

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

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Investment Authority The Board of Regents (Board) shall have the responsibility for investment policies of the College District. The management of the funds available for the investments shall be the responsibility of the College President or other person designated and shall be in accordance with applicable laws and policies of the State of Texas and the Board. The investment officer(s) shall be bonded. All investment transactions, except investment pool funds and mutual funds, shall be executed on a delivery versus payment basis.

Investment Philosophy and Objectives All College District investment and endowment assets shall be invested in accordance with sound investment practices and shall be managed according to the following underlying principles and objectives:

- The endowment investments shall emphasize preservation of corpus.
- The purpose of the endowment shall be to generate a revenue stream to fund scholarships for College District students and other purposes identified by the Board.
- The goal of the endowment assets shall be to earn long-term returns sufficient to grow the purchasing power of assets over the long-term, consistent with the preservation of corpus and net of disbursements and fees.
- The endowment assets shall be diversified in order to reduce the risk of wide swings in market value from year to year or the risk of incurring large losses that may result from concentrated positions.
- The investment objective implies a long-term time horizon available for investment in order to benefit from total returns that would normally accrue to a patient investment strategy.

Spending Guidelines The desired goal for distributions from the earnings of the endowment assets for expenditures in support of student scholarships shall be an annual level that is approximately three to five percent of the sum of the original corpus. Unspent realized gains shall be invested in the same manner as the original corpus.

Earnings from the endowment assets may only be spent for the purposes identified by the donor.

Board Responsibilities

The Board shall have the following responsibilities:

- Review the capital and operating budget needs of the College District and thereby establish and review an appropriate spending policy;

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

- Establish an investment policy and monitor and evaluate the performance of the endowment assets as a whole;
- Select or terminate an investment adviser on a cycle where requests for proposals are issued every five years or a shorter cycle, if desired;
- Perform such other duties as may be described in this policy or as required by applicable laws and regulations; and
- Select an investment adviser utilizing the following criteria:
 - A minimum of ten years of experience managing similar funds;
 - Past performance and consideration given to consistency and the level of risk taken to achieve results;
 - The investment style and discipline of the investment adviser; and
 - Evaluation of the investment officer's fee structure.

**Investment Adviser
Responsibilities**

The investment adviser shall have the following responsibilities:

- Assist the Board in strategic investment planning for the endowment assets. This includes providing assistance in the evaluation of this investment policy and asset allocation strategy.
- Provide the Board quarterly performance measurement reports and assist the Board in interpreting the results.
- Manage the endowment assets in accordance with the investment strategy listed below.
- Assess the likelihood of future investment risks and opportunities.
- Perform such other duties as may be mutually agreed to.

**Approved
Investments**

The College District shall comply with Government Code 2256.005(d). The Board shall permit investment of College District funds, including bond proceeds and pledged revenue to the extent allowed by law, in only the following investment instruments:

1. Obligations of the United States Government or its agencies and instrumentalities, which have the full faith and credit guarantee of the United States Government or its agencies and instrumentalities.

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

2. Certificates of deposit guaranteed by the Federal Deposit Insurance Corporation (FDIC) issued by state and national banks.
3. Certificates of deposit guaranteed by the National Credit Union Administration.
4. Demand deposits and certificates of deposit guaranteed by the FDIC or secured by pledged securities described above issued by the depository approved by the Board.
5. Public funds investment pools as permitted by Government Code 2256.016–2256.019 and approved by Board resolution up to \$25 million. Public funds investment pools may also be used to deposit bond sale proceeds up to the limit of the bonds issued. As long-term investments are purchased, the funds are transferred out of the public funds investment account.
6. Commercial paper that has a maturity of 270 days or fewer and is rated no less than A-1 or P-1 by at least two nationally recognized rating agencies (not applicable to the endowment assets).
7. No-load mutual funds, except for bond proceeds, and no-load money market mutual funds as permitted by Government Code 2256.014 and approved by Board resolution.
8. Fully collateralized repurchase agreements as permitted by Government Code 2256.011.
9. Corporate bonds that are rated no less than A-1 (S&P) or comparable ratings by at least two nationally recognized rating agencies.
10. Notwithstanding language to the contrary, assets invested in commingled vehicles, managed in accordance with the investment policies, procedures, and guidelines set forth in the offering documents of the vehicle.
11. Common stocks of the United States and foreign issuers and American Depository Recipients (common stocks) listed or traded on U.S. exchanges and in the over-the-counter market, as well as securities convertible into common stocks.
12. All mutual funds registered with investment companies as defined by the Investment Company Act of 1940. The investment companies need not be classified as “diversified” investment companies (as defined by the Investment Company Act of 1940).

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

13. Cash management and fixed income funds as permitted by Government Code 2256.020.
14. Negotiable certificates of deposit as permitted by Government Code 2256.020.
15. Corporate bonds, debentures, or similar debt obligations as permitted by Government Code 2256.020.

**Liquidity and
Maturity**

Any internally created pool fund group of the College District shall have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the College District shall not exceed one year from the time of purchase. The Board may specifically authorize a longer maturity for a given investment, within legal limits.

The College District's investment portfolio shall have sufficient liquidity to meet anticipated cash flow requirements.

**Dynamic Asset
Allocation**

Within the endowment investments described above, investments shall be permitted on an account-by-account basis in overlay portfolios, which are regulated mutual funds (overlay portfolios), to complement the above-listed investments. This is known as the Dynamic Asset Allocation (DAA) portfolio overlay strategy, which is designed to manage short-term portfolio risk and mitigate the effect of extreme outcomes by varying the asset allocation of a portfolio through investments in the overlay portfolio. The investments in the DAA overlay portfolios may cause the portfolio's overall exposure to equities, fixed income, real estate investment trusts (REITs), and other asset classes to vary significantly from the target allocations. Another effect of investing in the overlay portfolios is that the portfolio will gain more exposure to asset classes through the holdings of the overlay portfolios than those contemplated by the target allocations. The holdings of the overlay portfolios are limited only as provided in the prospectus then in effect for the overlay portfolios.

Exclusions

The endowment assets and other investment assets shall not be used for the following purposes:

- Short sales;
- Purchases of letter stock or private placements, also known as "144A" securities;
- Leveraged transactions except through experienced fund managers;
- Commodities transactions;
- Puts, calls, straddles, or other option strategies;

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

- Purchase of real estate, oil and gas properties, or other natural resources related properties;
- Investments in limited partnerships; and
- Investments in futures, use of margin, or investments in any derivatives not explicitly permitted in this policy statement.

Meetings and Communications

The investment adviser shall provide:

- Periodic reports describing performance relative to the appropriate indices and peer group;
- A written performance report for the composite portfolio;
- Monthly statements of assets and transactions; and
- Quarterly reports on endowment asset allocation.

Performance Evaluation

The Board shall evaluate the investment adviser's performance annually. The appraisal should include an assessment of the assistance given to the Board in investment planning. The evaluation should be written, and any areas of needed improvement should be responded to by the investment adviser. The Board shall monitor the performance of the investment adviser and the composite portfolio on a quarterly basis.

Guidelines for Corrective Action

The Board recognizes the importance of a long-term focus when evaluating the performance of the investment adviser. The Board understands the potential for short-term periods when the portfolio performance may deviate significantly from the performance of representative market indexes. The Board, however, may require an extra level of scrutiny, which may include termination of the investment adviser based on the following conditions:

- The investment adviser's performance shall be viewed in light of the firm's particular investment style approach, keeping in mind the endowment diversification strategy as well as overall quality of the relationship.
- The investment adviser may be replaced at any time as part of an overall restructuring of the endowment assets even though there are no material client servicing deficiencies.

Investment Strategy

The investment strategy for the endowment assets shall be as follows:

<u>Asset Allocation</u>	<u>Target</u>	<u>Range</u>
Equity investments (stocks)	44 percent	25 to 50 percent

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

<u>Asset Allocation</u>	<u>Target</u>	<u>Range</u>
Debt investments (bonds)	55 percent	50 to 75 percent
Real estate investment trusts or marketable real estate securities	1 percent	0 to 10 percent

Rebalancing

Rebalancing of the asset classes shall inevitably cause the investment portfolio to drift from these targets through the normal and imperfectly correlated returns of the various asset classes. The asset allocations shall be managed in accordance with the internal rebalancing rules of the selected investment firm. Furthermore, cash flows of all sorts (contributions, withdrawals) generally should be used to revert toward the target asset allocation whenever possible. Exceptions to periodic rebalancing may be appropriate or necessary for assets that either are intended to be held as part of a buy and hold strategy or are otherwise subject to structural constraints on liquidity, e.g., annual withdrawal or redemption rights, and the like.

Lending

Lending the endowment assets shall be prohibited.

Procurement

Purchases of the investment instruments shall be made after procurement requirements, as established by law, have been followed.

Sellers of Investments

Prior to handling investments on behalf of the College District, a broker/dealer or a qualified representative of a business organization must submit required written documents in accordance with law.

Representatives of brokers/dealers shall be registered with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC), and be in good standing with the Financial Industry Regulatory Authority (FINRA).

Safety and Investment Management

Investments shall be made with judgment and care, under circumstances then prevailing, that 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. The College District's investment portfolio shall have sufficient liquidity to meet anticipated cash flow requirements.

Diversity

The investment portfolio shall be diversified in terms of instruments, maturity, and financial institutions to reduce the risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific issuer.

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

Monitoring and Reports

Monitoring shall be done quarterly and more often as economic conditions warrant. The investment officer shall keep the Board informed of significant declines in the market value of the investment portfolio. In addition to the quarterly report, the investment officer shall prepare a comprehensive annual report of investment activity to be presented to the Board. The annual report shall include a performance evaluation of the total yield and shall include policies and strategies for improvements that might enhance the investment program.

Monitoring Rating Changes

In accordance with Government Code 2256.005(b), the investment officer shall develop a procedure to monitor changes in investment ratings and to liquidate investments that do not maintain satisfactory ratings.

Internal Controls

A system of internal controls shall be established and documented in writing. They shall be designed to protect against losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in the financial markets, or imprudent actions by employees and officers of the College District.

Fund Strategies

In accordance with Government Code 2256.005(d) and the Approved Investments section above, the College District's strategies shall be as follows.

Unrestricted Net Assets

Unless matched to a specific requirement, such as investments required to support student scholarships, the investment adviser may not invest more than 50 percent of these funds for a period greater than one year. Unless matched to a specific requirement, the investment officer may not invest any portion of these funds for a period greater than two years.

Restricted Net Assets – Expendable

The investment officer may invest these funds for periods matched to the specific purpose of such funds.

Restricted Net Assets – Nonexpendable (Endowments)

The investment officer shall coordinate the management of these funds with the assistance of the investment adviser appointed by the Board. Strategy and goals for endowments shall be determined annually by the Board. Endowments shall not be subject to the provisions of the Public Funds Investment Act.

AMENDED: 03/16/2020