

Policy No.

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Effective Date: 07/29/08

TITLE: INVESTMENTS

PURPOSE: To govern the investment of all (the Health System) funds with the exception of funds trusted by other parties. This policy supersedes policy dated 03/20107. [Key Words: Authority, Custody, Investment, Liquidity, Maturity, Obligation, and Prudence]

POLICY STATEMENT:

The Health System will utilize those investments 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 document in its entirety is considered to be Board Policy.

POLICY ELABORATION:

I. 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 prudent investor rule shall be applied to the management of the overall portfolio.

II. INVESTMENT OF FUNDS:

It is intended that all aspects of the investment policy will comply with the Public Funds Investment Act (the Act). In the event of any discrepancy between this policy and the Act, the Act shall To the extent the Act is not applicable to, the Board of Managers may authorize the Board of Managers may authorize invest its funds as permitted by the Texas Department of Insurance Js supplemental investment guidelines are attached as Addendum A.)

A. Investment Objectives

The Health System shall manage and invest its cash with five objectives, listed in order of priority: Safety, Liquidity, Yield, Diversification, and Public Trust. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

The Health System has as a general objective to hold investments to maturity and obtain the highest rate possible at the time of purchase. No investments will be made for the specific

purpose of speculation on changes in market interest rates.

Safety - The primary objective of the Health System's investment activity is the preservation of capital in the overall portfolio. Each investment transaction shall be conducted in a manner that minimizes capital losses, whether they are from security defaults or erosion of market value.

Liquidity - The investment portfolio shall be structured so that the Health System is able to meet all obligations in a timely manner. This shall be achieved by matching investment maturity with forecasted cash flow requirements and by investing in securities with active secondary markets.

Yield - Investments will be selected which maximize return on invested principal, subject to the considerations above.

Diversification - To minimize risk of loss resulting from concentration of assets in a specific maturity or a specific issuer, the policy provided for diversification of the portfolio. Specific diversification strategies include staggering maturities, limiting concentration in a single issuer (with the exception of the U.S. Government or its agencies) and providing the ability to invest in diversified mutual or pooled funds.

Public Trust - All participants in the Health System's investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the Health System's ability to govern effectively.

B. Investment Fund Strategies

All investments will be made in accordance with the Health System Investment Policy. Investments will be diversified among a variety of investment vehicles and maturities. Protection of the portfolio's principal is of primary concern; however, it is recognized that in arising interest rate environment unrealized losses will occur, just as unrealized gains will occur during a period of falling interest rates. Regardless, the investment portfolio should always be structured in a manner to insure that potential unrealized losses are not material relative to the interest rate environment at any time.

Investments of the Health System will be managed strategically based on the purpose and anticipated cash requirements from each fund.

1. **Operating Fund** - The objective of this fund is to maintain adequate liquidity to meet daily operating cash needs. The amount designated to this fund will approximate the budgeted operating expenditures for a given budget year. These funds will be invested in eligible money market instruments, money market mutual funds, pooled funds or a combination thereof.
2. **Board Designated Reserve Funds** - Defined as longer-term in nature, these funds include Capital Needs Fund, Emergency Operating Fund and Self-insured Liability Fund (Reserve Policy, dated 6/28/05). The primary objective of these funds is to ensure liquidity to match anticipated or unanticipated capital project or other cash outlays. These funds may be actively or passively invested. These funds should include a prudent amount in

highly liquid securities (eligible money market investments, money market or pooled funds) to provide for unanticipated outlays.

3. Debt Service Fund - Investment strategies for debt service funds shall be structured to match the debt service obligation when due. Securities purchased shall not have a stated final maturity date that exceeds the final debt service payment date.
4. Investment Assets - Investment strategies for the investment assets **XXXXXX** and its affiliates for operating funds, statutory deposits, and other long term investments have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. These funds may be actively or passively invested. These funds should include a prudent amount in highly liquid securities (eligible money market investment investments, money market or pooled funds) to provide for unanticipated cash needs. The dollar weighted average maturity for these investments shall not exceed five years.

The investments of **XXXXXX** must comply with Title 28, Chapter 11, Texas Administrative Code, and Chapter 20A of the Texas Insurance Code. **XXXXXX** shall also comply with the 'Act' to the extent such act may be applicable to **XXXXXX**.

5. Other funds shall be invested by the Health System in accordance with II.B.1 of this section.

III. POLICY IMPLEMENTATION:

A. Delegation of Authority

The President/Chief Executive Officer of the Health System is hereby authorized to appoint in writing one or more investment officers to carry out the investment policy adopted by the Board. The President/Chief Executive Officer is also responsible for reporting these appointments and changes thereto to the Board of Managers. The appointment of an investment officer shall end automatically upon termination by the investment officer of employment with the Health System or upon recession of the appointment in writing by the President/Chief Executive Officer.

Investment officers of **XXXXXX** shall be appointed by the President/Chief Executive Officer of the Health System and confirmed by the Board of Director of **XXXXXX**.

B. Responsibilities of the Executive Vice President/Chief Financial Officer and Vice President/Controller.

The Executive Vice President/Chief Financial Officer and Vice President/Controller shall attend training sessions relating to their responsibilities as required under the Public Funds Investment Act.

C. Responsibilities of the Investment Officer

The Investment Officer shall be responsible for

1. Depositing, withdrawing, investing, transferring and managing the funds of the Health System in accordance with this Investment Policy.
2. Report to the President/Chief Executive Officer and the Board at least quarterly of the status of all invested funds (Section X. Reporting Requirements).
3. Attending training sessions relating to responsibilities as required under the Public Funds Investment Act.

IV. **AUTHORIZED INVESTMENTS:**

Compliance with the criteria set forth in this section will create the presumption that safety of principal has been satisfactorily addressed.

A. Obligations of the United States Government or its Agencies:

1. Maximum stated maturity often years.
2. No purchase limits per issuer.
3. Approved agencies are: Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Government National Mortgage Association (GNMA), Student Loan Marketing Association (SLMA), and Tennessee Valley Authority (TVA).

B. Municipal Obligations (Debt Service Fund only):

1. Allowable investments include obligations of any state, agency, county, city or other political subdivision, rated "A", its equivalent or better by a nationally recognized investment rating firm, whether the payments of principal and interest are payable from either taxes and/or revenues. Final stated maturity may not exceed five years.
2. The total purchased from a single municipal issuer shall not exceed 10% of the Debt Service Fund.

C. Repurchase Agreements

1. Direct repurchase agreements and reverse repurchase agreements with defined termination dates of no more than ninety days, fully collateralized by obligations of the United States or its agencies and instrumentalities are allowable as long as the total par amount does not exceed 15% of the aggregate portfolio.
2. The Health System will execute repurchase agreements and reverse purchase agreements only with financial institutions that have entered into a written master

repurchase agreement with the Health System.

3. Eligible institutions are limited to banks organized under the laws of Texas, national banking associations or any primary government dealer recognized by the Federal Reserve Bank of New York.
4. All repurchase agreements will require that the securities being purchased be pledged to the County Hospital District," held in the County Hospital District's" name, and deposited at the time the investment is made in the Health System's safekeeping account with the custodian or trustee designated by the President/Chief Executive Officer.
5. Repurchase agreements will be collateralized at a maximum of 102% of the principal value plus accrued income.

D. Investment Pools

An "investment pool", as defined by the Public Funds Investment Act, is an entity created by two or more local governments, state agencies, or a combination of those entities formed to jointly invest public funds.

1. Eligible investment pools must provide disclosure information as outlined in the Public Funds Investment Act and must be continuously rated AAA or AA-m or an equivalent rating by at least one nationally recognized rating service.

E. Commercial Paper

1. Commercial paper must have a stated maturity of two hundred seventy days or less from the date of its issuance and must have received a rating of either A-1 or P-1 or its equivalent by at least two nationally recognized credit rating agencies.
2. The limit per issuer shall be no more than 5% of the specific (i.e. Debt Service, Operating, Board-designated Reserve) funds.

F. Certificates of Deposit

1. Certificates of Deposit issued by a state bank, national bank, or a savings and loan association may be purchased without limit if;
 - a. the bank or savings and loan association is domiciled in Texas;
 - b. the certificates of deposit are insured by the Federal Deposit Insurance Corporation (F.D.I.C.) or its successors; and
 - c. the certificates of deposit are fully collateralized by obligations described in Section IV., paragraphs A. or B., with a market value at least one hundred percent of the insured principal amount.
2. Collateral shall be pledged to the Health System under the terms of a written security agreement, and shall be held in custody by the Federal Reserve Bank or at a Member Bank on the Federal Reserve Bank's list of approved safekeeping institutions.

G. Bankers' Acceptance

1. Domestic bankers' acceptances of a bank organized and existing under the laws of the United States may be purchased if the short-term obligations of the bank or bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1, or an equivalent rating by at least one nationally recognized credit rating agency.
2. The acceptance must have a maturity of 270 days or less from the date of its issuance; be eligible for collateral for borrowing from a Federal Reserve Bank; and that will be, in accordance with its terms, liquidated in full at maturity.
3. The limit per issuer is five percent of the portfolio

H. Money Market Mutual Funds

No-load money market mutual funds registered by the SEC with a dollar-weighted average stated maturity at ninety days or less and which include in their investment objective the maintenance of a stable net asset value of one dollar.

V. **COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS:**

Whenever feasible, security transactions will be executed on the basis of a competitive bid or offer secured orally, by written offer, or electronically from three or more approved brokers.

VI. **SETTLEMENT AND SAFEKEEPING:**

All transactions, except those with investment pool and mutual funds, are to be settled on a delivery versus payment basis. All purchased securities will be safe kept at a Health System custodian approved by the President/Chief Executive Officer.

VII. **SECURITY VALUATION:**

The investment officer will obtain market investment values from the custodian, contracted brokerage firms, investment managers and/or financial consultant for period investment reporting. Pricing for money market and pooled funds will be provided directly by the funds.

VIII. **QUALIFIED INSTITUTIONS:**

- A. The Health System shall maintain an approved list of financial institutions with which transactions may be executed. The list will include the Health System's designated depository, banks within I County and selected primary dealers recognized by the Federal Reserve Bank of New York.
- B. All financial institutions must be approved by the President/Chief Executive Officer before being placed on the approved list.

IX. INVESTMENT MANAGEMENT FIRMS:

Upon approval by the Board of Managers, the Health System may contract with a qualified investment management firm for the management of a portion or all of the funds. The firm must be registered under the Investment Advisors Act of 1940. An investment management contract may be for a term of up to two years, with any renewal or extension approved by the Board of Managers. A firm will be considered qualified if they meet the following criteria:

- A. A minimum of \$500 million under management.
- B. A minimum of five years of verifiable results under AIMR standards.
- C. Outperform a suitable benchmark index, net of fees, at least fifty percent of the time during the period under review.
- D. Stability of both personnel and accounts.
- E. Must disclose any significant litigation relating to the firm's integrity or abilities.

X. REPORTING REQUIREMENTS:

- A. All investment officers shall generate routine reports for management purposes that will include information on maturity structure, average yields and diversity, market value and portfolio changes from the prior period.
- B. The Board of Managers will be provided a quarterly report, signed by all investment officers, which will include the following information:
 - 1. Detail of all investments with end maturity dates held outside of pooled funds or mutual funds including the book and market value at the beginning and end of the reporting period.
 - 2. Listing of all pooled funds and/or mutual funds showing the beginning market value for the period, additional and changes to the market value during the period, ending market value and accrued interest for the period.
 - 3. Statement of compliance of the investment portfolio with the Health System's investment policy.

XI. SOLICITATION OF HEALTH SYSTEM INVESTMENTS BY FINANCIAL INSTITUTIONS:

Qualified financial institutions, investment managers or brokerage firms, as specified in Sections VIII and IX, seeking to do business with the Health System, shall execute a written instrument substantiating that they have read and understand the Health System's investment policy and acknowledge that either their institution has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising from investment transactions between the Health System and their institution or where the institution only makes recommendations to the Health System, that it has implemented reasonable procedures and controls in an effort to assure that its recommendations are

consistent with the investment guidelines outlined in this policy. (See ATTACHMENTS 1 and 1a for sample letters that are acceptable to the Health System under this policy.)

XII. AUDIT:

The Health System, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to this investment policy.

XIII. POLICY UPDATE AND APPROVALS:

The Board of Managers must approve all changes to this policy. This policy will be formally reviewed at least annually by the Board of Managers to determine the continued feasibility of achieving the investment objectives of the Health System.

REFERENCE S/BIBLIOGRAPHY :

TEX. LOCAL GOV'T. CODE §§ 116.001 et seq. (Vernon 1988)

TEX. GOV'T CODE §§ 2256.001 et seq. (Vernon 1998)

Health System Reserve Policy, No. **XXXXXX**

OFFICE OF PRIMARY RESPONSIBILITY: Vice President/Controller

Attachment 1

(Institution's Letterhead)

Date

(CEO Name)

President/CEO

Dear (CEO Name):

On behalf of (*company*), I, (*name*), (*title*), hereby certify that I have received and thoroughly reviewed the investment policy of the Health System (the Health System) and have implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the Health System and (*company*).

All sales personnel of this firm dealing with the Health System account have been informed and will be routinely informed of the Health System's investment policy, limitations, strategy and risk constraints, whenever we are so informed.

This firm pledges due diligence in informing the Health System of foreseeable risks associated with investment transactions connected to this firm.

Signature

Date

Signature of Principal

Date

Name of Principal

Attachment 1a

(Institution's Letterhead)

Date

(CEO Name)

President/CEO

Health System

Dear (CEO *(company)*)

Pursuant to Section 2256.005(k) of the Texas Public Funds Investment Act, *(company)*. I hereby acknowledges that *(company)* has received and reviewed the investment policies and of Health System, dated _____, and that *(company)* has implemented reasonable procedures and controls to ensure its recommendations are consistent with the investment guidelines outlined in your Investment Policy.

All relevant *(company)* sales personnel dealing with your account have read your Investment Policy. *(Company)* shall not be deemed to be on notice of any revisions or amendments to your Investment Policy until and unless such revisions are delivered in writing to and received by the *(company)* Registered Principal identified below by your authorized representative.

Signature

Date

Signature of Principal

Date

Name of Principal