

 <p><b>Policy for: Funds Investment</b></p>	Document Number	
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	Signature: <i>B. J. Jones</i>	

## GENERAL PURPOSE

The general purpose of this policy statement is to provide for a prudent and systematic approach to the investment and cash management activities of the Louisiana Cancer Research Center (LCRC). The primary objectives are:

- to develop, outline, and articulate clear investment guidelines and objectives
- to address procedures, responsibilities, and constraints for the investment process
- to address asset allocation, risk tolerance, and performance standards for those involved in the investment and management of LCRC's funds
- to develop a consistent method of reporting and monitoring investments and their market value

LCRC's investment strategy shall support its overall strategic business strategy in pursuit of National Cancer Institute (NCI) designation. LCRC seeks to maximize total return, subject to its relative financial strength, liquidity needs, risk-bearing ability, and statutory and regulatory constraints imposed by state law and regulations.

## GENERAL GUIDELINES

- The investment and cash management activities of LCRC shall be conducted in a manner which is consistent with the prevailing prudent business practices which may be applied by other like organizations of similar size and financial resources.
- Rules and guidelines promulgated by the Board of LCRC shall be designed in the best interest of LCRC and shall not afford any financial advantage to any individual or corporate member of the financial or investment community.
- LCRC will limit its purchase of investment securities to those which are of the highest quality, primarily addressed in LA R.S. 49:327 and including, but not limited to insured or collateralized time deposits in financial institutions chartered and domiciled in the State of Louisiana, certain direct obligations of the United States Government, certain obligations of United States Government agencies or the purchase of such United States government or agency securities under the terms of repurchase agreements, investment grade commercial paper, investment grade corporate notes and bonds and money market funds consisting solely of securities otherwise eligible for investment by LCRC.

- Financial institutions which serve as depositories of LCRC funds shall comply with this policy and provisions, primarily contained in LA R.S. 39:1218
- Accounting and reporting guidelines shall be in compliance with GASB 31 and 40.

## INVESTMENT OBJECTIVE

All investment objectives shall be governed by the following priority of goals:

1) Safety of Principal, 2) Liquidity, and 3) Yield. It is understood that the specific investment guidelines may vary from account to account depending on the designated use for each pool of funds. Each account that is managed separately should have its own set of investment guidelines that specifically states the types of investments to be used, the maximum maturity of the allowable investments, and any other limitations.

### 1) **Safety**

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk while avoiding the erosion of principal by inflation.

a) **Credit risk** is reasonably low due to the limitations imposed by Louisiana State statutes. This Investment Policy further reduces credit risk by requiring that each investment account or pool have specifically designated investment guidelines specifying the types of securities that are permissible for that account or pool.

b) **Interest rate risk** is the risk that the market value of the securities in the portfolio will fall due to the changes in general interest rates. Interest rate risk will be mitigated by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for anticipated demands, thereby avoiding the need to sell securities on the open market prior to maturity, and
- By portfolio diversification and prudent buying strategies .
- Other strategies as determined and approved.

c) **Inflation risk** is the risk that the purchasing power of the portfolio will fall due to inflation being higher than portfolio returns over sustained periods of time.

- Inflation risk may be mitigated by balancing the risk from inflation with that of credit risk and market risk.

LCRC's investment portfolio shall be sufficiently diversified to avoid any unforeseen risks regarding security type, duration, credit quality, and interest rate.

## **2) Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This can be accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands

## **3) Yield**

The investment portfolio shall be designed with the objective of attaining a fair rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.

# **STANDARDS OF CARE**

## **1) Prudence**

The standard of prudence to be used by investment officials and investment management firms shall be, first and foremost, to comply with Louisiana State Law. In addition, the standard shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

## **2) Ethics and Conflicts of Interest**

Officers, directors, and employees of LCRC involved in the investment process shall at all times comply with State Ethics Laws where applicable, and the conflict of interest policies and procedures of LCRC. This includes those with responsibility for oversight, management, investment, and expenditure of LCRC funds. Additionally, members and executives involved in the investment process shall familiarize themselves with Louisiana Ethics requirements, pursuant to LA R.S. 39:1233.1.

In general, officers, members, and employees of LCRC involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

## **3) Delegation of Authority**

The Board of LCRC as governing body is ultimately responsible for the effective investment, management, and monitoring of LCRC funds and assets. The Board may delegate investment, management, monitoring or other such responsibilities to Finance Committee which shall act as the Investment Committee, a separate Investment Committee (if so convened), the Treasurer, CAO and CFO, and/or other professional investment manager(s) as the board so desires.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the designated authorities and approved by the Board of LCRC.

Authority to manage the investment program is granted to the Chief Administrative Officer (CAO), and the Chief Financial Officer (CFO), under the guidance of the Board Treasurer and/or Finance Committee. They may make decisions together or independently, but the primary responsibility for the operation of the investment program is hereby delegated to the CFO with general oversight of the CAO and Treasurer. The CFO shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. The CFO shall monitor and be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The Finance Committee by Board designated authority may hire a professional investment manager. In this situation, the investment manager will make reports to the Chief Financial Officer (CFO) and Chief Administrative Officer (CAO) on a regular basis and be bound to the investment guidelines of LCRC.

## **FINANCIAL REPORTING and PORTFOLIO REVIEW**

An investment report shall be prepared at least quarterly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management report will be prepared in a manner which will allow LCRC to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided for the review of the CAO, Finance Committee and ultimately the full Board; and any other parties as directed by the Board.

The report may include the following:

- A listing of individual securities held at the end of the reporting period.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities.
- Average weighted yield to maturity of the investments in the portfolio.
- The percentage of the total portfolio which each type of investment represents.
- Other information as determined.

If retained, the investment manager shall provide quarterly reports to the Finance Committee and/or full Board. These reports may include: 1) Asset Statement with prices for all securities as of each month-end date as well as all information listed above, 2) Income and Expense Report, detailed by each individual security that paid interest during the month, 3) Amortization and Accretion Report, detailed by each individual security, and 4) Purchase and Sale Report for the month. Phone consultations shall be available as needed.

The investment manager must acknowledge, in writing, receipt of LCRC's investment objective(s), investment policy statement and investment guidelines as well as the investment statutes of the State of Louisiana. The investment manager must also provide evidence of having expertise in managing the type(s) of assets that they will be managing.

### **Performance Standards**

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a fair rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to appropriate benchmarks on a regular basis and analyzed within the context of all the risk constraints on the portfolio.

## **SAFEKEEPING AND CUSTODY**

### **1. Authorized Financial Dealers and Financial Institutions**

- A. All securities owned by LCRC shall be held by a third party custodian independent from any broker or investment advisor with whom LCRC conducts business. Such custodian shall provide monthly transaction and asset statements.

A list of financial institutions authorized to provide custodial services to LCRC will be assembled. In addition, a list will be maintained of approved security broker/dealers. Those broker/dealers selected must have a minimum capital requirement of \$500,000,000 and have been in business for at least five (5) years.

- B. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:
  - a. audited financial statements
  - b. proof of National Association of Securities Dealers certification
  - c. certification of having read LCRC's investment policy and guidelines
- C. The dealers and their representative brokers should have expertise in the types of securities allowable under the Louisiana statutes. It is critical that each broker, with whom LCRC's does business, understands the LCRC's investment objective and policy statement.
- D. With regard to funds managed by a professional investment manager, the investment manager may use, and conduct transactions through financial institutions and broker/dealers with whom they believe are adequately qualified. In such cases, these institutions, brokers/dealers shall not be required to comply with sections B and C immediately above, unless otherwise directed by LCRC.
- E. In order to maintain a competitive process, no "last looks" will be permitted. A "last look" is when a broker is permitted to improve his/her bid to beat that of other bidders. Brokers should never be provided with any information concerning other brokers' bids prior to submitting their own bid.

- F. Professional investment managers shall not use, nor conduct any transactions through, any related entities.

## **2. Internal Controls**

The CFO is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. Internal Control process will be reviewed and approved by the Board.

The internal controls shall address the following points:

- a. Control of collusion. Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- b. Separation of transaction authority from accounting and record keeping.
- c. Custodial safekeeping. Securities purchased from any bank or dealer including appropriate collateral shall be held by an independent third party for custodial safekeeping. Securities managed by a professional investment manager shall be held by an independent third party for custodial safekeeping.
- d. Avoidance of physical delivery securities. Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- e. Clear delegation of authority to subordinate staff members.

## **3. Delivery versus Payment**

All trades, where applicable, will be executed by delivery versus payment (DVP). This ensures that securities are deposited in the eligible financial institution simultaneously with the release of funds.

## **4. Amendment**

This policy shall be reviewed on an annual basis. Any changes must be approved by the Finance Committee and full Board.

## **EXHIBIT A**

### **Investment Guidelines**

#### **What LCRC can invest in:**

- Money Market Funds
- Certificates of Deposits (CDs)
- Treasuries
- Agencies
- Repurchase Agreements
- Investment Grade Domestic Commercial Paper
- Corporate Bonds
- Mortgage-backed Securities
- Mutual Funds
- Tax Exempt Bonds, investment grade

#### **General Rule of Thumb:**

- Investment restrictions look through the structure to the underlying securities. All such underlying securities must be on the approved list
- All securities must be fully registered
- No high yield securities
- No private equity
- No private debt
- No foreign securities of any kind
- No derivative securities
- No options or futures
- No real estate
- No hedge funds
- If it's not on the "What LCRC can invest in" list, LCRC doesn't invest in it