Texas State Council

OPERATIONAL POLICY/ PROCEDURE

Title: Investment Policy	**Number:**
Cross Reference: Policy adopted Jan. 13, 2017	
Approved by: Texas State Council Board of Directors (BOD)	**Origination Date:**
Revised by: Bylaws, Policy & Procedure Committee	**Approval Date: 12/2025**
	Revision Date: 01/21/2021

I. PURPOSE:

The investment objective is to grow the Texas State Council's investment funds' value over the long term and earn more generous return rates than those currently received by the banking strategy. The investment objective should avoid undue risk and generate liquidity sufficient for the Council's operational needs.
Although short-term fluctuations will affect portfolio performance, the Texas State Council expects:

- The short-term investments to preserve principal and the invested portion thereof to generate the current income equal to a market rate of return for short-term fixed income securities; and
- The long-term investments to provide for any emergency liquidity needs of the Council and to generate a total return net of investment expenses over a five-year moving period that exceeds the rate of inflation plus three to five (3-5%) annually.

The intent of these goals, objectives, and guidelines provide guidance and expectations in the funds' management and performance to provide the flexibility to respond to given changing economic, business, and investment conditions.

II. BACKGROUND/DEFINITIONS:

To manage investment risk and to optimize investment returns within acceptable risk parameters, the following funds will be created and held as separate investment pools: Operating Fund, Short-term Reserve Fund, Long-term Reserve Fund.

1. **Operating Fund** provides sufficient cash to promptly meet the Texas State Council's day-to-day financial obligations. The Operating Fund's investment objectives are preserving capital, liquidity, and optimizing the investment return within the constraints above.
2. **Short-Term Reserve Fund** meets the expenses occurring as a result of unanticipated activities and improves the return on the funds held for expenditure for up to five (5) years.
3. **Long-Term Reserve Fund** is to provide secure long-term funding for the mission of the Texas State Council. The treasurer or board appointed representative shall manage assets in such a way as to facilitate the organization's goals and objectives as outlined by the BOD. Expenditure of

the principal is Board designated unless otherwise designated by the donor(s) in part or whole. At the discretion of the BOD, 100% of the yearly return may be utilized for program and association expenses unless restricted for specific purposes by the donor(s).

The Texas State Council's Fund shall be invested in such a manner as to:

a. Maximize total returns consistent with acceptable levels of risk and the Texas State Council's liquidity needs.
b. Adhere to applicable statutes and policies related to fiduciary responsibility.

The Treasurer is a fiduciary ad hoc committee, responsible for directing and monitoring the investment management of the various fund assets on behalf of the Texas State Council. As such, the Treasurer is authorized to delegate specific responsibilities to professional experts in various fields. These include, but are not limited to investment management consultants, investment managers, custodians, and any additional specialists, upon approval of the Texas State Council Board of Directors.

III. PROTOCOL/PROCEDURE:

1. The Treasurer shall review this policy annually.

2. The Treasurer shall forward recommendations of any changes to this policy to the Texas State Council Board of Directors.

3. The Treasurer shall recommend the dollar amounts to be held in the Operating Fund, Short-Term Reserve Fund, and Long-Term Reserve Fund.

4. It is anticipated that registered investment manager's services may be sought to manage portions of the Long-Term Reserve and Endowment Funds. The following procedure shall be followed to engage a new or replace a current investment manager:
    A. The Treasurer shall recommend the hiring or replacing an investment manager to the Board of Directors.
    B. The Treasurer shall nominate prospective candidates and send a Request for Proposal to each candidate.
    C. The Treasurer shall review proposals and interview candidates to determine appropriate investment manager(s).
    D. The Treasurer shall make the hiring recommendation to the Board of Directors, who shall have the final approval.
    E. The investment managers, brokers, and bankers (managers) have the discretion to purchase, sell, or hold the specific securities and/or funds

that will be used to meet the investment objectives of the Council. The Board will not reserve any control over the investment decisions except for specific limitations described in these statements. Managers will be held responsible and accountable to achieve the objective herein stated.

INVESTMENT GUIDELINES

Operating Funds

The President and Treasurer if authorized by the Board of Directors shall invest the Texas State Council Operating Funds as follows:

1. Interest bearing Savings Accounts;
2. Certificates of Deposit at insured commercial banking organizations;
3. Money market funds;
4. Interest-bearing Checking Accounts;
5. Direct obligations of the U.S. Government, its agencies, and instrumentalities

Maturity

The maturities on investments for the Operating Fund shall be 12 months or less.

Reporting

The Treasurer shall prepare the following reports for presentation on at least a quarterly basis to the Board of Directors:

1. Schedule of investments
2. Interest income year to date

Short-Term Reserve Fund

The President and Treasurer if authorized by the Board of Directors shall invest the Short-Term Fund as follows:

1. Interest bearing Savings Account
2. Certificates of Deposit at insured commercial banking institutions

3. Money market funds that invest in government-backed securities

4. Interest-bearing Checking Accounts

5. Direct obligations of the U.S. Government, its agencies, and instrumentalities

6. Mutual funds that invest in the U.S. Government's direct obligations, its agencies, and instrumentalities.

Maturity

The Short-Term Fund shall have a weighted average maturity of three (3) years or less. The maximum maturity shall be five (5) years.

Reporting

The Treasurer shall prepare the following reports for presentation on at least a quarterly basis to the Board of Directors:

1. Schedule of investments which includes schedule performance since purchase or last five (5) years

2. Interest income year to date

3. Current yield

Long-Term Reserve Fund

General Investment Principles

1. Investments shall be made solely in the interest of the Texas State Council and the Long-Term Reserve Fund
2. The assets shall be invested with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent investor acting in like capacity and familiar with such matters would use in the investment of a like fund.
3. Investment of these funds shall be so diversified as to minimize the risk of large losses, unless it is clearly prudent not to do so under the circumstances.
4. Texas State Council may employ investment managers of varying styles and philosophies to attain the Fund's objectives.
5. Cash is always to be employed productively by investment in short-term equivalents to provide safety, liquidity, and return.

Specific Investment Goals

Over the investment time horizon established, the Long-Term Reserve Fund assets are the goal to realize a total return above the inflation rate, as measured by the Consumer Price Index.

Diversification

Investment management of the assets of the Long-Term Reserve Fund shall be per the following asset allocation guidelines:

Assets Class Minimum/Maximum

Equities 20% - 60%

Fixed Income 20% - 60%

Cash Equivalents 0% - 40%

The Treasurer will meet quarterly to monitor and re-evaluate investment allocation about the Long-Term Reserve Fund Asset Classes.

Allowable Assets

The Long-Term Reserve Fund requires that all investment assets be invested in marketable securities, defined as securities that can be traded quickly and efficiently for the Long-Term Reserve Fund, with minimal impact on market price.

1. Equity Securities
   a. Common Stocks
   b. Convertible notes and bonds
   c. Convertible preferred stocks
   d. American depository receipts of non-US companies

2. Fixed Income Securities
   a. U.S. Government and Agency Securities
   b. Corporate notes and bonds (investment grade, at least BBB)
   c. Mortgage-backed bonds
   d. Preferred Stock

3. Cash Equivalents
   a. Treasury Bills
   b. Money Market Funds
   c. Commercial Paper
   d. Banker's Acceptances
   e. Repurchase Agreements
   f. Certificates of Deposit

To ensure marketability and liquidity, equity investments shall be executed through nationally recognized exchanges, such as the New York Stock Exchange, American Stock Exchange, and NASDAQ.

Performance Reporting

The Long-Term Reserve Fund shall be evaluated at least semi-annually on a total return basis. The evaluation shall be based on the stated investment goals. Comparisons will show results for the year-to-date. The report shall be prepared by the Treasurer and shall be presented to the Treasurer at least semiannually. The Treasurer shall submit information to the Board of Directors at least annually.

Prohibited Investments and Transactions

The following investments and transactions are prohibited:

1. Direct investment in Real Estate
2. Short Sales
3. Margin Transactions
4. Non-publicly traded securities and derivatives; except that investments in mutual funds that employ such strategies on a limited basis or only for hedging purposes are permitted.