPool) for investing the Center's Funds. The Center's Funds may also be invested in the following with prior Board approval.

##### **A. Government Securities**

Funds may be invested in the obligations of the United States, its agencies or instrumentalities, **EXCEPT** the following:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-

backed security collateral and bears no interest;

3. Collateralized mortgage obligations that have a stated final maturity date of greater than ten (10) years; and
4. Collateralized mortgage obligations of which the interest rate is determined by an index that adjusts opposite to the changes in a market index.

B. Repurchase Agreements and Reverse Repurchase Agreements

Funds may be invested in fully collateralized repurchase agreements and reverse repurchase agreements having a defined termination date and secured by any obligations of the United States, its agencies or its instrumentalities, to include certain mortgage backed securities of the U.S. The repurchase and reverse agreement transactions are to be placed only with primary government securities dealers or state or national banks doing business in the State of Texas. Reverse repurchase agreements must not exceed ninety (90) days.

C. Certificate of Deposits

Funds may be invested in fully collateralized Certificates of Deposit issued by state or national banks or savings and loans and guaranteed by the Federal Deposit Insurance Corporation or its successor. Priority shall be given to financial institutions from the State of Texas. The certificates must be styled in the name of the Center. Collateral for the time deposits may be in the form of:

1. Obligations of the United States, its agencies or instrumentalities;
2. Direct obligations of the State of Texas or its agencies or instrumentalities;
3. Other state and local government bonds or obligations rated not less than "A" or its equivalent; and
4. Other obligations fully guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States, including certain mortgage-backed securities.

D. Money Market Mutual Funds

Funds may be invested in a no-load money market mutual fund, which is regulated by State Securities and Exchange Commission. The money market fund must be rated "AAA" or its equivalent by at least one nationally recognized rating firm. The money market must also maintain a dollar-weighted average stated maturity of ninety (90) days or fewer, and include in its investment objectives the maintenance of a stable net asset value of \$1.00 (One Dollar).

E. Commercial Paper

Funds may be invested in commercial paper if the commercial paper is rated not less than A-1 or P-1 or an equivalent rating by at least:

1. Two nationally recognized credit rating agencies; or

2. One nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

## **V. INVESTMENT STRATEGIES**

The Center shall adopt a separate written investment strategy for each of the funds or group of funds under its control and shall ensure that the strategies describe the investment objectives for the particular fund using the following priorities in order of importance:

- A. Understanding the suitability of the investment to the financial requirements of the entity;
- B. Preservation and safety of principal;
- C. Liquidity;
- D. Marketability of the investment if the need arises to liquidate the investment before maturity;
- E. Diversification of the investment portfolio; and
- F. Yield.

## **VI. PROHIBITED INVESTMENTS**

A. The Center shall not invest in derivatives. For the purpose of this Investment Policy, prohibited derivatives include the following:

1. Arrangements in which an investor has swapped the natural cash flows or some portion of the cash flow of an instrument for a different set of cash flows. (i.e. Interest Rate Swaps)
2. Over-the-Counter/Exchange trade options or futures. (i.e., Option Contracts, Future Contracts)
3. Instruments explicitly specified as follows: Collateralized Mortgage Obligations, Inverse Floating Rate Notes, Dual Index Notes, Index Amortizing Notes, Inverse Multi-Index Bonds.

B. Examples of allowable instruments, which are not considered derivatives by the preceding definition are authorized investments listed as follows:

Treasury Bills, Treasury Notes, Treasury Bonds, Treasury Strips, Repurchase Agreements, Reverse Repurchase Agreements, Agency Notes with a defined maturity and fixed coupon rate, Money Market Index Variable Rate Notes (i.e. floating rate notes tied to money market indices defined as Treasury Bills, London Interbank Offering Rate (LIBOR), Fed Funds, and Cost of Funds Index) Step-up Notes, Certificates of Deposit.

- C. The purchase and sale of all securities shall be on a delivery versus payment basis (i.e., moneys will not be released by the Center until securities are held by a third party custodian as evidenced by safekeeping receipts.)

**REFERENCES/BIBLIOGRAPHY:**

Guidelines for Annual Financial and Compliance Audits of Community MHMR Centers

The Department of State Health Services/Performance Contract

The Department of Assistive and Rehabilitative Services/Performance Contract

Texas Government Code, Chapter 2255 (“Public Funds Collateral Act”)

Texas Government Code, Chapter 2256 (“Public Funds Investment Act”)

Local Government Code – Chapters 116 and 117

15 U.S.C. Section 80a–1 *et seq.*

**OFFICE OF PRIMARY RESPONSIBILITY:** Chief Administrative Officer