

## V. Financial Management and Funding

**B. Investments** (See Section II. – J. Committees, b. Finance-Audit Committee) Investments shall be under the supervision of the Board of Directors through its Finance-Audit Committee, and the policies adopted shall provide for:

1. Explicit delegation of authority regarding investment decisions to appropriate employees or outside investment managers.
2. Explicit authority to make decisions at various levels. For example, there are three basic categories of funds:
  - a. **Operational fund.** These funds are used for daily operations and are generally placed in low-yield, highly liquid instruments such as interest-bearing checking accounts or money market accounts. The Executive Director has complete authority regarding these funds unless expressly limited by the Finance-Audit Committee.
  - b. **Short-term investments.** To keep funds available for unanticipated expenses or for funds not needed until up to twelve months in the future, the Coalition may maintain funds in certificates of deposit, short-term bonds, or other instruments that produce higher yields than money in the operational fund, yet are still somewhat liquid and relatively low risk as determined by the investment manager and in accordance with this Investment Policy. The Executive Director has complete authority regarding these funds unless expressly limited by the Finance-Audit Committee.
  - c. **Long-term investments.** Funds that won't be needed until far into the future, such as claims reserves and surplus funds, are placed in whichever instruments the Coalition may legally use that would produce the highest long-term yield as determined by the investment manager and in accordance with the Investment Policy. Generally, money can only be moved into and out of this fund with approval by the Board. The contract with the money manager to handle investments must explicitly describe the authority that will be placed with the contractor, the Executive Director and the Board.
3. Appropriate internal controls. Like the pool's general financial management policies, investment policies should establish procedures to prevent accidental or intentional mismanagement of funds. Policies for internal control of investments could be similar to or part of the pool's financial management policies.

**Safekeeping and custodial procedures.**

4. The Coalition's investment policies shall clearly define safekeeping and custody procedures that should be included within the agreement with the investment manager and any custodial institutions being used.
5. A procedure by which staff regularly monitors investment activities, particularly if the pool contracts with a money manager or investment consultant or broker. Most service providers submit monthly statements of investment activities. Investment activities should be posted in a timely manner and accessible via electronic media whenever possible. Staff should also continuously monitor state and federal requirements to ensure that the pool stays in compliance.
6. Allocation of assets and portfolio diversification consistent with state and federal regulations and prudent investment practices. Regardless of the investment, the investment policy should specify what type and how much of the investment portfolio can be allocated to higher yield/higher risk investments in accordance with Investment Guidelines herein. Many pools are considered public entities and are restricted by the state from investing in certain types of investment instruments.
7. Annual reviews of the Coalition's investment policies by the Board. An annual review of the Coalition's investment and cash management policies, along with a periodic review of investment results, will ensure that the Coalition's investment manager, pool staff and Board of Directors have a clear understanding of asset performance, operational issues, and where changes need to be made in order to meet the Coalition's long-term investment goals. The Coalition's investment policy should require at least an annual review.
8. Periodic reviews of investment results and comparisons with set goals and external indices to ensure that financial goals and risk levels are being met and so that changes can be made if the goals won't be met. Investment results should also be compared with other external indices, such as the stock market averages or yields from other types of funds to determine whether the investments are producing their highest potential returns.
9. Distribution of reports of investment activities to the Coalition Board of Directors at least quarterly. If these reports are not routinely distributed to Members, the Coalition shall establish and publicize a process for making the reports available to Members upon request.

## Investment Policy & Guidelines

Coalition funds will be invested to provide capital preservation, achieve the highest yield available within defined investment guidelines stated herein, and conform to all applicable NH state statutes governing the investment of public funds and the Risk Pool Practices Agreement (RPPA) dated April 25, 2012.

### 1. Authority

The management of the Coalition is authorized to invest funds directly or through designated portfolio managers approved by the Board of Directors including banks and other financial institutions to implement transactions in accordance with the above Policy statement, and for the safekeeping and custody of investments. The management of the Coalition shall maintain a system to account for all investments with adequate internal controls to prevent collusion or fraud and to document transactions and strategies and shall report quarterly to the Board of Directors the results of the investment activities using appropriate benchmarks to evaluate results. The Board of Directors delegates authority to the Finance-Audit Committee to review and monitor the investment activities of the Coalition. The Committee may also retain the services of an external investment consultant to assist in the implementation of investment policy provisions and oversight of external portfolio managers, funds and ETFs.

The Coalition Board of Directors will designate one or more third party depositories as custodian for safekeeping of securities, which shall collect income and principal when and as it is paid or redeemed. All purchased obligations, unless held in the name of the Coalition, shall be held by a custodian, subject to a written custodial agreement specifying that the Coalition securities will not be commingled with any funds of the custodian, or become part of the backing for any other of the custodian's deposits or liabilities, and how the receipt and release of securities shall be confirmed.

The policy shall be reviewed at least annually by the Finance-Audit Committee and any amendments made thereto must be approved by the Coalition Board of Directors. The Board shall annually adopt by written resolution a statement that it has received and reviewed a report from the Finance-Audit Committee regarding the Investment Policy Statement.

### 2. Prudence and Ethical Standards

The standard of care to be used by the Investment Manager(s) for managing the Coalition's funds shall be that of a "prudent person". The Investment Manager(s) performing the investment functions, acting in accordance with written policies and procedures and exercising due diligence,

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shall not be responsible for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse development. The "prudent person" standard is understood to mean the following:

- Investment transactions shall be in accordance with the Investment Policy and Investment Guidelines.
- 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.
- Losses are acceptable on a sale before maturity if the reinvested proceeds will earn income greater than would have been obtained by the original investment, considering both any capital loss and foregone interest or if the sale will prevent further anticipated losses in the future on these investments

The Executive Director and the Finance-Audit Committee shall insure that these Prudent and Ethical Standards are followed by the Investment Manager.

### **3. Goals**

Net of fees Total Return is the primary performance criterion and will be reviewed on an absolute and risk-adjusted basis. Total Return, as used herein, includes income plus realized and unrealized gains and losses on the Coalition funds, if any, consistent with prudent investment management. To achieve these goals, the Board of Directors seeks to create a well-diversified and balanced portfolio of equity, fixed income, money market and other investments as permitted by NH state statute and in compliance with the Risk Pool Practices Agreement. They will appoint Investment Managers to implement and manage the portfolio in accordance with these guidelines and their responsibilities.

The Investment Committee recognizes the necessity of both a short (and a long-term horizon when formulating investment policies and strategies. As a result, short term fluctuations in values will be considered secondary to long term investment results. However, shorter term investment goals will be established and are intended to provide quantifiable benchmarks to measure and evaluate portfolio return and risk.

Most investment styles require a full market cycle to allow Investment Managers to demonstrate their abilities. As many market cycles extend over several years, investment performance results will generally be measured over a three-year period. Performance over shorter time periods will be monitored as a means of identifying the current trend of results.

### **4. Objectives**

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The following are general investment objectives for the Coalition funds:

- Preservation of Capital - To protect against loss of principal and/or related income.
- Diversification by financial institution, by investment instrument and by maturity scheduling, including the assumption of a moderate levels of risk consistent with investment restrictions, is warranted to balance safety of principal with satisfactory investment results.
- Maximization of Income without exposing the Coalition reserves to deterioration. All Reserve funds shall be invested at as close to 100% at all times as is practicable.
- Liquidity -To provide sufficient liquidity to enable budgeted cash flow requirements, and unexpected variations in claims expense, to be met.
- Total Returns should meet or exceed the returns of the benchmark index or indices selected as representative of the Coalition's holdings on an absolute and risk-adjusted basis. Compliance with all relevant regulations, including New Hampshire state laws and the Risk Pool Practices Agreement.

## 5. Asset Allocation & Investment Guidelines

### a) Asset Allocation

After a thorough review of the expected risk and return of various assets mixes, the Board of Directors have established the following target asset allocation for all the Coalition funds.

The Coalition recognizes the importance of considering environmental, social and governance (ESG) factors in its investments. Our investment professionals, both internal and external, integrate ESG considerations as well as a range of other relevant factors into due diligence, monitoring, and investment decision making.

Coalition funds will be managed within the below asset allocation framework using a separately managed fixed income portfolio and mutual funds or ETFs for equity exposure. If the total amount of the Risk Assets or Fixed Income reaches the respective upper limit of the target range at any time, then the account will be rebalanced back to 20% Risk Assets and 80% Fixed Income no later than the end of the following month.

Asset Class	Target	Range
Fixed Income	80%	70% - 90%
Risk Assets	20%	16% - 22%

The Coalition's risk assets portfolio will also be constrained in relation to its Net Position. Equity assets should be less than 30% of the Coalition's Net Position. The above targets and ranges do not include the legacy investments in Private REITS that the Coalition currently holds per the provisions in the Risk Pool Practices Agreement. Though no further REITS will be added to the portfolio, the current REIT holdings are not part of the strategic asset allocation structure given they will be liquidated as soon as possible.

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**b) Permissible & Prohibited Investments**

Investment of funds by the Investment Manager(s) shall be permitted as deemed appropriate after a careful evaluation of the risk and returns, provided such investment is not prohibited by NH law or agreement. However, the below securities and investments are ineligible for inclusion within the Board of Director's funds base if owned in a separately managed portfolio. The Board understands that restrictions cannot be placed on mutual fund and/or ETF investments given the broad nature of these strategies. As such, the below restrictions do not apply to investments in mutual funds or ETFs.

- Privately placed or other non-marketable debt;
- Non-dollar fixed income investments
- Derivatives including but not limited to options, swaps and futures contracts;
- Reverse repurchase agreements, dollar rolls and TBA transactions which do not result in taking delivery of the underlying security within 30 days.
- Direct investments in oil and gas transactions and venture capital;
- Individual bonds with a BBB rating or lower at the time of purchase;
- Investment in companies engaged in arms trade and tobacco sales;
- Structured Notes;
- New purchases of non-traded Real Estate Investment Trusts (REITs). Legacy REIT investments held by the Coalition are permitted subject to the Risk Pool Practices Agreement provisions.

**c) Diversification**

The Investment Manager(s) should diversify the funds among market sectors and within allowable maturities in an attempt to minimize the adverse effects of price fluctuations. Therefore, except for the issues guaranteed by the U.S. Government or one of its Agencies, the portfolio may contain no more than 2% (at time of purchase) of a given issuer of debt or equities within a separately managed portfolio. The maximum investment in any individual mutual fund or ETF is 5%. All Corporate & Asset-Backed Bonds as well as Mortgage-Backed Bonds must be issued, assumed, or guaranteed by companies incorporated in the United States. Since the Coalition is tax-exempt, tax-advantaged securities shall be evaluated for purchase on a pre-tax basis. Depending on market conditions, the portfolio will be diversified and managed within the following maximums:

**Fixed Income**

Category	Maximum Allocation
U.S., State and Municipal Bonds	100%
Corporate Bonds	60%
Asset Backed Securities (ABS)	25%
Commercial Mortgage Backed Securities (CMBS)	20%
U.S. Agency Residential Mortgage Backed Securities	40%

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**d) Quality & Duration**

Overall, the fixed income portfolio should carry an average credit rating of no less than AA- or equivalent. Individual fixed income investments made within the Coalition portfolio must be rated A- or equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO) which shall include Standard & Poor's, Moody's, Fitch and other organizations as added from time to time. Ratings are based on the lowest rating if ratings are provided by more than one NRSRO. In the event of a downgrade below A-, the investment manager shall immediately notify the Coalition and provide a recommendation. The Coalition will then direct the investment manager whether the security may be held or if it should be sold. The above requirements conform with applicable NH Statutes as well as the Risk Pool Practices Agreement dated April 25, 2012.

The investment manager should maintain the portfolio's duration in a range of +/- 20% of the duration of the applicable benchmark as stated under the Performance Evaluation section of this policy.

The Board of Directors delegates authority to the Finance-Audit Committee to develop specific guidelines and restrictions to apply to the various invested funds.

**e) Performance Evaluation**

Investment performance for Coalition funds will be reviewed on a quarterly basis and will be calculated and presented in accordance with the Chartered Financial Analyst (CFA) Institute's Global Investment Performance Standards (GIPS) requirements. Results on both an absolute and risk-adjusted basis will be provided by the Coalition's investment consultant. Returns will be net of investment management fees. The overall return of the Coalition portfolio will be measured against a blended benchmark (the "Allocation Index") of the applicable assets weighted based on the amount investment in each category. In addition, the overall return will be measured against a strategic benchmark as follows:

80% Custom Fixed Income Benchmark (as detailed below)  
20% Russell 1000

**Fixed Income Investment Manager Evaluation**

The Coalition's fixed income investment manager will be measured against a benchmark on a quarterly basis as follows:

- Custom Index composed of the following Barclays Capital Index Components:
  - 30% Intermediate Credit Ex Baa
  - 45% Intermediate Government
  - 10% Asset Backed Securities
  - 10% Fixed Rate Mortgage Backed Securities
  - 5% Commercial Mortgage Backed Securities

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The investment manager should generate an annualized rate of return (net of fees) overall a rolling five-year period (i.e. market cycle), which is 10-30 basis points greater than the target benchmark. The investment manager's results will also be evaluated on a risk-adjusted basis versus the benchmark using various statistics including the Sharpe Ratio, Information Ratio etc.

Over this same timeframe, the active fixed income investment manager's performance is expected to place in the top 50% of similarly styled fixed income managers as measured by a Peer Universe of fixed income managers.

### **Equity Fund/ETF Evaluation**

The Coalition's equity ETFs will be measured against each ETF respective benchmark as determined by the ETF provider. Each ETF is expected to generate an annualized rate of return (net of fees) over a rolling five-year period (i.e. market cycle) that approximates the target index.

## **6. Engagement with the Investment Manager & Custodian**

The terms of the engagement of an Investment Manager(s) and Custodian shall be specifically outlined in an agreement with the investment management and custodial firms.

The agreement shall include, but not be limited to, the following items: legal names of the Coalition and the investment management or custodial firm; authorizing statement specifying agreement between parties; terms of contract, description of services to be performed by the firm; description of the Coalition's responsibilities; reporting requirements; procedure for asset withdrawal; how amendments shall be made to the contract; liability for non-performance; representations and warranties, compliance with laws assurance, confidentiality; authorized personnel; a termination clause; notices clause and authorized signatures of both parties.

## **7. Internal Controls**

Management is responsible for establishing and maintaining an adequate internal control structure designed to ensure that the investments/assets of the entity are protected from misappropriation, misstatement, misuse or fraud. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The internal controls shall address the following points:

- a) Separation of transaction responsibility over accounting and record keeping reconciliation and control over investments. By separating the person who authorizes or performs the transaction from the person who records or otherwise accounts for the transaction, a separation of duties is achieved.
- b) Custodial safekeeping. Securities purchased from any bank or dealer including appropriate collateral as defined by NH state law shall be placed with an independent and bonded third party for custodial safekeeping.

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- c) Clear delegation of authority from the Board of Directors and the Executive Director to financial staff. All must have a clear understanding of their authority and responsibilities to avoid improper actions.
- d) Clear delegation of authority also enhances the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- e) Written confirmation of telephone transactions for investments and wire transfers. Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions must be supported by written communications and approved by the appropriate person, as defined by internal control procedures and financial management policy. Written communications may be via fax or e-mail if on letterhead and the safekeeping institution has a list of authorized signatures.

**8. Monitoring the Investment Manager(s)**

- a) Annually, an independent certified public accountant will conduct a compliance audit to verify the accuracy of transaction records, review internal controls and that all the Coalition funds reported are in accordance with this policy.
- b) On a quarterly basis, the fixed income investment manager shall provide SchoolCare with a reconciliation of the market value of the portfolio on the investment accounting system versus the custody system. If the market value variance is in excess of 0.15%, the fixed income investment manager shall provide a detailed analysis explaining the variance. SchoolCare management shall evaluate the reconciliation and determine if an accounting adjustment to the financial statements is necessary.

[Adopted by the Board of Directors 11/8/07]