Camden County Developmental Disability Resources

Policy Number: 27 Effective: October 20, 2008 Revised: April 19, 2010, September 17, 2012, October 16, 2017
Subject: Investment Of Board Funds

PURPOSE:

All funds of Camden County Developmental Disability Resources (CCDDR) are held by the board in a fiduciary capacity. Therefore, all restricted and unrestricted funds of the organization are held by the organization as a steward for the sake of carrying out CCDDR's mission and objectives. The basic investment standards shall be those of a prudent investor as articulated in applicable state laws pertaining to political subdivisions of Missouri. The following instructions are to be understood and employed with that sense of stewardship in mind. Further, this investment policy is set forth in order that:

- There is a clear understanding of responsibilities and objectives of the board, its delegates, and chosen investment counselors
- The board will have a basis for evaluating the investment performance of each of the organization's investment funds

POLICY:

I. <u>Scope</u>

This policy applies to the investment of all operating funds of the Camden County Senate Bill 40 Board, dba Camden County Developmental Disability Resources (CCDDR).

A. Pooling of Funds

In an effort to maximize account holdings and investment earnings, investment income will be allocated to various fund accounts based on their intended purpose and in accordance with generally accepted accounting principles.

B. External Management of Funds

Investment through external programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

II. <u>General Objectives</u>

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

A. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

1. Credit Risk

CCDDR will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which CCDDR will do business
- Diversifying the portfolio so that potential losses on individual securities will be minimized

2. Interest Rate Risk

CCDDR will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities

B. Liquidity

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

C. Yield

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

- A security with declining credit may be sold early to minimize loss of principal
- A security swap would improve the quality, yield, or target duration in the portfolio
- Liquidity needs of the portfolio require that the security be sold

III. Standards of Care

A. Prudence

The standard of care to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio/fund accounts. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the governing body and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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

B. 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. CCDDR employees, board members, 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/fund accounts. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of CCDDR.

C. Delegation of Authority

Authority to manage the investment program is granted to the CCDDR Executive Director (hereinafter referred to as the Investment Officer) in consultation with an Investment Advisor employed at a local financial institution. Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with the established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy, Financial Management Practices Policy, and the CCDDR Bylaws. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

IV. Investment Transactions

A. Authorized Financial Dealers and Institutions

Federally insured banks, credit unions, and other financial institutions are considered acceptable financial dealers and institutions. In the event Federally insured banks, credit unions, or other financial institutions are not intended to be used for investment purposes, a list of financial institutions, which are authorized to conduct and provide investment transactions and approved by the governing body, will be generated and maintained. In addition, a list of approved security broker/dealers selected by creditworthiness as determined by the investment officer and approved by the governing body will be generated and maintained. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read and understood and agreeing to comply with the CCDDR investment policy.

An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the investment officer.

B. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure that will be reviewed annually with CCDDR's independent auditor. The internal control structure shall be designed to ensure that the assets of CCDDR are protected from loss, theft or misuse and to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

The internal controls shall address the following points:

- Control of collusion.

- Separation of transaction authority from accounting and record keeping.
- Custodial safekeeping.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation of transactions for investments and wire transfers.
- Development of a wire transfer agreement with the lead bank and third party custodian.

C. Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in eligible financial institutions prior to the release of funds. All securities shall be perfected in the name or for the account of CCDDR and shall be held by a third-party custodian as evidenced by safekeeping receipts.

V. <u>Suitable and Authorized Investments</u>

A. Investment Types

In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that CCDDR will consider and which shall be authorized for the investments of funds by CCDDR.

1. <u>United States Treasury Securities.</u> CCDDR may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.

2. <u>United States Agency Securities.</u> CCDDR may invest in obligations issued or guaranteed by any agency of the United States Government as described in V. (2).

3. <u>Repurchase Agreements.</u> CCDDR may invest in contractual agreements between CCDDR and commercial banks or primary government securities dealers. The purchaser in a repurchase agreement (repo) enters into a contractual agreement to purchase U.S. Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices.

4. <u>Collateralized Public Deposits (Certificates of Deposit).</u> Instruments issued by financial institutions which state that specified sums have been deposited for specified periods of time and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by State statute.

5. <u>Bankers' Acceptances.</u> Time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances. CCDDR may invest in bankers' acceptances issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation.

6. Commercial Paper. CCDDR may invest in commercial paper issued by domestic corporations, which has received the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation. Eligible paper is further limited to issuing corporations that have total commercial paper program size in excess of five hundred million dollars ($500,000,000).

7. Money Market Accounts. CCDDR may invest in money market accounts at Federally insured banks, credit unions, and other financial institutions. Money market accounts are required to be backed by acceptable collateral securities as dictated by State statute.

B. Security Selection

The following list represents the entire range of United States Agency Securities that CCDDR will consider and which shall be authorized for the investment of funds by CCDDR. Additionally, the following definitions and guidelines should be used in purchasing the instruments:

1. U.S. Govt. Agency Coupon and Zero Coupon Securities. Bullet coupon bonds with no embedded options.

2. U.S. Govt. Agency Discount Notes. Purchased at a discount with maximum maturities of one (1) year.

3. U.S. Govt. Agency Callable Securities. Restricted to securities callable at par only with final maturities of five (5) years.

4. U.S. Govt. Agency Step-Up Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed term. Restricted to securities with final maturities of five (5) years.

5. U.S. Govt. Agency Floating Rate Securities. The coupon rate floats off one index. Restricted to coupons with no interim caps that reset at least quarterly.

6. U.S. Govt. Mortgage Backed Securities. Restricted to securities with final maturities of five (5) years.

C. Investment Restrictions and Prohibited Transactions

To provide for the safety and liquidity of CCDDR's funds, the investment portfolio will be subject to the following restrictions:

1. Borrowing for investment purposes ("Leverage") is prohibited.

2. Instruments known as Structured Notes (e.g. inverse floaters, leveraged floaters, and

equity-linked securities) are not permitted. Investment in any instrument, which is commonly considered a “derivative” instrument (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.

3. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.

4. No more than 5% of the total market value of the portfolio may be invested in bankers’ acceptances issued by any one commercial bank and no more than 5% of the total market value of the portfolio may be invested in commercial paper of any one issuer.

D. Collateralization

Collateralization will be required on three types of investments: certificates of deposit, money market accounts, and repurchase agreements. The market value (including accrued interest) of the collateral should be at least 100%.

For certificates of deposit, the market value of collateral must be at least 100% or greater of the amount of certificates of deposits plus demand deposits with the depository, less the amount, if any, which is insured by the Federal Deposit Insurance Corporation, or the National Credit Unions Share Insurance Fund.

All securities, which serve as collateral against the deposits of a depository institution, must be safe-kept at a non-affiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts within five business days from the settlement date.

CCDDR shall have a depositary contract and pledge agreement with each safekeeping bank that will comply with the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This will ensure that CCDDR’s security interest in collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution.

E. Repurchase Agreements

The securities for which repurchase agreements will be transacted will be limited to U.S. Treasury and government agency securities that are eligible to be delivered via the Federal Reserve's Fedwire book entry system. Securities will be delivered to CCDDR’s designated Custodial Agent. Funds and securities will be transferred on a delivery vs. payment basis.

VI. Investment Parameters

A. Diversification

The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

1. U.S treasuries and securities having principal and/or interest guaranteed by the U.S. government…………………………….100%
2. Collateralized time and demand deposit………………………..100%
3. U.S. Government agencies, and government sponsored enterprises………………………….........................no more than 60%
4. Collateralized repurchase agreements………………………….50%
5. U.S. Government agency callable securities……………………no more than 30%
6. Commercial Paper……………………………………………no more than 30%
7. Bankers' Acceptances……………………………………...no more than 30%

B. Maximum Maturities

To the extent possible, CCDDR shall attempt to match its investments with anticipated cash flow requirements. Investments in bankers' acceptances and commercial paper shall mature and become payable not more than one hundred eighty days (180) from the date of purchase. All other investments shall mature and become payable not more than five (5) years from the date of purchase. CCDDR shall adopt weighted average maturity limitations that should not exceed three (3) years and is consistent with the investment objectives.

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

VII. Reporting

A. Methods

The investment officer shall prepare 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. This management summary will be prepared in a manner that will allow CCDDR to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the governing body of CCDDR. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration (in accordance with Government Accounting Standards Board (GASB) 31 requirements). [Note, this is only required annually].

- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

B. 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. A series of appropriate benchmarks may be established against which portfolio performance shall be compared on a regular basis.

Commercial paper and bankers' acceptances must be reviewed monthly to determine if the rating level has changed. The commercial paper and bankers' acceptances should be reviewed for possible sale if the securities are downgraded below the minimum acceptable rating levels.

C. 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 annually to the governing body of CCDDR. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

VIII. Policy Considerations

A. Exemption

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

B. Adoption

This policy shall be adopted by resolution of CCDDR's governing body. The policy shall be reviewed annually by the investment officer and recommended changes will be presented to the governing body for consideration.

REFERENCES:

- Section 30.950 RSMo