

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

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(LOCAL)

- PRIMARY OBJECTIVES The primary objectives of the College District investment policy are:
1. Preservation of capital and protection of principal,
 2. Safety of funds and investments,
 3. Maintenance of sufficient liquidity,
 4. Diversification to avoid unreasonable or avoidable risks, and
 5. Yield.
- STANDARD OF CARE The College District's portfolio shall be designed and managed in accordance with the following prudent person standard of care.
- Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived.
- This prudent person standard shall apply to the management of all College District funds.
- LIQUIDITY AND DIVERSITY To meet the investment objectives of the College District, the maturity of investments shall be targeted to coincide with the cash flow needs of the College District.
- The investment portfolio shall be diversified to reduce the risk of loss of investment income from overconcentration of assets in a specific issue, a specific issue size, or a specific class of securities.
- Nevertheless, the College District recognizes that in a diversified portfolio, occasional measured losses are inevitable, and must be considered within the context of the overall portfolio's investment return. Also, it is intended that investments in all funds shall be managed in such a way that any market price losses resulting from interest-rate volatility shall be offset by income received from the balance of the portfolio over a reasonable period of time as determined by the Board.
- AUTHORIZED INVESTMENTS The College District's investment authority is derived from the Public Funds Investment Act, effective September 1, 1995. College District funds may be invested in the following:
- OBLIGATIONS OF U.S. 1. Obligations of the United States, its agencies or instrumentalities except the following:
- a. Obligations whose payment represents the coupon payments on the outstanding principal balance of the

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- underlying mortgage-backed security collateral and pays no principal;
- b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
 - c. Collateralized mortgage obligations that have a stated final maturity date of greater than ten years; and
 - d. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in the market index.
- REPURCHASE AGREEMENTS AND REVERSE REPURCHASE AGREEMENTS 2. Fully collateralized repurchase agreements and reverse repurchase agreements having a defined termination date and secured by any obligation of the United States, its agencies or its instrumentalities, to include certain mortgage-backed securities of the U.S. The repurchase and reverse repurchase agreement transactions are to be placed only with primary government securities dealers or state or national banks doing business in the state of Texas.
- CERTIFICATES OF DEPOSIT 3. Fully collateralized certificates of deposit issued by state or national banks domiciled in the state of Texas or savings and loans domiciled in the state of Texas and guaranteed by the Federal Deposit Insurance Corporation or its successor. The certificates must be styled in the name of Lee College. Collateral for the time deposits may be in the form of:
- a. Obligations of the United States, its agencies or instrumentalities,
 - b. Direct obligations of the state of Texas or its agencies or instrumentalities,
 - c. Other state and local government bonds or obligations rated not less than "A" or its equivalent,
 - d. Other obligations fully guaranteed or insured by, or backed by the full faith and credit of, the state of Texas or the United States, including certain mortgage-backed securities.
- MONEY MARKET MUTUAL FUNDS 4. College District funds may be invested in a no-load money market mutual fund which is regulated by the Securities and Exchange Commission. The money market fund must be rated "AAA" or its equivalent by at least one nationally recognized investment rating firm. The money market fund must also maintain a dollar-weighted average stated maturity of 90

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| | <p>days or fewer, and include in its investment objectives the maintenance of a stable net asset value of \$1.</p> |
| LOCAL GOVERNMENT INVESTMENT POOLS | <p>5. College District funds may be invested in a public funds investment pool that must be continuously rated no lower than AAA or AAA-m or at an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days.</p> <p>The Board authorizes that College District funds may be invested in the Texas Local Government Investment Pool (Texpool) and the Lonestar Investment Pool, as long as each meets the requirements of state law.</p> |
| COMMERCIAL PAPER | <p>6. College District funds may be invested in commercial paper if the commercial paper is rated not less than A-1 or P-1 or an equivalent rating by at least:</p> <ul style="list-style-type: none">a. Two nationally recognized credit rating agencies; orb. One nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state. |
| COMPETITIVE BIDDING | <p>All trades, purchases, and sales transacted by the College District shall be done through a documented competitive bidding process. The investment officer shall maintain a log of investment transactions and shall be required to obtain at least three bids from authorized brokers/dealers when purchasing or selling securities.</p> |
| AUTHORIZED DEALERS / BROKERS | <p>The College District shall maintain a list of primary dealers and brokers authorized to provide investment services. All dealers and brokers who desire to become qualified bidders for investment transactions must supply the following:</p> <ul style="list-style-type: none">1. Completed broker/dealer questionnaire,2. Proof of registration with the Texas State Securities Board,3. Proof of National Association of Securities Dealers (NASD) certification,4. Audited financial statements5. Written acknowledgement that the entity has read the College District Investment Policy and has reasonable procedures and controls to preclude imprudent investment activities arising |

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out of investment transactions conducted between the entity and the College District.

The College District shall annually review the financial condition and registration of qualified dealers and brokers.

CONFLICTS OF
INTEREST

The College President, dean of financial services, and the Board of Regents must disclose personal business and certain family relationships with any entity seeking to sell investments, and a copy of each such disclosure statement must be filed with the governing body of the investing entity and the Texas Ethics Commission.

SAFEKEEPING AND
CUSTODY

To protect against potential fraud and embezzlement, the cash and investments of the College District shall be secured through third-party custody and safekeeping procedures as designated by the College District. In addition, all transactions, except investment pools and mutual funds will be settled on a delivery versus payment basis.

PORTFOLIO REPORTS

A monthly management portfolio report shall be prepared by the dean of financial services relating to investments of the College District. The report must:

1. Describe in detail the investment position of the entity on the date of the report;
2. Be prepared jointly by all investment officers of the entity;
3. Be signed by the dean of financial services;
4. Contain a summary statement of each pooled fund group that states the:
 - a. Beginning market value for the reporting period;
 - b. Additions and changes to the market value during the period; and
 - c. Ending market value for the period;
 - d. Fully accrued interest for the reporting period.
5. 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 invested;
6. State the maturity date of each separately invested asset that has a maturity date;
7. State the account or fund or pooled group fund for which each individual investment was acquired; and

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8. State the compliance of the investment portfolio as it relates to:
 - a. The investment strategy expressed in the investment policy; and
 - b. Other relevant provisions of the investment policy.
9. Market values shall be monitored on a monthly basis by requiring written communication of market indications at the end of each month from at least one of the College District's approved brokers.

INTEREST RATE RISK To reduce exposure to changes in interest rates that could adversely affect the value of investments, the College District shall use final and weighted-average-maturity limits and diversification.

The College District shall monitor interest rate risk using weighted average maturity and specific identification.

INVESTMENT TRAINING Each member of the Board shall attend at least one investment training session or view the state-approved investment training video within 12 months after taking office or assuming duties.

The training must include education in investment controls, security risks, strategy risks, market risks, as well as compliance with the Texas Public Funds Investment Act.

In addition, the investment officers shall attend a training session not less than once in a two-year period and receive not less than ten hours of instruction relating to investment responsibilities from an independent source approved by the governing body of the local government or a designated investment committee.

INVESTMENT AUTHORIZATION The dean of financial services shall serve as the investment officer of the College District, in consultation with the College President and the Board Investment Committee. No officer or employee of the Board may deposit, withdraw, invest, transfer, or otherwise manage local funds without express written authority of the Board.

REVIEW OF INVESTMENT POLICY The Board shall review the investment policy and investment strategies not less than annually and upon review shall adopt a resolution that shall confirm the review and shall include any changes to the policy or strategies.

PRIOR AUTHORIZED INVESTMENTS Authorized investments securities acquired under Chapter 2256, Government Code, before the effective date of House Bill 2459, 74th Legislative Session, that are no longer authorized investment securities under Chapter 2256, Government Code, as amended by House Bill 2459, are not required to be liquidated before the final stated maturity of the investment. However, these investment

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securities should be liquidated when prudent as determined by the Board.

INVESTMENT
STRATEGY

All College District funds shall be invested in a manner consistent with the following ranked criteria:

1. Preservation of capital and protection of principal
2. Safety of funds and investments
3. Maintenance of sufficient liquidity
4. Diversification to avoid unreasonable or avoidable risk
5. Yield

DIVERSIFICATION AND
SUITABILITY

The portfolio shall be designed with the protection of principal and maintenance of sufficient liquidity as the highest priority of the investment strategy. After consideration of safety and liquidity, the College District portfolio shall be directed towards achieving a competitive rate of return. The risk-return relationship shall be maintained and controlled through these investment parameters, operating requirements, and the guiding Board policies. Actual risks shall be minimized by adequate collateralization and delivery versus payment procedures which shall be utilized at all times.

Market and credit risk shall be minimized by diversification. Diversification by market sector and security types, as well as maturity, will be used to protect the College District against market and credit risk as well as aiding in liquidity requirements. The portfolio shall be structured to benefit from anticipated market conditions and to achieve a reasonable return.

Cash needs and cash expectations shall take priority in designing and structuring the portfolio. Income and expenditure history shall be developed and continually updated to determine the liquidity needs of the College District. Reports of these cash flow needs shall be used to develop the maturity structure of the portfolio and shall be designed to ensure sufficient distribution of investments in liquid, short-term instruments. The maturities of the investments shall be distributed such that there will be a continuing stream of securities maturing at frequent intervals.

MAXIMUM
MATURITIES

Maximum maturities for College District funds are as follows:

1. Operating funds — Local, state, federal

The maximum stated maturity of any investment of current-year operating funds shall be no more than six months.

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2. Reserve funds — Local

The maximum stated maturity of any investment reserve funds shall be no more than ten years.