CENTRAL TEXAS COLLEGE DISTRICT
POLICY STATEMENT AND POSITION PAPER
INVESTMENT POLICY

SECTION I: BOARD OF TRUSTEES

The Board of Trustees of the Central Texas College District (CTCD) in Board Document #119, Organization, Administration and Management, recognize the requirement for the Chief Executive Officer to delegate authority in the overall direction and management of the Central Texas College District. Board Document #314, Policy Statement and Position Paper, Finance and Administration delegates that authority and responsibility to the Finance and Administration activity. This Policy and Position Paper provides an extension of that delegation for the authority and responsibility of investment management.

SECTION II: RESPONSIBILITY OF AUTHORITY

Delegation of Authority:

The Deputy Chancellor for Finance and Administration, as Chief Financial Officer of the College District, is designated as the Investment Officer and is responsible for all investment management decisions and activities. The Chancellor is responsible for considering the quality and capability of the staff, investment advisors and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

The Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with this investment policy. Additional procedures will be documented for the performance of wire transfer agreements, banking services contract and other investment related activities.

The Investment Officer shall be responsible for the investment of funds in accordance with this policy and shall establish a system of controls to regulate the activities of subordinate officials and staff. The Investment Officer shall delegate the daily management of investment funds to the Comptroller, Deputy Investment Officer. In the absence of the Investment Officer the Deputy Investment Officer is deemed to be the Investment Officer.

No officer or designee may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer and approved by the Board of Trustees.

Investment Advisors:

CTCD may appoint an Investment Advisor to assist the College financial staff with management of its funds and other responsibilities including but not limited to competitive bidding, reporting requirements and security documentation. The Investment Advisor must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor's Act of 1940 as well as with the Texas State Securities Board.

The term of contract shall be limited under the Texas Public Funds Investment Act to a two year period. Subsequent renewal or extension of the contract may be made after the two year period by Board approval. Investment Advisors shall adhere to the spirit, philosophy and specific term of this Policy and shall invest within the same "Standard of Care".

SECTION III: SCOPE

This investment policy applies to all the financial assets and funds held by the CTCD. The CTCD consolidates available funds into one pooled investment account for Investment purposes for efficiency and maximum investment opportunity.

SECTION: IV STRATEGY

A. OBJECTIVE

The primary objectives, in priority order, of investment activities shall be:

1. 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.

a. Credit Risk

Credit Risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

- Limiting investments to the safest type of securities;
- Pre-qualifying the financial advisors or service providers with which the CTCD will do business; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

b. Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated 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, and
- By investing operating funds primarily in shorter-term securities.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity) and by retaining a minimum of 10% of CTCD operating funds in readily available demand accounts such as public funds investment pools and eligible money market funds. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

3. Yield

The investment portfolio shall be designed with the objective of attaining an average market yield throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Investment yield is of least 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 market yield relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

a. a declining credit security could be sold early to minimize loss of principal; a security swap would improve the quality, yield or target duration in the portfolio; or liquidity needs of the portfolio require that the security be sold.

B. STANDARDS OF CARE

1. Prudence

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. Investment officers acting in accordance with written procedures, investment objectives and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion 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.

2. Ethics and Conflicts of Interest-Investment Officers

Investment officers 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 the ability to make impartial decisions. Investment officers 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. Investment officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

3. Ethics and Disclosure Requirements for Outside Financial Advisors and Service Providers

   Financial advisors or service providers who are not employees of the College, who provide financial services to the College or advice to the College or a member of the Board of Trustees of the College in connection with the management or investment of state funds shall disclose in writing to the investment officer and to the state auditor:

   a. Any relationship the financial advisor or service provider has with any party to a transaction with the College, other than a relationship necessary to the investment or fund management service that the financial advisor or service provider performs for the College, if a reasonable person could expect the relationship to diminish the financial advisor's or service provider's independence of judgment m the performance of the person's responsibilities to the College.

   b. Any direct or indirect pecuniary interests other than a transaction with the College, if the transaction is connected with any financial advice or service the financial advisor or service provider provides to the College or to a member of the Board of Trustees in connection with the management or investment of state funds. The financial advisor or service provider shall disclose a relationship described above without regard to whether the relationship is direct, indirect, personal, private, commerce or business relationship. A financial advisor or service provider described above shall file annually a statement with the investment officer and the state auditor disclosing each relationship or pecuniary interest or if no relationship or pecuniary interest exists during the disclosure periods the statement must affirmatively state that fact.

      The annual statement must be filed not later than April 15 on a form prescribed by the College and recommended by the state auditor. The statement must cover the reporting period of the previous calendar year. The financial advisor or service provider shall promptly file a new or amended statement with the investment officer and with the state auditor whenever there is new information to report. Chapter 552, Government Code controls the extent to which information contained in a statement file as described above is subject to require public disclosure or exception from required public disclosure.

4. Quality and Capability of Investment Management

   Each member of the Board of Trustees, the Investment Officer and the Deputy Investment Officer shall attend one training session related to the person's responsibilities within six months after taking office or assuming duties. Training must include education in investment controls, security risks, market risks, diversification of investment portfolio and compliance with training requirements.

   Additionally, the Investment Officer and the Deputy Investment Officer shall receive training provided through the Texas Higher Education Coordinating Board or from an independent source and shall be completed not less than once every two fiscal years. A report for the Board of Trustees will be prepared citing changes in the law pertaining to investments not later than the 180th day after the last day of each regular session of the Legislature.

C. SAFEKEEPING AND CUSTODY

1. Authorized Financial Advisors or Service Providers

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-l (uniform net capital rule).

All financial advisors or service providers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- Texas State Auditor's Office Uniform Disclosure Form

An annual review of the financial condition and registration of qualified bidders will be conducted. If the CTCD has contracted with an Investment Advisor to assist in the purchase of investment securities, this advisor shall be solely responsible for performing due diligence on the broker/dealers with which it transacts investment business. The advisor shall on an annual basis, provide CTCD with a copy of its annual registration with the Securities and Exchange Commission, a signed letter stating that it has read the CTCD investment policy as well as a written list of approved broker/dealers.

2. Internal Controls

The Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the CTCD are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (I) the cost of the control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

Accordingly, the Chancellor shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

a. Control of collusion. Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

b. Separation of transaction authority for accounting and record keeping. By separating the person who authorized or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

c. Custodial safekeeping. Securities purchased from any bank or dealer including appropriate collateral (as defined by State law) shall be placed with an independent third party for custodial safekeeping.

d. Clear delegation of authority to subordinate staff members. Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper action. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

e. Written confirmation on telephone transactions for investment and wire transfers. Due to the potential for error and improprieties rising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax, if on letterhead, and the safekeeping institution has a list of authorized signatures.

f. Development of a wire transfer agreement with the lead bank or third party custodian. This agreement should outline the various controls, security provisions and delineate responsibilities of each party making and receiving wire transfers.

From time to time, investors may choose to invest in instruments offered by minority and community financial institutions. These financial institutions may not meet all the criteria under Paragraph 1. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law.

3. Delivery vs. Payment

All trades where applicable will be executed by Delivery vs. Payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third party custodial as evidenced by safekeeping receipts.

D. SUITABLE AND AUTHORIZED INVESTMENTS

1. Investment Types

The following investments will be permitted by this policy and are those defined by state law where applicable:

a. U.S. Government obligations, including U.S. Government agency obligations, and U.S. Government instrumentality obligations.

b. Repurchase agreements.

c. Certificates of deposit.

d. Prime bankers acceptances.

e. Prime commercial paper.

f. Obligations of state and local governments and public authorities rated AA or better.

g. No-load money market mutual funds or no-load mutual funds registered with the Securities and Exchange Commission providing a prospectus or other offering information.

h. Public fund investment pools.

i. Interest bearing bank savings deposits issued by state and national banks or credit unions (having a main or branch office in Texas), guaranteed or insured by the FDIC or NCUSIF.

Downgrade Provisions for Investment Ratings

An investment that requires a minimum rating does not qualify as an authorized investment during the period of investment if it does not have the minimum rating. The College shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating. The College shall also monitor the credit ratings on securities that require minimum ratings. This may be accomplished through research, or with the assistance of broker dealers, banks, safekeeping agents or its investment advisors:

Prohibited Investments

The College is expressly prohibited from purchasing any security that is not authorized by Texas State law, including Collateralized Mortgage Obligations (CMO's) with stated final maturities exceeding 10 years, as well as interest-only (IO), principal only (PO) and inverse floating rate CMO's. The College also prohibits the acceptance of IO's, PO's and inverse floaters as collateral for bank deposits or repurchase agreements.

2. Collateralization

In accordance with state law, full collateralization will be required on two types of investments: certificates of deposit and repurchase agreements.

3. Repurchase Agreements

Use of repurchase agreements should be consistent with recommended practices on repurchase agreements.

E. INVESTMENT PARAMETERS

1. Diversification

Whenever possible, investments shall be diversified by security type and issuer in order to reduce credit exposure and by maturity date in order to reduce market risk.

2. Maximum Maturities

The CTCD will limit their maximum final stated maturities to five years unless specific authority is given to exceed. To the extent possible, the CTCD will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the CTCD will not directly invest in securities maturing more than five (5) years from the date of purchase. The CTCD will determine what the appropriate average dollar-weighted maturity of the portfolio should be based on prevailing market conditions and expectations. Reserve funds may be invested in securities exceeding five (5) years if the maturity of such investments is made to coincide as nearly as practical with the expected use of funds.

F. REPORTING

1. Methods

The Investment Officer shall prepare an investment report at least quarterly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the CTCD to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Chancellor and the Board of Trustees. The report must:

a. Describe in detail the investment position of CTCD on the date of the report.

b. Be prepared jointly by both investment officers of CTCD.

c. Be signed by both investment officers of CTCD.

d. Contain a summary statement prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the:

   1. beginning market value for the reporting period;
   2. additions and changes to the market value during the period;
   3. ending market value for the period; and
   4. fully accrued interest for the reporting period.

e. State the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested.

f. State the maturity date of each separately invested asset that has a maturity date.

g. State fund or pooled group fund for which each individual investment was acquired.

h. State the compliance of the investment portfolio as it relates to:

   1. the investment strategy expressed in this investment policy; and
   2. relevant provisions of state statutes.

2. 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. Portfolio performance should be compared to appropriate benchmarks on a regular basis.

3. Marking to Market

A statement of the market of the portfolio shall be issued at least quarterly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility.

4. Monitoring Market Price

Public fund investment pools are priced to the market by the fund manager and are reported to the investing entity on a monthly basis. Investments not held in government pools will be priced to market by use of information provided in the Wall Street Journal or independent brokers from whom the security was not purchased.

SECTION V: POLICY

Amendment

This policy shall be reviewed on an annual basis. Any changes must be approved by the Board of Trustees, as well as the individual(s) charged with maintaining internal controls.

SECTION VI: CERTIFICATION

It is not the purpose of this Policy Statement and Position Paper to be exhaustive nor all- inclusive, but to serve as a guide and provide direction for Investments. Administration is directed to establish such operational policies and procedures as may be necessary to implement this Policy Statement and Position paper.

APPROVED this 27th day of November 2018.

Jimmy Towers
Chair Board of Trustees

ATTEST:

CERTIFICATE

I hereby certify that the above is a true and correct copy of a Policy Statement and Position Paper adopted by the Board of Trustees, CTCD, at the meeting held this 27th day of November 2018.

Charles Rex Weaver,
Secretary Board of Trustees