**TEXAS FOOD AND FUEL ASSOCIATION**

**Reserve Funds & Investment Policy**

This Reserve Funds & Investment Policy of the Texas Food and Fuel Association (“Association”) are adopted by resolution of its Board of Directors dated February 20, 2013. Reference is made to the bylaws of the Association adopted by its Board of Directors and as the same may be amended from time to time (“Bylaws”). Capitalized terms used in this Reserve Funds & Investment Policy and not otherwise defined shall have the same meanings as used in the Bylaws. In the event any conflict should arise between the terms of this Reserve Funds & Investment Policy, the Bylaws, any Board Policy Guidelines as may be promulgated by the Board of Directors from time to time and the TBOC, the terms of the TBOC or other applicable law shall prevail, then the Bylaws, then this Reserve Funds & Investment Policy, and then any Board Policy Guidelines.

This is the Investment Policy contemplated by Article V, Section 6(d) of the Bylaws.

Prudent management and investment of Association Reserve Funds is necessary to ensure the Association’s long-term financial viability. For purposes of controlling risk while striving to optimize investment returns, Association Reserve Funds will be comprised of three distinct categories. The fund balance of each category may vary based on the Association’s financial requirements in accordance with the requirements of this policy.

1. **Operating Reserves:** Operating Reserves are funds maintained in money market accounts which are used to support the budgeted operating needs and other preplanned requirements of the Association. These funds are managed by the Vice President of Accounting and the President, with oversight of all transactions by the Treasurer. Generally, no more than 3 months or 25% of the current year’s income budget shall be maintained in this category.
2. **FDIC Insured Reserves:** FDIC Insured Reserves are funds invested in FDIC-insured Certificates of Deposit (principal and accrued interest shall not exceed $249,000 with any one financial institution issuing a certificate of deposit) and Money Markets. Money market mutual funds must have a rating by Standard & Poor’s Corporation of AAAmg for funds holding at least 85% U.S. government securities and AAAm or AAAf for all others, and additionally the underlying investments must be eligible under this Policy. A minimum of $1,000,000 shall be maintained in this category comprised of FDIC-insured certificates of deposit.

Funds from the FDIC Insured Reserves account may be drawn upon with approval of the Association Board of Directors.

1. **Long Term Reserves:** Long Term Reserves are funds identified on an annual basis by the Association Executive Committee as over and above Association’s Operating Reserves and FDIC Insured Reserves. The purpose of these funds is to provide for the long-term appreciation of assets, consistent with acceptable levels of risk plus the generation of adequate levels of current income to support the Association budget as approved by the Board of Directors. The return objective of the funds shall be focused on maintaining a growth rate above the rate of inflation. These funds may be invested in marketable securities (ie: stocks, bonds, mutual funds) and managed by a national bank or registered money management firm approved by the Executive Committee, subject to the following guidelines.
2. **Asset Mix:** Asset mix is a primary determinant of the portfolio’s performance, and the mix may be changed from time to time by the Investment Committee, based on the economic and security market outlook as well as Association income requirements. In order to manage risk, the asset mix shall emphasize:
* stable growth, rather than capital gains;
* a balanced diversification between equity and fixed income investments; and
* avoidance of over-concentration in any certain asset class(s).

To pursue the above objectives at an acceptable risk level, the asset allocation for the Long Term Reserve Funds shall be within the following ranges:

**Percentage of Fund at Market Values**

**-----------Range------------**

**Asset Class Minimum Maximum**

**EQUITIES 35% 75%**

**FIXED INCOME 25% 65%**

**CASH EQUIVALENTS 0% 20%**

For purposes of determining the range of permissible asset percentages under this policy, the Investment Committee shall consider that portion of the balance of the FDIC Insured Reserves account which exceeds $1,000,000. Because the association's policy is to hold CD's until their maturity, the balance of the FDIC Insured Reserves account shall be determined using its cost-basis rather than market value.

1. **Investment Restrictions:** The Long Term Reserves portfolio must be invested at all times in accordance with the “Prudent Person Rule” and in compliance with the Uniform Prudent Investor Act, Title 9, Texas Property Code. Investment restrictions shall strictly adhere to the following unless waived by the Association Board of Directors:
	* All investments must be U.S. dollar denominated.
	* Commercial paper must be rated in the two highest quality classes by Moody’s Investor’s Service, Inc. (P1 or P2) or Standard & Poor’s Corp. (A1 or A2).
	* Money Market mutual funds must have a rating by Standard & Poor’s Corp. of AAA MG for funds holding at least 85% U.S. government securities and AAA M or AAA F for all others.
	* Preferred stocks must be rated a minimum of A3 or A- by Moody’s Investor’s Service, Inc., or Standard & Poor’s Corp., respectively at time of purchase.
	* No more than 5% of the portfolio shall be invested in the securities of a single corporation at cost.
	* No more than 25% of the portfolio shall be invested in any one industry at cost.
	* All equity investments shall satisfy a minimum quality rating of B by Standard & Poor’s or a 3 safety rating by Value Line.
	* The following investments and investment activities are prohibited:

- Private placements

- Letter stock

- Derivatives (unless they are used within a qualified mutual fund)

- Commodities or commodity contracts

- Short sales

- Margin transactions

- Any speculative investment activities

1. **Performance Reporting:** The investment manager/advisor(s) is required to effectively measure the

performance/return of the overall portfolio as compared to the results from independent index tools, as well as comparative performance results in our specified asset classes. The reports should be provided at least quarterly and should compare the results with nationally recognized indexes showing (as much as possible) a 1, 3, 5, & 10 year moving time period, both gross before fees and net of fees.

1. **Rebalancing:** The investment portfolio shall be rebalanced on an ongoing basis to further minimize risk. Cash flows may be included in the rebalancing, subject to any cash deferrals or previously designated amounts for budgetary requirements authorized by the Board of Directors. Rebalancing shall occur as a function of a percentage change, specified by the Investment Committee, and not be based on a specific time period.

Oversight, reporting, and communication are required to ensure prudent management and investment of all Association Reserve Funds:

* + The Vice President of Accounting, with oversight by the President, shall timely and consistently monitor the Association Reserve Funds to confirm that all transactions are authorized and in conformance with this policy. The Vice President of Accounting and the President shall coordinate all purchases, transfers, reinvestments and any other movement of funds to and within the Association Reserve Funds, with the approval and oversight of the Treasurer.
* The Treasurer shall have online access to the daily activity in all of the accounts comprising the Association Reserve Funds. The Treasurer shall utilize this access to ensure that transactions are consistent with guidelines and risk standards approved by the Investment Committee. The Treasurer shall also have access to all statements and reports available from the investment managers, advisors, or brokerages in order to provide investment reports to the Executive Committee and to the Board of Directors.
	+ The Investment Committee shall be chaired by the Chairman of the Board of Directors. Members of the Investment Committee shall include the Vice Chairman, Secretary, Treasurer, and three members of the Association Board of Directors selected by the Chairman. The President shall be and ex officio member of the Investment Committee without voting privileges. The Investment Committee shall assist the Treasurer in monitoring the performance of the investment manager(s)/advisor(s) and shall make recommendations to the Executive Committee as needed in the following areas:
1. Changes or adjustments in the allocation of funds between the three categories of Reserve Funds.
2. Changes or adjustments in the risk tolerance, asset allocations, and/or diversification guidelines of the Long-Term Reserves.

c. Changes in investment managers/advisors.

The Investment Committee shall have full oversight and access to all statements and performance reports of the Association Reserve Funds.

The Investment Committee shall meet at least annually to conduct an investment performance review and recommend changes or adjustments as needed to the investment and management of Association’s Reserve Funds. During its investment performance review, the Investment Committee shall be provided a briefing by the investment manager/advisor retained by Association. Following the briefing, the Investment Committee shall meet in executive session to evaluate the investment manager/advisor’s performance and ensure their continued adherence to Association’s Reserves and Investment Policy. Any changes or adjustments regarding the investment or management of Association’s Reserve Funds, including replacement of the investment manager/advisor, shall be subject to the approval of the Executive Committee.

The Executive Committee shall provide an Investments Report to the Board of Directors at the Fall Board meeting.

**Last Edit and Board Approval**

**September 24, 2014**

TFFA Investment Policy Revised 2/20/13

TFFA Investment Policy Revised 9/24/14