

# **HARRIS HEALTH SYSTEM**

**HARRIS HEALTH SYSTEM**

**INVESTMENT POLICY**

**PREPARED BY:**

**HARRIS HEALTH SYSTEM - TREASURY & CASH MANAGEMENT**

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## **INVESTMENT POLICY**

This Investment Policy (the “Policy”) is adopted by the Harris Health System Board of Trustees, as the governing body of the Harris County Hospital District d/b/a/Harris Health System (“Harris Health”) and Community Health Choice, Inc. and Community Health Choice Texas, Inc. (collectively, “CHC”), discretely presented component units of Harris Health, pursuant to the Texas Government Code, Title 10, Chapter 2256 (Public Funds Investment Act) and Texas Local Government Code, Chapter 116.112. The Policy will be reviewed and adopted at least annually in accordance with the Texas Government Code 2256.005(e).

### **ARTICLE I PURPOSE**

#### **Section 1.01. Purpose**

This Policy with respect to Harris Health and Community Health Choice investments has been adopted to establish policies and procedures that enhance opportunities for a prudent and systematic investment of Harris Health funds (General Operating, Bonds and Specific Purpose Funds) and CHC funds. The initial step toward a prudent investment policy is to organize and formalize investment-related activities. Related activities which comprise good cash management include accurate cash projection, the expeditious collection of revenue, the control of disbursements, use of financial management products, cost effective banking relations and a short-term borrowing program which coordinates working capital requirements and investment opportunity. Reference Exhibit “D” for financial management products policy. In concert with these requirements are the many facets of an appropriate and secure short-term investment program. The Harris Health funds and the CHC funds shall be invested and secured in compliance with the various provisions of federal and Texas laws. This Policy will also specify the scope of authority of Harris Health Designees who are responsible for the investment of Harris Health funds and the CHC Designees who are responsible for the investment of the CHC funds.

### **ARTICLE II SCOPE**

#### **Section 2.01. Scope**

The Policy applies to all financial assets of Harris Health and CHC.

Harris County, through the Financial Management Division acts as an Investment Agent for Harris Health and CHC.

### **ARTICLE III DEFINITIONS**

#### **Section 3.01. Definitions**

Unless the context requires otherwise, the following terms and phrases used in this Policy shall mean the following:

- (a) **“Barbell Approach”** means an investment strategy whereby investments are concentrated at both the short end and the long end.
- (b) **“Board of Trustees”** means the Harris Health Board of Trustees.
- (c) **“CHC Designees”** means the employees of Community Health Choice, Inc. and Community Health Choice Texas, Inc. (collectively, “CHC”) authorized by the Investment Officer to process investments for CHC.

It is specifically noted that at this time, CHC has contracted with the Harris County Director of the Financial Management Division to have personnel of such office handle the purchase and sale of investments for CHC. Exhibit “B” attached hereto sets forth a list of CHC Designees, which includes CHC personnel specifically authorized to purchase/sell securities for CHC and personnel of the Harris County Financial Management Division who are authorized to purchase/sell securities for CHC.

- (d) **“CHC funds”** means the general operating funds, the bond funds and any specific purpose funds.
- (e) **“Collateral”** means any security or other obligation which Harris Health or CHC authorizes to serve as security for the deposit of Harris Health or CHC funds in Article V hereof.
- (f) **“Collateral Act”** means Chapter 2257, Texas Government Code, as amended from time to time.
- (g) **“County Designees”** means the officials and/or employees of Harris County, Financial Management Division authorized to process investments for Harris Health or CHC.
- (h) **“Delivery vs. Payment (DVP)”** means a method of settling trades in which cash is exchanged for securities simultaneously.
- (i) **“Depository Bank”** means the banking institution that is contracted to process Harris Health or CHC’s receipts, disbursements, and investments and to provide safekeeping services.
- (j) **“Depository Trust Co. (DTC)”** means the book entry depository for municipal and corporate bonds, equities, commercial paper and various other obligations. The corporation is owned by banks and brokerage firms and holds securities, arranges for securities receipt and delivery, and arranges for the payments in settlement of trades.

- (k) **“Employee”** means any person employed by Harris Health or CHC, but does not include independent contractors or professionals hired by Harris Health or CHC as outside consultants.
- (l) **“Financial Management Division”** means the Harris County office responsible for cash and banking management, debt management, investment management, and management of collateral of all Harris County funds.
- (m) **“Harris Health Designees”** means the Board of Trustees, officers, and employees of Harris Health authorized to process investments for Harris Health, as well as the persons, other political subdivision or business entities engaged and authorized to process investments for Harris Health.

It is specifically noted that at this time, Harris Health has contracted with the Harris County Director of the Financial Management Division to have personnel of such office handle the purchase and sale of investments for Harris Health. Exhibit “B” attached hereto sets forth a list of Harris Health Designees, which includes Harris Health personnel specifically authorized to purchase/sell securities for Harris Health and personnel of the Harris County Financial Management Division who are authorized to purchase/sell securities for Harris Health.

- (n) **“Harris Health funds”** means the general operating funds, the bond funds and any specific purpose funds.
- (o) **“Investment Act”** means Chapter 2256, Texas Government Code, as amended from time to time, also referred to as the Texas Public Funds Investment Act.
- (p) **“Investment Officer”** means the Employee appointed by the Harris Health Board of Trustees to administer all investment activity of Harris Health and CHC funds under the Investment Act standard of care “prudent person” and to monitor compliance and management-level controls.
- (q) **“Laddered Approach”** means an investment strategy that positions maturities that occur in regular intervals, providing a known stream of cash.
- (r) **“Matching Approach”** means an investment strategy that matches maturities of investments to coincide with known predictable cash needs. This approach requires a reasonably accurate forecast of cash flow and disbursement requirements.
- (s) **“Pooled Fund Group”** means an internally created fund of an investing entity in which one or more accounts of the investing entity are invested.
- (t) **“Reserve Investment Officer”** means those certified investment officers within the Financial Management Division who have been designated and trained as backup or relief Harris Health Designees.

- (u) **“Trustee”** means a person appointed to serve on the Harris Health Board of Trustees.

## **ARTICLE IV INVESTMENT OFFICER**

### **Section 4.01. Investment Officer**

In accordance with the Local Government Code, Section 116.112(a) and the Government Code, Sections 2256.005(f) and (g), the Board of Trustees hereby appoints the Chief Financial Officer of Harris Health to serve as Investment Officer to manage and oversee the investment of Harris Health and CHC funds. In the event the Investment Officer is unable to perform the functions of that office, the Vice President – Controller is hereby authorized to perform such functions until the Investment Officer is able to perform them or another Investment Officer is appointed by the Board of Trustees. The Investment Officer shall be responsible for investing Harris Health and CHC funds in accordance with this Policy. The Investment Officer shall invest Harris Health and CHC funds using judgment and care under then prevailing circumstances that a person of prudence, discretion, and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital. The standard of care to be used by the Investment Officer and Harris Health and CHC Designees shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. The Investment Officer, and Harris Health and CHC Designees (1) acting in accordance with this Policy and any written procedures approved by the Board of Trustees and (2) exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided that deviations from expectation are reported in a timely fashion and appropriate action is taken to control adverse developments. The Investment Officer and Harris Health and CHC Designees will also be required to adhere to financial procedures prescribed by the County Auditor for financial transaction processing. Reference “Exhibit B” for authorized personnel to invest Harris Health and CHC funds.

**Section 4.02. Training [PLACEHOLDER-currently, Section 4.02 doesn’t apply to the Harris Health Investment Officer, but this Section is being reserved for an anticipated change in the near future]**

### **Section 4.03. Disclosure of Relationships with Persons Selling Investments to Harris Health**

The Investment Officer of Harris Health who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity 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, to an individual seeking to sell an investment to the Investment Officer’s entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the Board of Trustees. The Investment Act, Section 2256.005(i) should be referred to for more qualifying events and it is the responsibility of the Investment Officers, Harris Health Designees, CHC Designees, and broker/dealers to be knowledgeable of and compliant with reportable events and relationships. Under this Policy, an Investment Officer is prohibited from accepting any gifts, including meals, from a broker/dealer unless authorized by the Executive Director of the Office of Management and Budget.

#### **Section 4.04. Reporting by the Investment Officer**

Not less than quarterly and within a reasonable time after the end of the quarter being reported, the Investment Officer, assisted by Harris Health and CHC Designees, shall prepare and submit to the Board of Trustees a written report of the investment transactions for all funds of Harris Health and CHC for the preceding reporting period. The reports must (1) describe in detail the investment position of Harris Health and CHC on the date of the reports, (2) be prepared jointly by the Investment Officer and/or Harris Health or CHC Designees, (3) be signed by the Investment Officer and/or Harris Health or CHC Designees, (4) contain a summary statement of each pooled fund group that states the beginning market value and fully accrued interest for the reporting period, (5) state the book value and the 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, (6) state the maturity date of each separately invested asset that has a maturity date, (7) state the Harris Health and CHC account or fund or pooled group for which each individual investment was acquired, (8) state the compliance of the investment portfolio as it relates to this Policy and the relevant provisions of the Investment Act, and (9) disclose any investments that no longer have the minimum rating required by law and the liquidation, or plan for liquidation, of such investments consistent with the provisions of Section 2256.021. All investments must comply with the Investment Act and all federal, state, and local statutes, rules and regulations.

#### **Section 4.05. Selection of Bank and Securities Dealers**

Harris Health and CHC will seek to include qualified and registered minority, women, veteran, and disabled-owned financial institutions when selecting broker/dealers for investments and depository banks in the depository procurement process.

Depository banks shall be selected through the Harris County's depository procurement process, which shall begin with a formal request for proposals every four years, or as otherwise determined by the County and allowed by law.

All financial institutions and broker/dealers desiring to become approved broker/dealers for Harris Health and CHC investment transactions must supply Harris Health or CHC with the following: (1) the most recent audited financial statements for the financial institution or broker/dealer and (2) evidence of registration with the appropriate regulatory agency. Bank dealers must be registered with the appropriate regulatory authority as a government securities dealer, municipal securities dealer, or both. For a securities firm, this requires a statement that the firm is registered with the Financial Industry Regulatory Authority (FINRA), Municipal Securities Regulatory Board (MSRB), and/or the Securities and Exchange Commission (SEC). Securities dealers will be selected by Harris Health or CHC and then submitted to the Harris Health Board of Trustees for final approval. All transactions will be conducted on a Delivery vs. Payment basis per the Investment Act, Section 2256.005(b). Reference Exhibit "A" for approved banks. Harris Health and CHC mirror the list of approved broker/dealers, money market funds, and investment pools as listed in Harris County's Investment policy effective for the same period as this policy.

#### **Section 4.06. Certifications from Approved Broker/Dealers**



A written copy of the investment policy shall be presented to a qualified representative of any business offering to engage in an investment transaction with Harris Health and CHC. A business organization includes banks, broker/dealers, and investment pools. Nothing in this subsection relieves the Investment Officer of the responsibility for monitoring the investments made by Harris Health and CHC for compliance with the investment policy. The qualified representative of the business organization offering to engage in an investment transaction shall execute a written instrument in a form acceptable to Harris Health and CHC substantially to the effect that the business organization has: (1) received and reviewed the investment policy of the entity; and (2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions not authorized within the investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entire portfolio or requires an interpretation of subjective investment standards. The investment officer may not acquire or otherwise obtain any authorized investment described in the investment policy from a person who has not delivered the required document.

## **ARTICLE V INVESTMENT OBJECTIVES**

### **Section 5.01. General Objectives**

Harris Health funds and CHC funds will be invested in accordance with federal and state laws and this investment policy. Harris Health and CHC will invest according to investment or fund policies and strategies for each fund as they will or have been adopted by the Board of Trustees. This policy shall apply to all funds of the Harris Health System, Community Health Choice, Inc. and Community Health Choice Texas, Inc.

1. The County emphasizes these primary general objectives in investing its funds, listed in the order of importance:
  - a. preservation and safety of original investment principal;
  - b. maintenance of sufficient liquidity to meet the County's operating needs as they are planned or become due;
  - c. marketability of the investment if the need arises to liquidate the investment before final maturity;
  - d. diversification of the investment portfolio;
  - e. maximization of return (yield).

Safety of principal is the foremost objective of Harris Health and CHC. In each investment transaction, Harris Health and CHC shall seek first to ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.

2. Investment decisions shall favor preservation of principal over income or yield.

The investment portfolio shall be structured to be sufficiently liquid to enable Harris Health and CHC to meet all operating requirements which might be reasonably anticipated. This need for investment liquidity may be tempered to the extent that Harris Health and CHC is allowed to

borrow on a short-term basis to meet its operating requirements, if needed, taking into consideration the net cost to Harris Health and CHC.

3. The investment portfolio shall be designed with the objective of attaining a fair market yield throughout budgetary and economic cycles, taking into account investment risk constraints and liquidity needs. A fair market yield rate shall equal or exceed the available yield at the time of purchase on a U.S. Treasury security having a comparable maturity date.
4. Investments shall be made to avoid incurring unreasonable and avoidable risks.
5. No investments shall be made for the purpose of speculation, such as anticipating an appreciation of capital through changes in market interest rates.
6. All Harris Health Designees and CHC Designees shall seek in the investment process to act responsibly as custodians of the public trust. Harris Health Designees and CHC Designees shall avoid any transaction, including personal transactions that might impair public confidence in Harris Health's ability to operate effectively. Nevertheless, the Board of Trustees recognizes that in a diversified portfolio, occasionally losses may occur due to fluctuating market conditions and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.
7. Harris Health and CHC, as a general objective, plans to hold investments to final maturity which protects principal and liquidity while obtaining the most prudent competitive yield possible at the date of the investment trade. Investments will be purchased for their interest yield expectations over their remaining life to final maturity rather than for speculative purposes. Although Harris Health and CHC's intent upon purchase is to hold securities until maturity, Harris Health and CHC may, whenever appropriate, exchange securities with similar maturity and risk characteristics in order to enhance total returns, provided that safety of principal is given first consideration.
8. Pooling of fund groups for the purposes of investment is approved and allowed and must be done in accordance with any applicable bond indentures.

#### **Section 5.02 Monitoring and Pricing of the Portfolio**

Harris Health and the Harris County Financial Management Division use a combination of resources, such as Bloomberg Investment Service, the Federal Reserve Board's economic research and data, broker/dealer matrices, and third party pricing services to monitor the market and to value the portfolio. The financial advisor, Investment Officer, and the Finance Committee may also assist in monitoring the portfolio periodically.

### **Section 5.03. Authorized Investments**

Harris Health and CHC funds governed by this Policy may be invested in the instruments described below, all of which are authorized in the Public Funds Investment Act:

1. Direct obligations of the United States, its agencies, and instrumentalities.
2. Other obligations, the principal, and interest of which are unconditionally guaranteed, insured, or backed by the full faith and credit of the State of Texas, the United States, or any obligation fully guaranteed or fully insured by the Federal Deposit Insurance Corporation (FDIC).
3. Direct obligations of the State of Texas or its agencies provided the agency has the same debt rating as the State of Texas.
4. Obligations of states, agencies, counties, cities, and other political subdivisions located in the United States and rated not less than A, or its equivalent, by a nationally recognized investment rating firm.
5. Fully insured or collateralized certificates of deposit/share certificates issued by a state and national banks, or a savings bank, a state or federal credit union (having its main or branch office in Texas) guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor; and secured by obligations as stated on Item 1 of this section. In addition to Harris Health's authority to invest funds in certificates of deposit and share certificates as stated above, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under the Texas Gov't. Code, Section 2256.010 (b): (1) the funds are invested by the Financial Management Division through a clearing broker registered with the Securities and Exchange Commission (SEC) and operating pursuant to SEC, Rule 15c3-3 (17 C.F.R., Section 240.15c3-3) with its main office or branch office in Texas and selected from a list adopted by the Financial Management Division as required by Section 2256.025; or a depository institution that has its main office or a branch office in this state and that is selected by the Financial Management Division; (2) the broker or the depository institution selected by the County arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of Harris Health and CHC; (3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; (4) the broker or depository institution selected by the County acts as custodian for the County with respect to the certificates of deposit issued for the account of Harris Health and CHC.
6. Fully collateralized repurchase agreements, provided the Financial Management Division has on file, a signed Master Repurchase Agreement detailing eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination. The repurchase agreement must have a defined termination date and be secured by obligations as stated on Item 1 of this section. It is required that the securities purchased as part of the repurchase agreement must be assigned to Harris Health/CHC, held in Harris Health/CHC's name, and deposited at the time the investment is made with our custodian or with a third-party approved by Harris Health and/or CHC. Securities purchased as part of a repurchase agreement shall be marked-to-market no less than weekly. All

repurchase agreements must be conducted through a primary government securities dealer as defined by the Federal Reserve or a financial institution doing business in Texas. Maturities shall be limited to 90 days. The 90-day limit may be exceeded in the case of flexible repurchase agreements (“flex repos”) provided the investment type is specifically authorized within individual bond ordinances and final maturity does not exceed the anticipated spending schedule of bond proceeds.

7. Securities lending programs if the loan is fully collateralized, including accrued income, by securities described in Texas Gov’t. Code, Section 2256.009, by irrevocable bank letters of credit issued by a bank under the laws of the United States, or any other state, continuously rated not less than A by at least one nationally recognized investment rating firm, or by cash invested in accordance with the Investment Act. Securities held as collateral must be pledged to the investing entity, held in the investing entity’s name, and deposited at the time the investment is made. A loan must be placed through a primary government securities dealer or a financial institution doing business in Texas. A loan must allow for termination at any time and must have a term of one year or less.
8. Commercial paper with a stated maturity of 270 days or less from the date of issuance, rated A-1 or P-1 or an equivalent rating by at least two nationally recognized rating agencies, and not under review for possible downgrade at time of purchase.
9. Local government investment pools with a dollar weighted average maturity of 60 days or less, approved through resolution of the Board of Trustees to provide services to Harris Health/CHC, continuously rated no lower than AAA or equivalent by at least one nationally recognized rating service. Harris Health/CHC may not invest an amount that exceeds 10 percent of the total assets of any one local government investment pool. On a monthly basis, the Investment Officer shall review a list of securities held in the portfolio of any pool in which Harris Health and CHC funds are being held. To be eligible to receive funds from and invest funds on behalf of Harris Health an investment pool must furnish to the Investment Officer or other authorized representative an offering circular or other similar disclosure instrument that contains information required by the Tex. Gov’t. Code, Section 2256.016. Investments will be made in a local government investment pool only after a thorough investigation of the pool and review by the County Designees.
10. A Securities and Exchange Commission (SEC) registered, no-load money market mutual fund which has a dollar-weighted average stated maturity of 60 days or less. Furthermore, it must be rated not less than AAA or equivalent by at least one nationally recognized rating service and Harris Health/CHC must be provided with a prospectus and other information required by the SEC Act of 1934 or the Investment Company Act of 1940. Harris Health/CHC may not invest an amount that exceeds 10 percent of the total assets of any one fund. Investments will be made in a money market fund only after a thorough investigation of the fund and review by the County Designees.
11. Interest-bearing banking deposits that are guaranteed or insured by: (A) the FDIC or its successor; or (B) the National Credit Union Share Insurance Fund or its successor; and interest-bearing banking deposits other than described above if: (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in Texas

that the County Designee selects from a list of its governing body or designated investment committee adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in Texas that the County Designee selects (B) the broker or depository institution selected as described above arranges for the deposit of the funds in one or more federally insured depository institutions, regardless of where located, for Harris Health's account; (C) the full amount of the principal and accrued interest of the deposits is insured by the United States or an instrumentality of the United States; and (D) Harris Health/CHC appoints as the custodian of the bank deposits issued for Harris Health's and CHC's account: (i) the depository institution selected as described above; (ii) an entity described by Section 2257.041(d); or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).

#### **Section 5.04 Unauthorized Investment Instruments**

Harris Health and CHC authorized investment options are more restrictive than those allowed by state law. Furthermore, this Policy specifically prohibits investment in the securities listed below:

1. Any obligation whose payment represents the coupon payments on the outstanding principal balance of an underlying mortgage-backed security, but pays no principal (IO).
2. Any obligation whose payment represents the principal stream of cash flow from an underlying mortgage-backed security, but pays no interest (PO).
3. Any obligation whose interest rate is determined by an index that adjusts opposite to the changes in a market index (Inverse Floater).
4. Any Collateralized Mortgage Obligation (CMO).
5. An investment that requires a minimum credit rating does not qualify as an authorized investment during the period the investment does not have the minimum credit rating, even if the investment had the appropriate rating at the time of purchase. The Investment Officer shall take all prudent measures that are consistent with this Policy to liquidate an investment that does not have the minimum rating.

#### **Section 5.05. Internal Controls**

The Investment Officer, assisted by County Designees, shall prepare a system of internal accounting controls which shall be documented in writing. The controls may be reviewed by Harris Health and CHC's independent auditor or the County Auditor in connection with the annual examination of the Harris Health and CHC financial statements to the extent deemed necessary to evaluate the system as required by generally accepted auditing standards. Controls deemed most important include controls to avoid or detect collusion, segregation of duties, segregation of transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, specific limitations regarding securities losses and remedial action, approved written confirmation of telephone transactions, minimizing the number of authorized investment personnel, documentation of transactions and strategies, and adherence to ethics standards.

**Section 5.06. Maturity**

Fund investment may not exceed the following maturities, or as restricted by specific bond indentures:

<u>Fund Name</u>	<u>Maximum Maturity (in years)</u>
Debt Service Funds	5
General Concentration Pool	5
Mobility & Infrastructure	5
Construction Funds/Capital Project Funds	5
Special Revenue	5
Flood Control	5
Proprietary & Enterprise	6
Public Improvement Contingency Fund	6
District Clerk Registry Funds	7
County Clerk Registry Funds	7
Bond Reserve Funds	<i>Final maturity of bonds</i>

In addition, the weighted average maturity of the overall portfolio shall not exceed three years.

**Section 5.07. Diversification**

It is the policy of Harris Health to diversify its investment portfolio. All funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. In establishing specific diversification strategies, the following general policies and constraints shall apply:

1. Portfolio investment maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity.
2. Liquidity shall be maintained through practices that ensure that the liquidity needs of the next disbursement date and payroll date are covered through liquid deposits, maturing investments, or marketable securities.
3. Risks of market price volatility shall be limited through maturity diversification accomplished by various investment strategies including, but not limited to, the Matching, Barbell, Laddered, or combination of the investment approaches.
4. The following diversification limitations shall be imposed on the portfolio:
  - a. **Maturity**. No more than 50% of the portfolio, excluding those investments held for construction/capital projects, debt service payments, bond fund reserve accounts, and capitalized interest funds may be invested beyond three years, and the average maturity of the overall portfolio, with the previous exceptions, shall not exceed three years.

- b. **Default Risk.** The restrictions on legally authorized investments and the legal requirements for full collateralization are intended to reduce the potential of default risk. Nonetheless, no more than 25% of the overall portfolio may be invested in time deposits, including certificates of deposit, of a single issuer.
- c. **Marketability.** At least 15% of the portfolio, excluding those investments held for future major capital expenditures, debt service payments, bond fund reserve accounts, and capitalized interest funds, shall be invested in overnight instruments or in marketable securities which can be sold to raise cash within one day's notice.

#### **Section 5.08. Risk Tolerance**

Harris Health recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control these risks. The Investment Officer and Designees are expected to display prudence in the selection of securities and no individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio.

In addition to these general policy considerations, the following specific policies will be strictly observed:

1. All investment transactions will be conducted with approved banks, broker/dealers, money market funds, and investment pools as listed in Exhibit B of the Harris County Investment Policy.
2. All transactions will be settled on a Delivery vs. Payment basis.
3. A competitive bid/offer process will be used to place all security sales and purchases. The competitive bid/offer process shall also be utilized for newly issued securities to verify whether a comparable secondary market security is available with a better price and yield. All competitive bid information shall be documented and saved with the confirming email, offering communication, or verbal communicate details maintained with the transaction. Any transactions not competitively bid must be explained in writing and approved by the Executive Director, the Office of Management and Budget, the Senior Director of Finance and Budget, or the Director of the Financial Management Division before the trade is accepted. An exception may be made to the competitive offer process when seeking to purchase municipal securities. Due to the very limited quantity of any specific municipal bond, government agency bonds with comparable maturity dates may be considered.
4. The Board of Trustees will at least annually approve a recommended broker/dealer list, or sooner if circumstances require a change. The approved broker/dealer list will be posted in this Harris County Investment Policy and Harris County website. Based on an evaluation performed at least biennially, banks and securities dealers will be removed from or continued on the eligibility list. The following criteria will be used in the evaluation:
  - a. Number and value of transactions competitively won;
  - b. Prompt and accurate confirmation of transactions;

- c. Efficient securities delivery;
- d. Account servicing;
- e. Moral character and public ethics of both broker and firm;
- f. Qualifications and experience of the broker.

**Section 5.09. Safekeeping and Custody**

Safekeeping and custody of Harris Health and CHC investment securities shall be in accordance with state law. All security transactions, except investment pool and money market fund transactions, shall be conducted on a Delivery vs. Payment basis. All investment securities will be held by a third party custodian designated by Harris Health/CHC, and this custodian shall be required to issue monthly statements listing all securities held on account.

**Section 5.10. Policy of Securing Deposits of Harris Health and CHC Funds – Applicable to All Deposited Harris Health and CHC Funds**

1. Harris Health recognizes that FDIC or its successor's insurance is available for Harris Health and CHC funds deposited at any one Texas based financial institution (including branch banks) only up to a maximum of \$250,000 (including accrued interest) for each of the following: (i) demand deposits, (ii) time and savings deposits, and (iii) deposits made pursuant to an indenture or pursuant to law in order to pay a bond or note holder. It is the policy of Harris Health that all deposited funds in each of the Harris Health accounts shall be insured by the FDIC, or its successor, or secured by collateral pledged to the extent of the fair market value of the amount not insured in compliance with the Collateral Act, Government Code, Section 2257.2. If it is necessary for the Harris Health depositories to pledge collateral to secure the Harris Health deposits, the collateral pledge agreement must be (1) in writing, (2) approved by the depository's board of directors or loan committee and reflected in the minutes of the meeting and (3) kept in the official records of the depository. The depository must approve the collateral pledge agreement and provide to the Investment Officer a copy of the minutes of the meeting of the depository's board or loan committee at which the collateral pledge agreement is approved prior to the deposit of any Harris Health and CHC funds requiring the pledge of collateral in such financial institution.
2. Collateral pledged by a depository shall be held in safekeeping at the Federal Home Loan Bank and the Investment Officer pursuant to this Policy, shall obtain safekeeping receipts from the Federal Reserve Bank. Collateral may also be pledged with the use of an Irrevocable Standby Letter of Credit issued by the Federal Home Loan Bank. Principal and accrued interest on deposits in accordance with this Policy, if authorized, shall not exceed the FDIC, or its successor's, insurance limits or the collateral pledged as security for Harris Health investments. It shall be acceptable for Harris Health to periodically receive interest on deposits to be deposited to the credit of Harris Health if needed to keep the amount of the funds under the insurance or collateral limits. The Investment Officer, with the help of the Harris Health Designees, shall ensure that the collateral pledged to the Harris Health is pledged only to



Harris Health and shall review the fair market value of the collateral pledged to secure the funds to ensure that the Harris Health Funds are fully secured.

3. Certificates of deposit, to the extent that they are not insured, may be secured by any securities allowed under the Investment Act and depository contract.
4. Demand deposits (for example, checking accounts) and savings accounts, to the extent that they are not insured, may be secured by the same securities allowed under the Collateral Act.

#### **Section 5.11. The Investment Policy Review**

The Investment Policy shall be formally reviewed and approved by the Board of Trustees at least annually or when amended.

### **ARTICLE VI INVESTMENT STRATEGIES FOR FUNDS**

#### **Section 6.01. Debt Service Funds**

Debt service funds are used to account for the accumulation of resources to fund periodic principal and interest payments on outstanding obligations. The investment strategy for these funds is the Matching Approach. Debt service funds may be pooled for investment purposes.

#### **Section 6.02. Debt Service Reserve Funds**

Debt service reserve funds are used as required by debt covenants and may be invested for a period not to exceed the maturity of the bond. The Matching, Barbell, and/or Laddered Approaches are used for the debt service reserve funds investment strategy.

#### **Section 6.03. General Fund**

Unrestricted revenues and most of Harris Health operating expenditures and supplements to debt service are accounted for in the general fund. The investment strategy for the General Fund combines the Matching and/or Laddered Approaches. The average maturity of these investments is one year or less.

#### **Section 6.04. Capital Project Fund**

Capital project funds are used to account for construction and other nonrecurring capital expenditure activity. A Matching, Barbell, and/or Laddered Approach may be used for these funds, depending on the liquidity needs and prevailing interest rate environment.

#### **Section 6.05. Specific Purpose Funds**

This is funded from grants or restricted donations. The Matching Approach is used. The average duration is one year or less.

**ARTICLE VII**  
**MISCELLANEOUS**

**Section 7.01 Socially Responsible Investing**

Harris Health will strive to maintain a goal of at least 2% of portfolio holdings in Environmental, Social, and Governance (ESG) investments. Although the Government-Sponsored Enterprises of Fannie Mae and Freddie Mac meet the ESG criteria by “providing a stable source of liquidity to support low- and moderate-income mortgage borrowers and renters by enabling greater access to affordable home and rental housing finance in all markets and at all times,” Harris Health shall seek to primarily meet its ESG goal, whenever possible, through investments in municipal bonds specifically geared toward low-income or affordable housing, and/or serving a county listed on the Federal Financial Institutions Examination Council’s (FFIEC) underserved or distressed areas: <https://www.ffiec.gov/cra/pdf/2021distressedorunderservedtracts.pdf>, or bonds of a school district issuer with 50% or more of students eligible for free or reduced lunch, or municipal bonds held in an ESG Fund.

It is understood that Harris Health may not have continual or regular access to these municipal bonds, and at times such bonds may not meet credit ratings as outlined in state statutes.

**Section 7.02. Superseding Clause**

This Policy supersedes any prior policies adopted by the Board of Trustees regarding investment or securitization of Harris Health and CHC funds.

**Section 7.03. Open Meeting**

The Board of Trustees officially finds, determines and declares that this Investment Policy was reviewed, carefully considered, and adopted at a regular meeting of the Board of Trustees, and that a sufficient written notice of the date, hour, place and subject of this meeting was posted as required by the Texas Open Meetings Act, Chapter 551, Texas Government Code, and that this meeting had been open to the public as required by law at all times during which this Policy was discussed, considered and acted upon. The Board of Trustees further ratifies, approves and confirms such written notice and the contents and posting thereof.

**Exhibit “A”**

**List of Approved Banks**

Cadence Bank

## **EXHIBIT “B”**

### **Harris Health System & CHC Authorized Designees**

#### **Authorized Personnel of Harris Health**

President and Chief Executive Officer  
Executive Vice President and Chief Financial Officer  
Vice President - Controller  
Director - Treasury and Cash Management

#### **Authorized Personnel of CHC**

President and Chief Executive Officer  
Chief Financial Officer  
Controller  
Senior Management Accountant

#### **Authorized Personnel of Harris County**

Investment Manager, Financial Management Division  
Financial Analyst, Financial Management Division  
Reserve Investment Officer(s), Financial Management Division

**EXHIBIT “C”**

**Approved Broker/Dealers, Money Market Funds, and Investment Pools for the Investment  
of Harris Health and CHC Funds**

See Exhibit B of Harris County’s most recently approved Investment Policy.

## Exhibit “D”

### Harris County Hospital District dba Harris Health System Financial Management Products Policy

1. General Considerations. The Harris Health System (“Harris Health”) may consider the use of financial management products such as interest rate swaps, caps, floors and other similar transactions in connection with outstanding or authorized debt. Harris Health shall enter into financial management products in a prudent and professional manner and will take into account relevant risk factors and market conditions when evaluating its asset and liability management objectives. The term of a financial management product shall not extend beyond the final maturity date of the underlying debt or the maturity date of the referenced investments. Harris Health may evaluate the use of financial management products by comparison to traditional financing structures and will only use a risk management product if it produces significant quantifiable value or reduces the risk exposure associated with management of the debt portfolio. The Harris Health Chief Financial Officer, the Director, Financial Management Division and the Harris Health Swap Advisor (the “Financial Management Products Committee”) will periodically review current market conditions for risk management products and will evaluate how current conditions affect existing and/or any proposed future risk management products.
2. Policy Considerations Specific to Financial Management Products.
  - A. Interest rate swaps may be used by Harris Health to lower interest expense, manage financial risk or to create a risk profile not otherwise achievable through traditional debt or investment instruments.
  - B. Risk factors to evaluate when considering interest rate swaps:
    - i. Interest rate risk
    - ii. Termination risk
    - iii. Counterparty risk
      - a. Credit Quality
      - b. Concentration
    - iv. Basis Risk
    - v. Collateral posting requirements
    - vi. Liquidity risk
    - vii. Tax Risk
    - viii. Accounting risk and ability to receive independent third party fair market valuation
  - C. Criteria for selecting counterparty shall be determined by the Harris Health System Board of Trustees, consistent with other applicable regulations, and shall include:
    - i. Counterparty shall be rated at AA-/Aa3/AA- by at least two of Standard & Poor’s Rating Services (“S&P”), Moody’s Investors Service (“Moody’s”), and Fitch Ratings (“Fitch”), respectively; or

- ii. If rated below AA-/Aa3/AA- by at least two of S&P's Moody's, and Fitch, respectively, or if not rated, then the counterparty shall obtain credit enhancement with respect to its obligations under the financial management transaction from a provider that is rated at least AA-/Aa3/AA- by at least two of S&P, Moody's, and Fitch, respectively; or
- iii. If rated below AA-/Aa3/AA- by at least two of S&P, Moody's, and Fitch, respectively, or if not rated, then the counterparty shall provide credit support that requires the counterparty to deliver collateral for the benefit of the Harris Health System (a) that is of a kind and in such amounts as are specified therein and which related to various rating threshold levels of the counterparty or its guarantor, beginning at AA-/Aa3/AA- (S&P/Moody's/Fitch) and (b) that, in the judgment of the Harris Health System, is reasonable and customary for similar transactions, taking into account all aspects of the financial management product including, without limitation, the economic terms of the financial management product and the creditworthiness of the counterparty or its guarantor.
- iv. Counterparty must disclose any payments made to a third party in connection with the procurement of the transaction as required by Texas Government Code §1371.056.

D. Limitations on fixed rate and basis swaps:

Fixed rate and basis swaps may not exceed 35% of total outstanding par value of the Harris Health bonds and outstanding debt net of any offsetting swap transactions.

E. Limitation on counterparty termination exposure;

Uncollateralized counterparty termination exposure shall not exceed \$75 million per counterparty.

3. Reporting Requirements

A. Prior to the execution of any financial management product, Harris Health will submit a record of the proceedings of Harris Health authorizing the execution of the financial management product and any contract providing revenue or security to pay the financial management product to the Texas Attorney General for review and approval as required under Texas Government Code §1371.057.

B. As required under Texas Government Code §1371.056, the governing body or an authorized officer of Harris Health shall make a determination that each financial management product conforms to Harris Health's Financial Management Products Policy after reviewing a report of the chief financial officer that identifies with respect to each financial management product:

- i. Its purpose;

- ii. The anticipated economic benefit and the method used to determine the anticipated benefit;
- iii. The use of the receipts of the transaction;
- iv. The notional amount, amortization, and average life compared to the obligation;
- v. Any floating indices;
- vi. Its effective date and duration;
- vii. The identity and credit rating of the counterparties; or credit support entities;
- viii. The cost and anticipated benefit of transaction insurance;
- ix. The financial advisors and the legal advisors and their fees;
- x. Any security for scheduled and early termination payments;
- xi. Any associated risks and risk mitigation features; and
- xii. Early termination provisions.

C. As required by Texas Government Code §1371.061, on at least an annual basis an authorized designee of Harris Health, in consultation with the Financial Management Products Committee, shall report in writing the status of all outstanding financial management products to the Board of Trustees. Any such report shall include, but not be limited to, the following information:

- (i) Disclosure of all changes to financial management products or new financial management products entered into by Harris Health since the last report to the Board of Trustees;
- (ii) A summary of each financial management product including, but not limited to, the type of financial management product, specific terms, cash flows, the marked-to-market value, the final maturity date, and other information of interest to the Board of Trustees;
- (iii) A statement as to whether the continuation of each financial management product would comply with this Financial Management Products Policy;
- (iv) The total notional amount of financial management products detailed by counterparty;



- (v) The credit ratings of each counterparty to Harris Health, and those of any credit enhancer insuring or guaranteeing financial management product payments (as applicable);
  - (vi) Any default or rating change by a counterparty to Harris Health, and the results of default or rating change including the financial impact to Harris Health, if any;
  - (vii) Collateral posted by each counterparty to Harris Health, if any, and by Harris Health, if any, detailed by each financial management product and in total by counterparty; and
  - (viii) The market movement or rating change required to trigger a collateral posting requirement, as applicable.
4. Regulatory Compliance Guidelines. Pursuant to the authority of Section 731 of Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank”), which includes amendments to the Commodity and Exchange Act (the “CEA”) regarding over-the-counter derivative instruments including financial management products, regulations were published by the Commodity Futures Trading Commission (the “CFTC”) that define business conduct between swap dealers and their counterparties, including swap dealers engaged in swap transactions with state and local governmental counterparties such as Harris Health (referred to in the regulations as “Special Entities”). Following is a list of regulatory requirements imposed under the authority of Dodd-Frank with which Harris Health shall make every reasonable effort to comply:
- A. As required by CFTC Regulation 23.450, which includes language added to Section 4s(h) (5) of the CEA, it is Harris Health’s policy to procure a qualified independent representative (the “QIR”) as its swap advisor. In order to qualify as a QIR, the swap advisor must meet the following criteria:
    - (i) Has sufficient knowledge to evaluate the transaction and associated risks;
    - (ii) Is not subject to a statutory disqualification;
    - (iii) Is independent of the swap dealer (counterparty);
    - (iv) Undertakes a duty to act in the best interests of Harris Health;
    - (v) Makes appropriate and timely disclosure to Harris Health;
    - (vi) Evaluates, consistent with any guidelines provided by Harris Health, fair pricing and the appropriateness of the financial management products; and

- (vii) Is subject to restrictions on certain political contributions imposed by the CFTC, the Securities and Exchange Commission (the “SEC”), or a self-regulatory organization subject to the jurisdiction of the CFTC or the SEC.
- B. At least annually, Harris Health shall conduct a review of its QIR to ensure that it still meets the criteria listed in Part A above.
- C. In order to ensure that Harris Health is in compliance with all regulatory reform imposed by Dodd-Frank, Harris Health may, but is not required to, execute an ISDA August 2012 DF Protocol Agreement (each a “Protocol Agreement”) with its QIR and each counterparty prior to executing any financial management product. If Harris Health elects not to execute a Protocol Agreement with each counterparty, then Harris Health shall provide an alternate form of written representation to each counterparty that meets all applicable disclosure requirements as required by Dodd-Frank.
- D. Section 2(h)(1) of the CEA requires that certain financial management products, including those commonly entered into by state and local governmental entities such as Harris Health, must be cleared through a derivatives clearing organization unless otherwise exempt from clearing under the “End User Exception” in Section 2(h)(7) of the CEA. In order to qualify for the End User Exception, Harris Health must report to the CFTC on either an annual or a transaction-by-transaction basis that is (i) is not a financial entity; (ii) is using financial management products to hedge or mitigate commercial risk; and (iii) will notify the CFTC, in a manner set forth by the CFTC, how it generally meets its financial obligations associated with entering into non-cleared financial management products. Harris Health, in consultation with the QIR, shall make its best efforts to comply with Sections 2(h) (1) and 2(h) (7) of the CEA, as applicable.