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MISSOURI STATE TREASURER

MOScholars

Appendix F: Investment Policy

I. AUTHORITY

Sections 135.712 through 135.719, RSMo, and sections 166.700 through 166.720, RSMo, create the Missouri Empowerment Scholarship Account Program (MOScholars), to be administered by the State Treasurer. Section 135.719, RSMo, authorizes the State Treasurer to promulgate rules to implement the program. Pursuant to 15 CSR 50-5.050(3)(F), any educational assistance organization (EAO) investing any contributions received from the program is required to adhere to a written investment policy prepared and maintained by the treasurer.

II. INVESTMENT COMMITTEE

The State Treasurer's Office Investment Committee shall be responsible for developing and reviewing from time-to-time the MOScholars Investment Policy. The State Treasurer's Office Investment Committee shall set and monitor policies, set general strategies, and implement necessary monitoring mechanisms. The Committee will meet regularly to review performance, policy, procedures and legislation.

Members of the Committee include:

- ↗ State Treasurer
- ↗ Director of Investments – Chair
- ↗ Director of Banking
- ↗ Deputy State Treasurer

III. PRUDENCE

The standard of prudence to be applied by an EAO is the “prudent investor” rule, which states, “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.”

IV. ETHICS AND CONFLICT OF INTEREST

Personnel involved in the investment process shall refrain from personal business activity that could create an appearance of impropriety, conflict with proper execution of the investments, or impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the EAO any material financial interests in financial institutions that conduct business within Missouri, and they shall further disclose any large personal financial/investment positions that could be related to the performance of an investment portfolio. Employees and officers of an EAO shall refrain from undertaking personal investment transactions with the same individual or entity with which business is conducted on behalf of the EAO.

V. OBJECTIVES

The primary objectives of investment activities shall be legality, safety, liquidity, yield and the provision of a capital base for educational scholarship accounts.

Legality

The EAO will invest any excess contribution funds only within the legal guidelines set forth by this investment policy. Any investment alternative outside these guidelines is not permissible.

Furthermore, the State of Missouri seeks to promote and support the objectives of U.S. foreign policy regarding terrorism. Accordingly, investments in companies, including their subsidiaries or affiliated entities (collectively, a “Company” or “Companies”), that are known to sponsor, hold or transfer the funds of, or service in any way any group or state engaging in terrorism, or aid the governments in countries that are known to sponsor terrorism, are prohibited. Additionally, the EAO shall not invest in Companies having material operations in U.S.-designated state sponsors of terrorism. Should the State Treasurer’s Office discover that an EAO holds an investment in such Company, or that such an investment is held on its behalf, the State Treasurer shall immediately suspend the EAO’s certification to participate in the program.

Safety

Safety of principal is the primary objective of this investment policy. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in an EAO’s overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

A. Credit Risk

The EAO will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Pre-qualifying the financial institutions and broker/dealers with which the EAO will do business for broker services.
- If investing in securities, diversifying the portfolio so potential losses on any individual security will be minimized.

B. Interest Rate Risk

The EAO will minimize the risk that the market value of any securities in the portfolio will fall due to changes in general interest rates, by maintaining an effective duration of less than 1.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated empowerment scholarship account funding requirements. This will be accomplished by structuring the portfolio so any securities mature concurrent with cash necessary to meet anticipated demand. Furthermore, because all possible cash demands cannot be anticipated, any portfolio containing securities should consist largely of securities with active secondary or resale markets.

Yield






While generating yield is desirable, return on investment is the least important objective.

VI. PERFORMANCE

For management purposes, and for Investment Committee review, both the book yield and total rate of return shall be calculated monthly for an EAO's portfolio and compared to the appropriate indexes as established by the Committee.

VII. BROKER/DEALER REQUIREMENTS

Investments shall be made through banks that have an IDC rating of 125 or above, or securities dealers, who have been approved by the Investment Committee. Such securities dealers and banks will have been subjected to an appropriate investigation by the staff of the Investment Committee including, but not limited to, a review of the firm's financial statements and the background of the sales representative. All approved dealers must be fully licensed and registered FINRA Broker/Dealers or exempt banks. Criteria used to select securities dealers will include:

-  Financial strength and capital adequacy of firm;
-  Services provided by firm;
-  Research services available;
-  Resume, reputation and qualifications of sales representative; and
-  Due diligence and firm references.

XIII. PERMISSIBLE INVESTMENTS AND GUIDELINES

A. Savings Accounts, Government Money Market Mutual Funds, and Government Money Market Deposit Account

Deposits of program account funds are allowed in any bank with an IDC rating over 125, savings and loan association, credit union, government money market mutual fund, or government money market deposit account insured by the federal deposit insurance corporation, the national credit union share insurance fund, or the securities investor protection corporation. Deposits in these instruments are allowed without limit and shall not be capped at the insured limits set by the federal deposit insurance corporation, the national credit union share insurance fund, or the securities investor protection corporation.

B. Other Time Deposits and U.S. Treasury Securities

The following policies shall apply to investments made by EAOs into other time deposits or U.S. treasury securities.

1. Time Deposits

- a. Financial institutions with a physical location in the State of Missouri will be selected as depositories based on, but not limited to, the following: financial stability, funds availability, loan-to-deposit ratio, community involvement and other relevant economic criteria.
- b. Pursuant to state law, the maximum maturity of a deposit will be five years.

2. U. S. Treasury Securities

- a. Treasury securities with final maturities of one year or less as stated in the statutes may be purchased.
- b. Treasury securities must be purchased through approved broker/dealers.

3. Safekeeping and Custody

All securities, if any, will be held by a third-party custodian designated by the EAO and evidenced by safekeeping receipts. All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in eligible financial institutions prior to the release of funds.

4. Reporting

An EAO shall report quarterly to the Investment Committee on the present status of its investment portfolio. Each monthly report shall, at a minimum, include the following:

- a. The market value of the portfolio, including realized and unrealized gains or losses resulting from appreciation or depreciation.
- b. Listing of individual securities held at the end of the reporting period.
- c. The realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year

duration in accordance with Government Accounting Standards Board (GASB) 31 requirements, reported annually.

C. Additional Investment Restrictions and Prohibited Transactions

To provide for the safety and liquidity of the EAO's funds, an EAO's investment portfolio shall be subject to the following restrictions in addition to those listed elsewhere in this policy:

1. Borrowing for investment purposes ("Leverage") is prohibited.
2. Instruments known as inverse floaters, leveraged floaters, equity-linked securities, option contracts, futures contracts and swaps are prohibited.
3. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.

IX. INTERNAL CONTROLS

The EAO must establish a system of internal controls designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees of the EAO. Controls deemed most important include: separation of duties, separation of transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, written confirmation of telephone transactions, and minimizing the number of authorized investment officials.

X. ADOPTION OF POLICY

The Missouri State Treasurer adopted the initial Missouri Empowerment Scholarship Accounts Program investment policy in 2022.