



MEMORANDUM

Office of the Vice President for Administrative Services

To: Dr. Barron &
Board of Trustees

From: Dr. Van D. Miller

Date: January 12, 2017

Re: Investment Policy

The Texas Public Funds Investment Act, Government Code, Chapter 2256 requires the Temple College Board of Trustees to review the College investment policy and investment strategy not less than annually. The Temple College Investment Policy is attached for that required review.

The policy is slightly more restrictive than the state investment options permit, but this policy has served the College well. No invested principal has ever been lost in Temple College accounts.

There are no changes in the Investment Policy since the Board's last approval in January of 2016.

**TEMPLE COLLEGE
INVESTMENT POLICY
Approved by the Board of Trustees
January 23, 2017**

INTRODUCTION

This Investment Policy supersedes all other policies and has been formulated to comply with the requirements of the Texas Public Funds Investment Act, as amended and effective September 1, 1995¹. In addition to providing specific restrictions on certain types of investments, the law requires certain issues to be addressed in the investment policy and the incorporation of specific language. Compliance with the law significantly expands the Investment Policy and provides for a greater lever of detail and understanding.

**ARTICLE I
PURPOSE, OBJECTIVES, AND STRATEGY**

- 1.1 Purpose of Policy. The purpose of this Investment Policy is to provide the College with specific guidelines so that the return on available cash reserves in each of the funds under its control may be maximized while the risk to invested capital may be minimized.

- 1.2 Investment Objectives. Investment of funds shall be governed by the following investment objectives, in order of priority, for each investable fund listed in Article II.
 - a. **Investment Suitability** – in recognition of the College’s primary educational mission, its role as a custodian of the public trust, its unique budgetary and cash flow cycles, and restrictions of state and federal laws.
 - b. **Preservation and Safety of Principal** – to ensure that potential capital losses are avoided whether they be from defaults or erosion of market value.
 - c. **Liquidity** – by structuring maturities to enable the College to meet all cash requirements which might reasonable be anticipated.
 - d. **Marketability** – to provide the College the ability to liquidate the investment prior to its maturity date.
 - e. **Portfolio Diversification** – to avoid incurring unreasonable and avoidable risks regarding specific types of securities or concentrations within individual financial institutions.
 - f. **Yield** – To attain the best rate of return on investments, based on the existing

- 1.3 Written Investment Strategy. Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific investment strategies shall be implemented and changed from time to time considering the fund's unique requirements. The Investment Officer will review the current investment strategy, make appropriate revisions, and present an updated Investment Strategy Statement as a part of each quarterly Investment Report (Article VIII). The written Investment Strategy Statement will address each of the investment objectives listed in Article I (1.2).

ARTICLE II SCOPE

This Investment Policy applies to all financial assets of the College which are accounted for in its annual financial report and may include:

- 2.1 The Pooled Operating Funds consisting of:
- a. Current unrestricted funds,
 - b. Current restricted funds whose investment is required by state or federal laws or board policy,
 - c. Endowment funds, and
 - d. Agency funds held in trust for others.
- 2.2 Bond Proceeds:
- a. The Investment maturity of bond proceeds (excluding reserve and debt service fund) shall generally be limited to the anticipated cash flow requirement of the "temporary period," as defined by Federal tax law.
 - b. During the "temporary period," bond proceeds may be invested at an unrestricted yield, subject first to the objectives of preservation of principal and liquidity.
 - c. After the expiration of the "temporary period," bond proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds and market conditions to achieve compliance with the applicable regulations.
- 2.3 Debt Service (Interest and Sinking Funds):
- a. Shall be invested to insure adequate funding for each debt service payment. Funds shall be invested in such a manner so that the maturity date of any investment does not exceed an unfunded debt service date.

2.4 Debt Service Reserve Funds:

- a. Market condition, Bond Resolution covenants and Arbitrage regulation compliance will be considered when formulating Reserve Fund investment strategy.
- b. Maturity limitations shall generally not exceed the call provisions of the Bond Resolution and shall not exceed the final maturity of the bond issue.
- c. The District shall not invest any debt service reserve funds in securities or obligations not otherwise authorized by the applicable bond resolution.

2.5 Any new fund or trust created by the College, unless specifically exempted from this Policy by the Board of Trustees or by State or Federal law.

**ARTICLE III
INVESTMENT PERSONNEL**

3.1 Designated Investment Officer. The Vice President for Administrative Services shall be designated by resolution as the College's Investment Officer. The Investment Officer will be authorized to conduct all investment activity as provided for in this Policy. In the absence of the Vice President of Administrative Services, the Associate Vice President for Finance and Information Technology Services, with approval of the President of the College, shall act as the College's Investment Officer.

3.2 Term. Investment authority granted to the Investment Office to deposit, withdraw, invest, divest, transfer, or manage the College's funds is effective until transcended by a resolution of the Board of Trustees.

3.3 Statement of Interest and Affiliation. The Investment Officer shall file a statement disclosing any and all personal business relationships with any entity seeking to sell an investment to the College. In addition, the Investment Officer shall file a disclosure statement if the officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573, Government Code, to an individual seeking to sell an investment to the College. Such statements must be filed with the Texas Ethics Commission and with the Board of Trustees of Temple College.

3.4 Standard of Care. Investment decisions shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the person's own affairs, not for speculation, but for investment. The decisions shall be governed by, in order of priority, safety of

- 3.5 Personal Responsibility. The designated Investment Officer shall perform the duties in accordance with the adopted Investment Policy. The designated Investment Officer, acting in accordance with written procedures and this Investment Policy and exercising due diligence, shall be relieved of personal liability.
- 3.6 Investment Committee.
- a. The Investment Committee will advise the College's Board of Trustees with regard to:
 - (1) any amendments or revisions of the College's Investment Policy, and
 - (2) the investment strategy or planned disposition of the College's investments which were purchased prior to September 1, 1995.
 - b. The Investment Committee is composed of three members of the Board of Trustees: the President; Vice President; and the Secretary.

ARTICLE IV TRAINING REQUIREMENTS

- 4.1 Investment Officer. The Investment Officer of the College shall attend at least one training session relating to the Officer's investment responsibilities within 6 months after taking office or assuming investment duties. The investment officer(s) must receive 5 hours of training within each 2-year period that begins on the first day of the College's fiscal year and consists of the 2 consecutive fiscal years after that date. The training must be provided by an independent source approved by the Texas Higher Education Coordinating Board.
- 4.2 Topics. Such training shall include education in investment control, security risks, strategy risks, market risks, and compliance with the Texas Public Funds Investment Act, as amended.

ARTICLE V AUTHORIZED INVESTMENTS

This Investment Policy is more restrictive than the Texas Public Funds Investment Act, as amended. College funds shall be invested only in the following authorized investments:

- c. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.
- d. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; and
- e. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality of not less than A by a nationally recognized investment rating firm.

5.2 Certificates of Deposit.

- a. The Certificates shall be issued by a depository institution that has its main office or a branch office in the State of Texas.
- b. Certificates must be insured by the FDIC or its successor, or the National Credit Union Share Insurance Fund or its successor, or
- c. The Certificates must be collateralized by pledged securities or a letter of credit issued by a Federal Home Loan Bank in accordance with the Texas State Public Funds Investment Act, as amended.

5.3 Repurchase Agreements.

- a. A “repurchase agreement” means a simultaneous agreement to buy, hold for specified time, and sell back at a future date obligations described in Article 5.1 above. The agreement must have a defined termination date.
- b. The agreement must be secured in accordance with the Texas State Public Funds Investment Act, as amended.
- c. The securities must be pledged to the College, held in the College’s name, and deposited at the time the investment is made with College or with a third party selected and approved by the College.
- d. The agreement must be placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas.

5.4 Reverse Repurchase Agreement.

- a. The term must not exceed 90 days after the date the reverse repurchase agreement is delivered.
- b. Money received under the terms of a reverse repurchase agreement shall be used to acquire additional authorized investments, but the term of the

- b. Such fund must have a dollar-weighted average stated maturity or not more than 90 days.
- c. Such fund must include in its investment objectives the maintenance of a stable net asset value of \$1 for each share.
- d. The College may not invest, in the aggregate, more than 80% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in such fund.
- e. The College's portion may not exceed 10% of the total assets of such fund, including bond proceeds and reserves and other funds held for debt service.

5.6 No-Load Registered Mutual Fund.

- a. The fund must be registered with the Securities and Exchange Commission (SEC).
- b. The fund must have an average weighted maturity of less than two years.
- c. The fund must be invested exclusively in obligations approved by the Texas Public Funds Investment Act, as amended.
- d. The fund's investment quality must be continuously rated not less than AAA or its equivalent by at least one nationally recognized rating firm.
- e. The College may not invest in the aggregate more than 15% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in such fund.
- f. The College may not invest any portion of bond proceeds and reserves and funds held for debt service in mutual funds described by Article 5.6.
- g. The College's portion may not exceed 10% of the total assets of the Fund, including bond proceeds and reserves and other funds held for debt service.

5.7 Public Funds Investment Pools.

- a. The College must authorize investments to be made through a particular pool by resolution.
- b. The investment pool must furnish to the Investment Officer an offering circular or other similar disclosure instrument that contains the minimum information required by Sections 2256.016 (b) and (c) of the Texas Public Funds Investment Act, as amended, as follows:
 - (1) the types of investments in which money is allowed to be invested;
 - (2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool
 - (3) the maximum stated maturity date any investment security within the portfolio has;

- (9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
 - (10) the name and address of the independent auditor of the pool;
 - (11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and
 - (12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.
- c. An investment pool created to function as a money market mutual fund must mark its portfolio to market daily and, to the extent reasonably possible, stabilize at a \$1 net asset value.
 - d. A public funds investment pool which is managed by a state agency shall establish an advisory board in accordance with the Texas Public Funds Investment Act, as amended.
 - e. A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

ARTICLE VI UNAUTHORIZED INVESTMENTS

6.1 The College shall not invest in:

- a. Obligations whose payment represents the coupon payments on the outstanding principal balance of underlying mortgage-backed security collateral and pays no principal (interest-only strips);
- b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (principal-only strips);
- c. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index (inverse floaters); or
- d. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.

6.2 The College shall not invest any bond proceeds, interest and sinking funds, or reserve funds in any securities or obligations not otherwise authorized by the

- a. All vouchers, checks, drafts, and certificates of deposit, any other instruments necessary in the transaction of the College's financial affairs shall bear the signature of any two (2) College officers except orders for the release or exchange of securities held as collateral for the College's funds on deposit with its depository bank, which shall require a signature as set forth on the Pledgee Signature Authorization Form on file with the bank.
- b. Requests for fund transfers to purchase securities must be approved in writing by the Investment Officer. This authorization letter bearing the signature of the Investment Officer shall be delivered to the depository bank via fax on Temple College letterhead.
- c. Pursuant to the Texas Public Funds Investment Act, as amended, funds may be transferred by electronic means.

7.2 Delivery vs. Payment.

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

7.3 Sellers of Authorized Investments.

- a. The Investment Officer of the College must present a copy of the College's Investment Policy to each person or organization seeking to sell it investments.
- b. With the exception of state operated Public Funds Investment Pools, the College is prohibited from purchasing investments unless the "registered principal" of the business organization has signed a written instrument (in substantially the form as provided in Exhibit A) stating that the registered principal has:
 - (1) received and thoroughly reviewed this Investment Policy, and
 - (2) acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the College and the organization.

7.4 Credit Ratings of Investments

The Investment Officer shall monitor the credit rating on all authorized investments in the portfolio based upon independent information from a

ARTICLE VIII REPORTING REQUIREMENTS

8.1 Internal Management Reports.

- a. The Investment Officer shall prepare a written quarterly report of investment transactions.
- b. The report shall be signed by the Investment Officer and presented to the Board of Trustees and the President of the College within a reasonable time after the end of the quarter.
- c. The report must present detailed investment information as prescribed in Section 2256.023(b) of the Texas Public Funds Investment Act, as amended, as follows:
 - (1) describe in detail the investment position of the College on the date of the report;
 - (2) contain a summary statement of each pooled fund group that states the:
 - (a) beginning market value for the reporting period;
 - (b) ending market value for the period; and
 - (c) accrued interest.
 - (3) 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;
 - (4) state the maturity date of each separately invested asset that has a maturity date;
 - (5) state the account or fund or pooled group fund for which each individual investment was acquired.
- d. The market price of investments will be determined from public funds investment pools official statements, brokerage firms official statements for investments held in College accounts, or an average of at least two independent pricing quotes for investments held in safekeeping depositories.
- e. The report shall state the compliance of the investment portfolio as it relates to the College's Investment Strategy and the Texas Public Funds Investment Act, as amended.
- f. The report shall state the investment strategy to be followed for each fund during the next quarterly reporting period.

8.2 Audit Reports.

**ARTICLE IX
ANNUAL REVIEW**

The Board of Trustees shall review the Investment Policy and Investment Strategy not less than annually.

The Temple College investment policy, current investment reports and commentary required by the State Auditor's Office shall be published on the Temple College website and updated at quarterly intervals. Reports shall be published on an indexed page titled "Investment Disclosure" and shall be published fewer than 90 days after the end of the quarter or 7 days after the investment report is presented to the Board of Trustees, whichever occurs first. The reports are to be maintained on the website for at least two years.

EXHIBIT A

BROKER/DEALER CERTIFICATION FORM

as required by Texas Government Code 2256.005(k) and
amended by H.B. 2799, 75th Legislature, R.S. 1997
for
TEMPLE COLLEGE

The College acknowledges that the only means the firm has to preclude imprudent investment activities arising out of transactions between the firm and the College is to confirm that all provisions of the College's Investment Policy are followed in investment transactions conducted between the firm and the College, and the paragraphs below should be read accordingly.

I, as a qualified representative for the firm, do hereby certify that I have received and reviewed the Investment Policy of the College, to the extent required by the above referenced legislation.

I acknowledge that this firm has implemented reasonable internal procedures and controls in an effort to preclude imprudent investments between this firm and the College arising from transactions between the College and the firm.

Name of Firm

Address of Firm

City, State, Zip Code of Firm

Telephone Number

QUALIFIED REPRESENTATIVE

INVESTMENT STRATEGY STATEMENT

TEMPLE COLLEGE

The College maintains portfolios which utilize four specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolios.

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 secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short-to-medium term securities which will complement each other in a ladder structure and investment in qualified public funds investment pools.

Investment strategies for bond proceeds shall conform to bond covenants regarding yield limitations. Primary consideration will be preservation of principal and liquidity. Short-term and money-market securities are the basis of this portfolio.

Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date.

Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Except as may be required by the bond covenant specific to an individual issue, securities should be of high quality, with short-term to intermediate-term maturities. Volatility shall be further controlled through the purchase of securities carrying the highest coupon available, within the desired maturity and quality range, without paying a premium, if at all possible. Such securities will tend to hold their value during economic cycles.

COMPLIANCE STATEMENT

During the twelve month period ending August 31, 2016, the College was in compliance with the strategies set forth above. No unauthorized investments were in the College portfolio at August 31, 2016. The strategy for the next quarter will remain consistent with current strategy.

INVESTMENT FIRMS

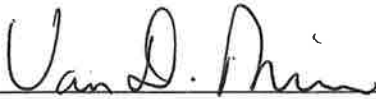
The College has current relationships with the following firms to negotiate investment transactions. These firms (except TexPool which is operated by the State of Texas) have been requested to file the Broker/Dealer Certification Form as required by the Texas Government Code 2256.005(k).

<u>Broker</u>	<u>Primary Representative</u>	<u>Fund Group</u>
Central National Bank	Josie Vargas	Operating & Plant
Union State Bank	Charles Chapman	Operating
Raymond James	Jeff B. Coffman	Operating
BBVA Compass Bank	Tyler Johnson	All
JPMorgan Chase Bank	Melisa Atkinson	All
Texas Class	Danny King	All
TexPool	State Treasury of Texas	All

STATEMENT OF INTEREST AND AFFILIATION

Pursuant to Sec. 3.3 of the Temple College Investment Policy, I hereby affirm that I am not related within the second degree by affinity or consanguinity, as determined under Chapter 573, Government Code, to an individual seeking to sell an investment to the College.

The above report conforms to the requirement of the Texas Public Funds Investment Act, as amended and the Temple College Investment Policy.



Van D. Miller, MBA, Ed.D.
Vice President for Administrative Services/CFO

January 17, 2017
Date

STATE AUDITOR DISCLOSURE

Required Supplemental Information to the Annual Investment Reporting Requirements

1. Temple College does not employ outside investment advisers or managers.
2. Temple College does not use soft dollar arrangements as a means of paying for services through brokerage commission revenue. Payments are made to brokers as direct costs when transactions are settled.
3. Temple College has an association with an independent foundation, the Temple College Foundation. The Director of the Temple College Foundation is Ms. Jennifer Graham, 2600 South First Street, Temple TX 76504.

The market value of Foundation investments at August 31, 2016, was \$5,645,182.14.