

Connect for Health Colorado Investment Policy

1 Purpose

The purpose of this Investment Policy (the Policy) is to establish investment policies and guidelines for Connect for Health Colorado funds. The Policy outlines an overall philosophy that is specific yet flexible enough to incorporate the dynamic characteristics of the economy and/or securities markets and realistic parameters to guide the investments. The Policy also identifies the responsibilities of all involved parties and establishes procedures for ongoing performance and policy review.

2 Scope

Investments of Connect for Health Colorado will be made for the sole interest and exclusive purpose of the organization. Connect for Health Colorado assets must be invested with the care, skill, and diligence that a prudent investor acting in this capacity would use to comply with applicable controlling statutes and regulations. All investing activities must comply with the Connect for Health Colorado Conflict of Interest Policy.

This Policy excludes funds received from federal or state agencies, the requirements for federal and state funds are maintained in the Financial Policies.

3 Policy

The investment objectives of this Policy, encompassing risk and return, are to preserve principal and to provide a prudent yield for the Connect for Health Colorado funds, consistent with the maintenance of liquidity needs and capital stability. In addition, as an integral component of cash management, one of the objectives of the investment policy is to provide for an appropriate level of funds in an operating reserve. Connect for Health Colorado seeks to achieve its investment objectives through the development of a tiered investment structure. The tiered structure is designed to provide liquidity for current cash needs while allowing for the possibility of higher investment returns on stable cash balances. The increased investment return will be captured through investment in short-term fixed income investments.

The four primary objectives regarding risk and return are:

- 1) Preservation of principal
- 2) Maintenance of sufficient liquidity to meet cash needs
- 3) Maximize the rate of return in prevailing market conditions for eligible securities
- 4) Diversification of investments to avoid incurring unreasonable risk regarding any single issuer, asset class, or maturity.

The eligible investments and asset class concentration are the following:

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- US Treasury Obligations: Treasury Bills, Notes, Bonds and STRIPS backed by the full faith and credit of the United States Government. Such issues shall have remaining maturities of less than 5 years from the date of settlement. The portfolio may invest up to 100% of its assets in US Treasury obligations.
- Federal Instrumentality: (US Government Agency and Government Sponsored Enterprises): Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and Student Loan Marketing Association. Such issues shall have remaining maturities of less than 5 years from the date of settlement. The portfolio may invest up to 100% of its assets in Federal Instrumentality securities.
- Money Market Mutual Funds: These funds will be no load, maintain a constant daily net asset value of \$1.00 and comply with the Securities and Exchange Commission rule 2a-7 regulating money market funds. Should be rated at a minimum of AAA by at least one of the ratings agencies.
- Certificates of Deposit, Demand/Transaction Deposits, and Time Deposits: The portfolio may invest up to 100% of its assets in Certificates of Deposit, Demand/Transaction Deposits, and Time Deposits with FDIC insured institutions up to the FDIC limit including interest accrued, but not yet paid. Certificates of Deposit may only be purchased at a price of par or at a discount (no premiums).
- Repurchase Agreements in conjunction with Overnight Bank Sweep Accounts: Investments in repurchase agreements must be in issues collateralized by US Treasury Obligations and/or Federal Instrumentalities as described above. Such repurchase agreements shall have remaining maturities of 90 days from the date of purchase. Purchased securities shall have an original market value including accrued interest of 102% of the dollar value of the transaction and have a final maturity of five years or less. If the collateral value drops below 101%, it will be immediately restored to 102%. The portfolio may invest up to 100% of its assets in repurchase agreements.
- Non-government Bonds: Investments will consist solely of taxable, fixed income securities that have an investment-grade rating (AA or higher by Standard & Poor's and Aa2 or higher by Moody's) that possess a liquid secondary market. If the average credit quality rating disagrees among the two rating agencies, then use the lower of the two as a guideline. No more than 5% of the non-government bond portfolio will be invested in bonds of the same issuer. As well, not more than 20% of the non-government bond portfolio will be invested in bonds of issuers in the same industry. Total invested in non-government bonds should not exceed 15% of the investment portfolio. Prohibited securities include: private placements, derivatives (other than floating-rate coupon bonds), margined transactions and foreign denominated bonds. Exceptions to the prohibited investment policy may be made only when assets are invested in a Mutual Fund(s) that periodically utilizes prohibited strategies to mitigate risk and enhance return.

Should an investment, made in compliance with the credit restrictions discussed above, be downgraded below the minimum rating stated in this policy, Connect for Health Colorado staff would decide whether the investment should be held or sold. Several factors may be used to base this decision, but are not

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limited to, the maturity remaining on the investment, portfolio exposure, and other factors staff deems relevant at that time.

No individual issuer shall represent more than 10% at market of the total funds held in cash and investments. However, direct obligations of the U.S. Government or its agencies, certificates of deposit, demand/transaction deposits, time deposits and overnight bank sweep accounts are permitted to exceed the 10% per issuer limit, providing they meet the guidelines noted above.

4 Policy Maintenance and Reporting

A quarterly report shall be prepared and submitted to the Finance Committee showing investment activity for the period and a summary of earnings during the period. Given the dynamic characteristics of the capital markets and investment techniques, the Board of Directors will review these policies and guidelines annually.