

## **Policy III.3001.A, Investment Policy and Strategy**

### **Purpose**

The Board of Trustees of San Jacinto College will review and adopt the College's Investment Policy and investment strategies not less than annually in accordance with the Public Funds Investment Act.

### **Policy**

It is the policy of the San Jacinto College District ("College") to invest its public funds in a manner that will provide the highest reasonable investment return with the maximum security while meeting the daily cash flow requirements of the College and conforming to all state and federal statutes governing the investment of public funds. These funds are accounted for in the College's annual comprehensive financial report.

### **Authority**

The primary state statute controlling the investment of public funds is the Public Funds Investment Act, Texas Government Code, Chapter 2256 (Act).

### **Applicability**

This Investment Policy applies to all assets and investment activity of the College including restricted and unrestricted funds.

The Sanctions, Exclusions, and Interpretation do not differ from Policy II.2000.A, Policy and Procedures Development, Review, Revision, and Rescission.

## **OBJECTIVES**

The primary objectives, in priority order, of the College's investment activities shall be:

**SAFETY:** Safety of principal is the foremost objective of the investment program. The College shall undertake investments in a manner that seeks to ensure the preservation of capital in the overall portfolio. Use of high-credit quality securities in a laddered portfolio structure will assist in minimizing credit risk.

**LIQUIDITY:** The College's investment portfolio will remain sufficiently liquid to enable the College to meet all operating requirements that can be reasonably anticipated. The College will use cash flow projections to monitor changing needs.

**DIVERSIFICATION:** The College will strive to create diverse portfolios to minimize credit and market risks by addressing diversification in terms of maturity as well as security type and issuer. The College will diversify its portfolios to manage market risk resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of investment instruments.

**YIELD:** The College will strive to earn a reasonable market yield within the restrictions imposed by the Policy's safety and liquidity requirements, investment strategies, and state and federal laws governing investment of public funds. The College will design the investment portfolio with the objective of meeting and exceeding the yield of comparable benchmark securities chosen to be commensurate with the College's investment risk constraints

and the cash flow characteristics. The College will utilize the 1-Year, 2-Year, and 3-Year Treasury yields, as appropriate, as benchmarks for the portfolios' performance and risk levels.

## **STRATEGY**

The College's general investment strategy is based on its objectives of (a) safety of principal, (b) liquidity, (c) diversification, and (d) reasonable yield. The College's strategies for individual funds will address:

1. The suitability of the authorized investments to the financial and cash flow requirement of the College.
2. The need for preservation and safety of principal.
3. The need for a measured liquidity to meet the College's cash flow requirements.
4. The marketability of every investment if the need arises to liquidate that investment before maturity.
5. Diversification of the investment portfolio to limit market and credit risks.
6. The recognition of reasonable yield to be used for the needs of the College.

The College maintains three separate portfolios representing the College's major fund types. Each portfolio is guided by individual investment strategy considerations addressing the unique characteristics of its fund group.

### **A. Operating Funds and Commingled Pools Containing Operating Funds**

Investment strategies for operating funds and commingled pools containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The College may accomplish this objective by purchasing high credit quality, short to medium-term securities, which form a laddered maturity structure and provide for a suitable liquidity buffer for unanticipated expenses. The College will maintain a maximum dollar weighted average maturity (WAM) of 365 days in these funds and will calculate the WAM using the stated final maturity date of each security.

### **B. Debt Service Funds**

These portfolios contain debt service funds with particular needs. Investment strategies for debt service payments shall assure investment liquidity adequate to cover the debt service obligation on the required payment date. The next debt service date must always be funded before funding subsequent payments.

Included also are debt service reserve funds that are used to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. The College shall consider bond documents and ordinances specific to an individual issue in the investments. Securities should be of high credit quality with short to intermediate term maturities. The College shall manage volatility with relatively short and intermediate securities.

### **C. Bond Funds, Construction, Special Projects, or Special Purpose Funds**

Investment strategies for construction, special projects, or special purpose fund portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These portfolios should include at least 10% in highly liquid securities to allow for flexibility and unanticipated project outlays. The College will attempt to match its issue costs of bonds (avoid negative arbitrage) without incurring major rebate payables. The stated final maturity dates of securities held should not exceed the estimated project completion date and the maximum WAM will be guided by anticipated expenditure plans.

### **STANDARD OF CARE – PRUDENT PERSON STANDARD**

The College shall make investments 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 capital as well as income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal, liquidity, diversification, and yield.

All College Investment Officers will use this standard of prudence in the context of managing the overall portfolio. 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 or market price fluctuations by the College provided that the Investment Officers report deviations from expectations in a timely fashion and take appropriate action to control adverse developments.

### **INVESTMENT TRAINING**

It will be the College's policy to provide training for Board members and Investment Officers as required by the Act. For the purposes of the Act, community colleges are considered to be state agencies. The Texas Higher Education Coordinating Board (THECB) will provide training for Board members that members complete within six months of assuming office.

The designated Investment Officer(s) shall attend at least the minimum required hours of investment training within six months of assuming their duties and at least the minimum required hours every subsequent two fiscal years. The Board will approve the independent source to provide the investment training. For purposes of this Policy, an "independent source" approved by the Board from which investment training shall be obtained shall include a professional organization, an institute of higher learning or any other sponsor other than a business organization with whom the Board of Trustees engages in an investment purchase or sale.

Not later than the 180<sup>th</sup> day after the last day of each regular session of the legislature, a report on investment training attended by Investment Officers of the institution shall be prepared by administration and delivered to the Board of Trustees.

### **DELEGATION OF AUTHORITY AND RESPONSIBILITIES**

In accordance with the Act, the Board of Trustees delegates, by resolution, management responsibility for the investment program through the Chancellor to the Vice Chancellor of Fiscal Affairs as the primary Investment Officer. The daily investment transaction processing and reporting are delegated to the following Finance staff who are also considered Investment Officers: Associate Vice Chancellor, Finance; Director, Accounting and Financial Services; Comptroller;

and Assistant Comptroller.

### **Board of Trustees**

The Board is responsible for reviewing and adopting the Investment Policy on no less than an annual basis. The Board is responsible for designating Investment Officer(s) or an Investment Adviser responsible for the management of the portfolio(s). The Board may designate an investment committee to review reports and approve counterparties, but the Board must receive and review quarterly investment reports. The Board retains ultimate fiduciary responsibility for all funds.

### **Investment Committee**

The Board Finance Committee will act as the College's Investment Committee. The Investment Committee shall meet at least quarterly to receive and review quarterly investment reports and monitor investment results. The Investment Committee shall include in its deliberation such topics as economic outlook, portfolio diversification, maturity structure, risk levels, and performance. The Investment Committee will, on no less than an annual basis, review and adopt the list of authorized broker/dealers for the Board.

### **Investment Officer(s)**

The Investment Officer(s) shall monitor and maintain all controls and procedures of the investment process as designated by this Policy. The Officer(s) shall obtain training and shall establish written procedures and controls consistent with this Investment Policy. Such procedures shall include delegation of authority to individual employees responsible for investment transactions and documentation of investment transactions and holdings. The Investment Officer(s) shall prepare all required reports and maintain broker/dealer files as required. All Investment Officer(s) will strictly adhere to the standard of care and conditions prescribed in this Policy.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment Officer(s) will avoid any transaction that might impair public confidence in the College. The investment program shall be designed and managed with a degree of professionalism that is worthy of that public trust.

All Investment Officers shall be familiar with this Policy and its underlying procedures. No Investment Officer may engage in an investment transaction except as provided under the terms of this Policy and the established procedures.

The Board may designate an SEC registered investment adviser to act as an Investment Officer for the College in assisting College staff with all provisions of this Policy.

### **ETHICS AND CONFLICTS OF INTEREST**

College Investment Officers involved in the investment process who have personal business relationships with any entity seeking to sell an investment to the College shall file a statement disclosing the extent of that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity (as determined by state statute) to an individual seeking to sell an investment to the College shall file a statement disclosing that relationship with the Texas Ethics Commission in accordance with the Act.

## **AUTHORIZED INVESTMENTS**

This Policy applies to all investment activity of the College. The College will pursue a pro- active, conservative approach to investment activity and although other investments may be authorized by law, the College may invest only in investments authorized by the Board as listed below:

1. Obligations of the US Government (Treasury Bills and Treasury Notes), its agencies and instrumentalities not to exceed three years to stated maturity. Mortgage backed securities with stated maturities not more than three years are authorized only in bond construction funds.
2. Fully insured or collateralized certificates of deposit of any bank doing business in Texas that are collateralized in accordance with this Policy and with a stated final maturity not to exceed one year to include those bought through the CDARS network.
3. Negotiable certificates of deposit securities issued by a bank that has a certificate of deposit rating of at least 1 or equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A1/P1 or equivalent by a nationally recognized rating agency.
4. Commercial paper rated no less than A1/P1 by two nationally recognized rating agencies with a stated maturity less than 90 days.
5. Fully collateralized direct repurchase agreements with a defined termination date, secured in accordance with this Policy and placed with a primary securities dealer. All repurchase agreement transactions shall be governed by an executed Bond Market Association Master Repurchase Agreement. Maximum stated maturity shall be 90 days except for flex repurchase agreements. Bond proceeds from one issue may be invested in a single flex repurchase agreement the maximum stated maturity for which shall be matched to the expenditure plan of the bonds.
6. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, with a stated maturity of not more than three years.
7. AAA or equivalent rated, Texas local government investment pools striving to maintain a \$1 net asset value (NAV) as defined by the Act and authorized specifically by the Board of Trustees for a particular pool.
8. A money market mutual fund in compliance with SEC Rule 2a-7 and striving to maintain a \$1 net asset value.
9. Corporate bonds, debentures or similar debt obligations rated in one of the two highest long-term rating categories without regard to gradations in those categories by a two nationally recognized rating agencies not to exceed three years to maturity.
10. FDIC-insured brokered certificate of deposit securities from a bank in any US state, delivered versus payment to the College's safekeeping depository, not to exceed one year to maturity. Before purchase, the Investment Officer or Adviser must verify the FDIC status of the bank on [www.fdic.gov](http://www.fdic.gov) to assure that the bank is FDIC insured.
11. Fully insured or collateralized interest-bearing accounts in any bank in Texas.

If the State approves additional types of securities for investment by public funds by state statute, these securities will not be eligible for investment by the College until this Policy has been amended and the amended version adopted by the Board of Trustees.

## **PROHIBITED INVESTMENTS**

The Board strictly prohibits the College from investing in any type of mortgage derivatives:

1. Interest Only Mortgage Backed Securities (IO). Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
2. Principal Only Mortgage Backed Securities (PO). 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 (CMO) that have a stated final maturity date greater than ten years.
4. Inverse Floaters. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

## **DIVERSIFICATION**

The College will use diversification to minimize risk of loss by over-concentration in a particular market sector, maturity or security. The College will strive to structure portfolios with laddered maturities and securities in accordance with the Policy's authorized investments and maximum maturity constraints. To assure diversification in the portfolio, the College will impose the following maximum limits (at time of purchase):

<b><u>Investment Type</u></b>	<b><u>Max. % in Portfolio</u></b>
US Treasury Obligations	90%
US Agency and Instrumentality Obligations	85%
SEC Registered Money Market Funds	60%
Repurchase Agreements	75%
Flex Repurchase (Bond Funds)	100% of issue
Collateralized/Insured CDs	20%
FDIC insured brokered CDs	20%
Negotiable CDs	15%
Limit per bank	5%
Local Government Investment Pools	100%
Participation per pool	10% of pool
Commercial Paper	25%
Limit per issuer	5%
Municipal Obligations	50%
Limit per issuer	10%
Limit per geographical region	50%
Corporate Obligations	30%
Limit per issuer	5%

## **MAXIMUM MATURITIES**

The College will diversify maturity dates and to the extent possible, match investments with anticipated cash-flow requirements. No investment stated maturities will exceed three years at the time of purchase.

## **AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

The College shall make all investments transactions with a broker/dealer authorized by the Board or its Investment Committee. The College will review and adopt the authorized list at least annually. The Board or Investment Committee does not need to approve banks utilized for time or demand accounts, but the bank must provide all required information to the Investment Officer(s) prior to the transaction. The list shall contain no fewer than five broker/dealers to assure a competitive process. to the College does not limit the number of banks.

Authorized broker/dealers and financial institutions may include:

- Broker/dealer subsidiaries of banks doing business in the state of Texas,
- Security dealers reporting designated as “primary government securities dealers” by the Federal Reserve Bank of New York, and/or
- Secondary institutional brokers/dealers registered with the State, the SEC, and the FINRA.

Financial institutions and broker/dealers who desire to transact business with the College must supply the following information/documents. The Investment Officer(s), or the College’s Investment Adviser, will maintain this information on the authorized financial institutions:

- Annual current year audited financial statements,
- Financial Industry Regulatory Authority (FINRA) certification and FINRA’s Central Depository Registration (CRD) number (if broker/dealers), and
- Proof of current Texas State Securities registration (if broker/dealers).

The College may not enter into any investment transactions with a brokerage subsidiary of the Authority’s depository bank in order to fulfill all delivery versus payment (DVP) requirements for trade independence.

## **Policy Certification**

The College must provide each authorized local government investment pool and broker/dealer a copy of this Policy to assure that the pools or dealers are familiar with the goals and objectives of the College. The authorized representative shall sign a written certification, in a form acceptable to the College, substantially to the effect that they:

- Received and thoroughly reviewed the Policy and
- Acknowledge that the pool or broker/dealer has implemented reasonable controls and procedures in an effort to preclude investment transactions with the College that are not authorized by the College’s Policy.

Any College Investment Adviser shall certify their adherence to the Policy.

The College shall not execute any investment transaction with a pool that has not delivered this written certification. Material changes in this Policy will require re-certification. The College is under no obligation to transact business with any financial institution.

### **COLLEGE DEPOSITORY**

At least every five years, the College shall select a College Depository through a formal request for proposal (RFP). In selecting a depository, the College shall consider the services, cost of services, credit worthiness, and collateralization by the institutions.

### **COMPLIANCE AUDIT**

The College's independent auditor reviews cash and investments in conjunction with the performance of the annual audit. At least once every two years, the College's independent auditor will perform a compliance audit to assure internal controls are in place that provide for compliance with the College's Investment Policies and procedures and the Act. The College will report the results of this compliance audit to the Board of Trustees and the state auditor not later than January 1 of each even-numbered year.

### **Loss of Rating**

The Investment Officer or Investment Adviser shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officer or Adviser shall notify the Investment Committee of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within two weeks after the loss of the required rating.

### **Monitoring FDIC Status**

The Investment Officer or Investment Adviser shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the College based upon information from the FDIC. If any bank has been acquired or merged with another bank in which the College owns brokered CDs, the Investment Officer or Adviser shall immediately liquidate any brokered CD that places the College above the FDIC insurance level.

### **COLLATERALIZATION**

All College time and demand deposits shall be secured above FDIC coverage by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, collateral will be maintained and monitored by the depository at 102% of market value of principal and accrued interest on the deposits. The bank shall be responsible for monitoring and maintaining the collateral market value daily to assure that the margin on the pledged securities is maintained.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository in accordance with a safekeeping agreement signed by authorized representatives of the College, the Depository, and the custodian (with the exception of the Federal Reserve for which a Circular 7 Pledge Agreement will be executed.).

All collateral shall be subject to inspection and audit by the College or its independent auditors.

### **Authorized Collateral**

The College shall accept only the following as collateral for time and demand deposits:

- A. FDIC insurance coverage.
- B. Obligations of the United States, its agencies or instrumentalities, or other evidence of indebtedness of the United States guaranteed as to principal and interest including mortgage backed securities that pass the bank test.
- C. Obligations of states, agencies, counties, cities and other political subdivisions of any state rated A or its equivalent by two nationally recognized rating agencies.
- D. Letter of credit of the United States or its agencies and instrumentalities, issued by the Federal Home Loan Bank (FHLB).

### **Voluntary Collateral Pooling Alternative**

The College will evaluate collateral pooling alternatives authorized by state statute (TX Gov't Code 2257) on a case-by-case basis for use.

If any depository offers a voluntary collateral pooling alternative for the provision of collateral (instead of uniquely pledged securities to the College), the investment officers shall fully evaluate the risk factors concerned to determine the efficacy of participation. The College will analyze the use of collateral pooling using factors such as anticipated balances, fluctuations in balances, duration of deposits and current economic conditions to determine the acceptability of the collateral pool. The pool must contain only marketable securities.

### **SAFEKEEPING**

All securities owned by the College shall be held in safekeeping by the College's depository bank or an authorized third-party financial institution under an executed safekeeping agreement.

### **DELIVERY VERSUS PAYMENT**

All security transactions, including collateral for repurchase agreements, entered into by the College shall be conducted on a delivery-versus-payment (DVP) basis to assure that the College has full control of its funds and assets at all times.

### **REPORTING**

The Investment Officer shall submit monthly and quarterly reports to the Board of Trustees in accordance with the Act containing sufficient information to permit an informed reader to evaluate the performance and risks of the investment program. At a minimum, the report shall include:

- a. Description of each investment and depository position;
- b. Book and market values at the beginning and end of the reporting period;
- c. Additions and changes to the market value during the period;
- d. The book and market value of each separately invested asset;
- e. The maturity date of each separately invested asset;

- f. The account, fund, or pooled group fund for which each investment was acquired;
- g. The earnings for the period; and
- h. The overall yield for the portfolio(s) and its benchmark yield for the period designated as 1-Year, 2-Year or 3-Year Treasury yields, as appropriate.

The College shall obtain market prices for market value calculations from an independent source. The report must conform to the contents of the Act and must be prepared and signed by all investment Officers of the College.

In accordance with Rider 5, the General Appropriations Act (86th Legislature), the College shall file an annual investment report, prepared in the method prescribed by the State Auditor’s Office, by December 31 each year. The College shall also publish and maintain on its website for at least two years the annual investment report, quarterly investment reports, and current investment policy.

**INTERNAL CONTROLS**

The Vice Chancellor of Fiscal Affairs shall establish a system of controls to regulate the activities of the investment program and staff. The independent auditor of the College shall review controls annually. The College shall design the controls to prevent loss of funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions. Controls deemed most important would include control of collusion, separation of duties, custody and safekeeping, delegation of authority, securities losses and remedial actions, and documentation of all transactions.

**Cash Flow Forecasting**

Cash flow forecasting is a control designed to protect and sustain cash flow requirements of the College. The Investment Officer will maintain a cash flow analysis designed to forecast cash positions for investment purposes.

**INVESTMENT POLICY ADOPTION**

The Investment Committee may suggest Policy changes to the Board of Trustees at any time. The Board of Trustees shall review and adopt, by written instrument, its Investment Policy and investment strategies not less than annually, and the adopted written instrument shall designate any changes made to the Policy.

**Procedures**

There are no associated procedures with this policy.

Date of Board Approval	August 2, 2021
Effective Date	August 3, 2021
Primary Owner	Vice Chancellor, Fiscal Affairs

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Secondary  
Owner

Associate Vice Chancellor, Finance

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