

Policy 2.3

POLICY TITLE: INVESTMENTS	POLICY # 2.3	
Topic Area: Financial Management	Page 1 of 4	REVIEW DATES
Applies to: LRE CEO, LRE CFO	Issued By and Approved By:	12/19/13 1/1/2015
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I. POLICY

The Lakeshore Regional Entity (LRE), as a prepaid inpatient health plan (PIHP) under the State of Michigan, shall invest Medicaid funds in a manner that conforms to all state statutes governing the investment of public Medicaid funds.

II. PURPOSE

This investment policy is designed to safeguard funds on behalf of the LRE, to ensure the availability of operating capital funds when needed, and to preserve capital while providing the highest investment return with maximum security.

III. APPLICABILITY AND RESPONSIBILITY

Statutory References: Public Act 20 of 1943 [MCL 129.95], as amended, requires the LRE to have a written investment policy that, at a minimum, includes all of the following:

1. A statement of the purpose, scope, and objectives of the policy, including safety, diversification, liquidity, and return on investment.
2. A delegation of authority to make investments.
3. A list of authorized investment instruments.
4. A statement concerning safekeeping, custody, and prudence.

Scope: The investment policy applies to all cash and investments owned by the LRE.

Objectives: The primary objectives, in priority order of investment activities shall be safety, diversification, liquidity, and return on investment.

1. **Safety:** The foremost objective of this investment program is safety of the principal funds. Investments shall be made in a manner that ensures preservation of capital in the overall portfolio. The objective is to mitigate credit risk and interest rate risk.
2. **Concentration Credit Risk** – The LRE minimizes concentration credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer is minimized.

3. Custodial Credit Risk – The LRE minimizes custodial credit risk by limiting deposits and investments to securities outlined in Public Act 20 of 1943 [MCLA 129.91].
4. Foreign Currency Risk – The LRE minimizes foreign currency risk by limiting deposits and investments to the types of securities as outlined in Public Act 20 of 1943 [MCLA 129.91].
5. Interest Rate Risk – The LRE minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. Also, interest rate risk is minimized by investing operating funds primarily in shorter-term securities and in investment pools, thus limiting the average maturity of the portfolio, and varying the maturity dates of securities.
6. Diversification: The investment portfolio shall be diversified by security type and institution. With the exception of US Treasury Securities and authorized investment pools, no more than 50% percent of the total investment portfolio shall be invested in a single security or with a single financial institution.
7. Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio with a portion held in investment pools and bank accounts that offer same day liquidity and with securities that mature concurrent with anticipated cash requirements.
8. Return on Investment: The investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. It is understood that return on investment is of secondary importance when compared to the safety, diversification, and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Delegated Authority to Make Investments: The LRE Board of Directors designates, as required by law, the LRE Chief Executive Officer (CEO) to be the investment officer. The investment officer has the authority to manage the investment program in accordance with this policy. The LRE CEO has the authority to designate staff to assist the investment officer with management of the investment program.

Authorized Investment Instruments: The investment officer or designee is authorized to invest in the following types of securities allowed by Public Act 20 of 1943 [MCLA 129.91], as amended.

- Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution insured by the Federal Deposit Insurance Corporation (FDIC).
- Repurchase agreements consisting of instruments in subsection 1 above.
- Bankers' acceptances of United States banks.
- Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating agency.
- Obligations described in subsections a. through e. if purchased through an interlocal

agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

- Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- Investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Standards of Care: Standards of care that shall be applied to the investment program include safekeeping, custody, prudence, ethics and conflicts of interest.

1. **Safekeeping:** An internal control structure shall be designed and implemented to ensure the Lakeshore Regional Entity's assets are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the valuation of costs and benefits requires estimates and judgments by management.
2. **Custody:** It shall be the responsibility of the investment officer to determine which securities a third-party custodian will hold. A safekeeping receipt, deposit receipt, or certificate shall evidence securities held by a third-party custodian. Prior to executing an order to purchase or trade the Lakeshore Regional Entity funds, a financial intermediary, broker, or dealer shall be provided with a copy of this investment policy and shall do both of the following:
 - Acknowledge receipt of the investment policy.
 - Agree to comply with the terms of the investment policy regarding the buying or selling of securities (see Attachment).
3. **Prudence:** The standard of prudence to be used by the investment officer shall be the "prudent person" standard and shall be applied in the context of managing the overall investment program. The prudent person standard 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 from the investment."
4. **Ethics and conflicts of interest:** The investment officer shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or that could impair his/her ability to make impartial investment decisions.

Reporting: The investment officer, or designee, shall provide an annual written report to the LRE Board of Directors concerning the investment of funds.

IV. DEFINITIONS

Concentration Credit Risk: The risk of loss attributed to the magnitude of the authority's investment in a single issuer.

Custodial Credit Risk – Deposits: The risk that in the event of the failure of a depository financial institution, the authority may be unable to recover deposits or collateral securities that are in

possession of an outside party.

Custodial Credit Risk – Investments: The risk that in the event of the failure of the counterparty to a transaction, the authority may be unable to recover the value of investment or collateral securities that are in possession of an outside party.

Financial Institution: A state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

Foreign Currency Risk: The risk that changes in exchange rates could adversely affect the fair value of a deposit or an investment.

Interest Rate Risk: The risk that changes in market interest rates could adversely affect the fair value of a deposit or an investment.

Investment Officer: The LRE CEO, or other person, designated by the governing LRE Board of Directors to manage the investment program.