

04.17 BOARD OF TRUSTEES

Title: Investment and Cash Management

Section: Fiscal

Cross Reference: OP 04.31 – Banking Services Procedure

PURPOSE

The purpose of this investment policy is to comply with all laws and statutes governing the investment of public funds, including but not by way of limitation Chapter 2256 of the Texas Government Code (“Public Funds Investment Act” or “PFIA”), which require Integral Care to adopt a written investment policy regarding the investment of its funds and funds under its control. This Investment and Cash Management Policy (“Policy”) addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of Integral Care funds.

POLICY

It is Integral Care policy to administer and invest its funds as its highest public trust. Investments will provide the maximum security of principal invested through limitations and diversification while meeting Integral Care daily cash flow needs.

The receipt of a market rate of return will be consistent with the requirements for safety, diversification, liquidity and yield. Integral Care will comply with the Public Funds Investment Act and, as appropriate, with the Public Funds Collateral Act, Chapter 2257 of the Texas Government Code (“PFCA”). Investments shall be made with the primary objectives of:

- **Safety** and preservation of principal
- Maintenance of sufficient **liquidity** to meet operating needs
- **Public trust** from prudent investment activities
- Optimization of **interest earnings** on the portfolio

SCOPE

This Policy applies to all Integral Care funds, except pension and retirement funds. Integral Care may commingle funds into one or more pooled investment portfolios for efficiency and maximum investment opportunity while recognizing the unique needs of individual funds.

In addition to this Policy, fund investments will be governed by the requirements of any applicable trust indentures or contracts. Any new funds created by Integral Care, unless specifically exempted by the Integral Care Board of Trustees (“Board”), will be managed in accordance with this Policy.

OBJECTIVES AND STRATEGY

Integral Care shall manage and invest its cash with five primary objectives, listed in order of priority: **safety, liquidity, public trust, diversification, and yield (expressed as optimization of interest earnings)**. 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 applicable state, federal and local law.

Integral Care shall maintain a comprehensive cash management program, which includes collection of account receivables, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum earnings on short-term investment of idle cash.

Safety [PFIA 2256.005(b) (2)]

Safety of principal is the foremost objective of Integral Care. Integral Care investments shall be undertaken in a manner that seeks to ensure the preservation of capital in Integral Care's overall investment portfolio ("Portfolio"). Funds will be invested in accordance with this Policy on a "buy and hold" basis. The authorized securities chosen, or pool(s) utilized, will be of the highest credit quality and marketability. The objective will be to mitigate credit and interest rate risk.

- Credit Risk – Integral Care will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, by:
 - Limiting investments to the safest types of investments.
 - Pre-qualifying the financial institutions and broker/dealers with which Integral Care will do business.
 - Diversifying the Portfolio so that potential losses on individual issuers will be minimized.
- Interest Rate Risk – Integral Care will minimize the risk that the interest earnings and the market value of investments in the Portfolio will fall due to changes in general interest rates, by:
 - Structuring the Portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity.
 - Investing operating funds primarily in certificates of deposit, shorter-term securities, money market mutual funds, or local government investment pools functioning as money market mutual funds.
 - Diversifying maturities and staggering purchase dates to minimize the impact of market movements over time.

Liquidity [PFIA 2256.005(b) (2)]

The Portfolio will remain sufficiently liquid to meet all reasonably anticipated operating requirements with a maximum weighted average maturity of no more than twelve (12) months to protect liquidity. This is accomplished by structuring the Portfolio so that investments mature concurrent with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, a portion of the Portfolio will be maintained in interest bearing accounts or local government investment pools that offer same-day liquidity.

Public Trust

All participants in Integral Care investment process shall seek to act responsibly as custodians of the public trust. Integral Care's Chief Financial Officer and the Accounting Services Director have been designated as Investment Officers. Investment Officers shall avoid any transaction that might impair public confidence in Integral Care's ability to govern effectively.

Diversification [PFIA 2256.005(b)(3)]

Portfolio diversification includes maturity and market sector diversification. This also entails the utilization of a number of brokers and dealers to ensure access to balanced information. The Portfolio shall be diversified to protect against market and credit risk in any one sector. Diversification requirements can be met by utilizing an authorized investment pool.

Yield [PFIA 2256.005(b)(3)]

The Portfolio shall be designed with the objective of attaining a reasonable market yield throughout budgetary and economic cycles, taking into account Integral Care risks and Portfolio cash flow. Since the historical cash flow allows a weighted average maturity for the Portfolio of twelve (12) months, the Portfolio will use a benchmark of the one (1) year Treasury Bills to measure risk and performance levels. The maximum stated maturity for any individual security in the Portfolio shall not exceed three (3) years.

RESPONSIBILITY AND CONTROL

Delegation of Authority [PFIA 2256.005(f)]

Integral Care may utilize a registered investment adviser to assist in the investment program. The Investment Officers are responsible for all the aspects of the investment program and investment management decisions and activities. They will develop and maintain written procedures for the operation of the investment program that are consistent with this Policy. The Investment Officers are authorized to engage in investment transactions, deposit, withdraw, wire funds for investments, transfer and manage funds on behalf of Integral Care.

The Investment Officers may provide written authorization for one of Integral Care accounting employees to execute electronic fund transfers between Integral Care financial institution accounts. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

Quality and Capability of Investment Management [PFIA 2256.005(b)(3)]

Integral Care shall provide periodic training in investments for the Investment Officers and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources in order to ensure the quality and capability of investment management in compliance with the Public Funds Investment Act. An Investment Officer shall attend a training session not less than once each fiscal biennium (begins the first day of Integral Care fiscal year, September 1) from an independent source approved by the Finance Committee of the Board.

Training Requirement [PFIA 2256.008]

In accordance with Integral Care practice and the Public Funds Investment Act, designated Investment Officers shall attend an investment training session no less often than once every two years and shall receive not less than 10 hours of instruction relating to investment responsibilities. A newly appointed Investment Officer must attend a training session of at least 10 hours of instruction within twelve months of the date the officer took office or assumed the officer's duties.

The investment training session shall be provided by an independent source approved by the Finance Committee of the Board. For purposes of this Policy, an "independent source" from which investment training shall be obtained shall include a professional organization, an institution of higher education or any other sponsor other than a business organization with whom Integral Care may engage in an investment transaction. Integral Care approves the University of North Texas Center for Public Management and Patterson & Associates as sources for investment training. The Finance Committee of the Board may approve additional training sources by separate action.

Ethics and Conflicts of Interest [PFIA 2256.005(i)]

Investment Officers shall refrain from personal business activity that would conflict with the proper execution and management of the investment program, or that would impair their ability to make impartial decisions.

Investment Officers shall disclose any material interests in financial institutions with which they conduct business to the Chair of the Finance Committee and the Chief Executive Officer. They shall further disclose any personal financial/investment positions that could be related to the performance of the Portfolio.

An Investment Officer who has a personal business relationship with an organization seeking to sell an investment to Integral Care shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to sell an investment to Integral Care shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission, the Board and the Chief Executive Officer.

PRUDENCE [PFIA 2256.006]

The standard of prudence to be applied by the Investment Officer shall be the “prudent investor” rule. This rule states that “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 and the probable income to be derived.” In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- The investment of all funds, or funds under Integral Care control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment.
- Whether the investment decision was consistent with the written approved investment policy of Integral Care.

LIMITATION OF PERSONAL LIABILITY

The Investment Officers, when acting in accordance with the written procedures and this Policy and in accordance with the PFIA’s quoted requirement of prudence, shall be relieved of personal liability in the management of the Portfolio provided that deviations from expectations for a specific security’s risk or market price change or Portfolio shifts are reported in a timely manner and appropriate action is taken to control adverse market effects.

INTERNAL CONTROLS

The Investment Officers shall establish a system of written internal controls which will be reviewed annually with the independent auditor of Integral Care. The Investment Officers will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes. The Investment Officers and any Integral Care investment adviser shall perform an annual review to assure compliance with the PFIA and this Policy.

The Investment Officers or investment adviser, if applicable, shall monitor no less frequently than weekly, the credit rating on all authorized investments in the Portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officers shall notify the Board of the loss of rating, conditions affecting the rating and possible loss of principal and the liquidation options available.

The Investment Officers or investment adviser, if applicable, shall monitor on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by Integral Care based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officers shall immediately liquidate any brokered CD which is above the FDIC insurance level.

AUTHORIZED INVESTMENTS [PFIA 2256.005(b)(4)(A)]

Acceptable investments under this Policy shall be limited to the instruments listed below. The investments are to be obtained in a manner which promotes diversity of market sector and maturity. The choice of high-grade government investments and high-grade money market instruments are designed to assure the marketability of those investments should liquidity needs arise. If additional types of securities are approved for investment by public funds by state statute, they will not be eligible for investment by Integral Care until this Policy has been amended and the Board adopts the amended version.

- A. Obligations of the United States Government, its agencies and instrumentalities excluding all mortgage-backed securities and not to exceed three years to stated maturity;
- B. Fully insured or collateralized depository certificates of deposit from a bank doing business in the State of Texas and under the terms of a written collateral agreement with that bank, if over the FDIC insurance level, and in compliance with the collateral provisions of this Policy.
- C. FDIC insured brokered Certificates of Deposit purchased from a broker or a bank in Texas, delivered versus payment to the Integral Care safekeeping agent, not to exceed one year to maturity. Before purchase, the Investment Officers must verify the FDIC Status of the bank (on www.fdic.gov or equivalent) to assure that the bank is FDIC insured.
- D. AAA-rated, no-load, U.S. Securities and Exchange Commission (“SEC”) registered money market funds, restricted to investments authorized by the PFIA which strive to maintain a \$1 Net Asset Value (NAV), in compliance with SEC Rule 2a-7.
- E. AAA-rated, constant-dollar Texas Local Government Investment Pools as defined by the PFIA and which strive to maintain a \$1 NAV, in compliance with SEC Rule 2a-7.
- F. Interest bearing accounts of banks doing business in Texas insured or collateralized in accordance with this Policy.
- G. General debt obligations of any US state or locality rated AA or higher by at least one nationally recognized rating agency and not to exceed three years to stated maturity.
- H. A1/P1 or equivalent commercial paper.

Competitive Bidding Requirement [PFIA 2256.005(c)]

All securities, including certificates of deposit, will be purchased or sold only after three (3) offers or bids verify that Integral Care is receiving fair market price for the investment. Bids may be solicited orally, in writing, electronically, or in any combination of those methods.

Delivery versus Payment [PFIA 2256.005(b)(4)(e)]

All security transactions, including collateral for repurchase agreements (but excluding investment pool funds and mutual funds) entered into by Integral Care shall be conducted on a delivery versus payment (“DVP”) basis.

AUTHORIZED DEALERS AND INSTITUTIONS [PFIA 2256.025]

All investments made by Integral Care will be made through an Integral Care-approved broker or dealer. The Board shall approve a list of brokers or dealers authorized to provide investment services to Integral Care. The list shall be approved by the Board on an annual basis and a current year’s list is attached to this Policy as Exhibit A. Integral Care shall maintain a list of authorized financial institutions to provide time and demand deposits but this list need not be approved by the Board.

The following criteria must be met by each authorized broker or dealer:

- Provision of an annual audited financial statement;
- Proof of certification by the Financial Industry Regulatory Authority (FINRA) including the firm’s FINRA Central Registry Depository (CRD) number; and
- Proof of current registration with the Texas State Securities Board.

A copy of the Policy will be sent to every authorized broker/dealer.

Each investment pool or investment management firm with which Integral Care transacts business (“Pool”) will be provided a copy of this Policy to assure that it is familiar with the goals and objectives of the investment program. Each Pool will be required to return a signed copy of a Certification Form substantially in the form required by the PFIA certifying that the Policy has been received and reviewed and that the Pool has put controls into place to prevent securities which are not Policy-compliant from being sold to Integral Care. Major changes to the Policy will require re-certification of the Policy by each Pool. [PFIA 2256.005(k-1)]

DIVERSIFICATION AND MATURITY LIMITATIONS [PFIA 2256.005(b)(4)(B)]

It is Integral Care policy to diversify its Portfolio to minimize risk or loss resulting from over-concentration of assets in a specific maturity, issuer, or class of securities. Diversification strategies shall be established and periodically reviewed. The Investment Officers shall be required to diversify maturities and, to the extent possible, to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk.

The longer the maturity of investments, the greater their price volatility. Therefore, it is Integral Care policy to concentrate its Portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

Integral Care attempts to match its investments with anticipated cash flow requirements. Integral Care will not directly invest in securities maturing more than three (3) years from the date of purchase; however, the above described obligations, certificates, or agreements may be collateralized using longer dated investments.

SAFEKEEPING OF SECURITIES AND COLLATERAL

Securities Owned by Integral Care

State laws and prudent treasury management require that all Integral Care-owned securities be held in safekeeping by either a third party financial institution independent from the seller or an Integral Care-designated depository. All securities will be settled DVP. To perfect DVP, the Integral Care depository used as the custodian will not be used as a broker for any transaction.

The Investment Officers shall authorize all safekeeping arrangements and an agreement of the terms executed in writing. The custodian shall be required to issue original safekeeping receipts to Integral Care describing each specific security, rate, description, maturity, CUSIP number, and other pertinent information.

Pledged Securities

All securities pledged to Integral Care for certificates of deposit or demand deposits shall be held by an independent bank outside the holding company of the pledging bank. The custodian shall be required to issue original safekeeping receipts to Integral Care describing each specific security, including market value. Each safekeeping receipt will be clearly marked that the security is pledged to Integral Care.

Collateral [*PFCA 2257.023*]

Securities pledged as collateral for time and demand deposits shall be limited to:

- Obligations of the U.S. Government, its agencies and instrumentalities including, but not limited to, mortgage-backed securities which pass the Federal Reserve's bank test,
- Municipal obligations of any state or public entity rated A or equivalent by at least two (2) nationally recognized rating agencies, and
- Federal Home Loan Bank (FHLB) irrevocable letter of credit.

All pledged securities will be held by an independent bank approved by Integral Care. An executed collateral agreement shall be executed under terms of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 as it may be amended from time to time ("FIRREA"). In order to anticipate market changes and provide a level of additional security for all funds, the collateralization level required will be 102% market value of the principal and accrued interest on deposit. The pledging bank shall be liable for monitoring and maintaining the collateral and margins daily. The custodian of the collateral shall provide a monthly report of all holdings directly to Integral Care.

Under state law, banks are authorized to propose a voluntary pooling of collateral for their collateral pledged to all public entities. Integral Care is authorized to utilize such pooling and the

Board authorized their use, but the Investment Officers must evaluate the costs and risks of such a collateralization relationship. Integral Care is not required to utilize a collateral pool.

All collateral shall be subject to inspection and audit by the Investment Officers or Integral Care independent auditors.

PERFORMANCE EVALUATION AND REPORTING [PFIA 2256.023]

The Investment Officers shall submit a report to the Board no less frequently than quarterly, which complies with the PFIA, contains sufficient information to permit an informed outside reader to evaluate the performance of the investment program and contains, at a minimum:

- Beginning and ending market value of the Portfolio by market sector and total Portfolio;
- Beginning and ending book value of the Portfolio by market sector and total Portfolio;
- Change in market value;
- Detail reporting on each asset (book, market, and stated maturity dates at a minimum);
- Average yield of the Portfolio for the period;
- Average yield of the Portfolio's benchmark for the period;
- Total earnings for the period; and
- Overall weighted average maturity of the Portfolio.

Integral Care or, as applicable, its investment adviser will obtain market prices from an independent source for all securities for reporting purposes.

The report will be prepared jointly by the Investment Officers and signed by the Investment Officers and all others involved in the investment activity.

DEPOSITORIES

At least every five (5) years, the Investment Officers will competitively bid the banking services of Integral Care. Services will be solicited from Integral Care's current financial institution and at least two other qualified institutions.

The banking services institution will be used for normal banking services including disbursements, deposits, custody, and safekeeping of securities. Other banking institutions from which Integral Care may purchase certificates of deposit will also be designated as a depository after they provide their last audited financial statements to Integral Care.

All depositories will execute a depository contract including terms for collateralization of funds above FDIC insured levels.

INVESTMENT POLICY ADOPTION BY Integral Care BOARD [PFIA 2256.005(e)]

This Policy containing Integral Care Investment Policy and Strategy shall be reviewed and adopted annually by the Board.

Initial Effective Date: November 30, 1996

Last Revised Date: ~~September 25, 2014, October 29, 2015, October 24, 2016,~~
~~September 28, 2017, December 13, 2018, September 26, 2019, September 24, 2020~~

Approved: Hal Katz, Chair, Board of Trustees

Signature: _____

EXHIBIT A

Integral Care

Authorized Broker/Dealer List

The authorized broker/dealer list for Integral Care is shown below. Each of these firms, and the individual with each firm who is responsible for covering the account, is given Integral Care's current Investment and Cash Management Policy ("Policy"). Either Integral Care's Investment Officers or, as applicable, its investment advisor shall maintain the broker files for Integral Care.

When any material changes are made to the Policy, Integral Care will provide each authorized broker/dealer with a copy of the revised Policy.

- J.P. Morgan Chase
- Frost Bank (sweep account only)
- Bank of America
- Bank of America Merrill Lynch
- Mizuho Securities
- Morgan Stanley
- Raymond James
- Stifel Nicolaus
- Edward D. Jones & Co.
- In Capital
- Oppenheimer