

DRAFT

**Connecticut Health Insurance Exchange  
INVESTMENT POLICY**

Adopted by

the Board of Directors, October XX, 2012

# Connecticut Health Insurance Exchange

## INVESTMENT POLICY

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## **1. PURPOSE**

The Chief Executive Officer and Chief Financial Officer of the Connecticut Health Insurance Exchange (“the Exchange”) are charged with the responsibility of prudently and properly managing any and all funds of the Exchange. The purpose of this document is to specify the investment and operational policies for the management of: 1) the public funds of the Exchange, not subject to the provisions, covenants or requirements of any general bond resolution, and 2) the funds contributed by the Exchange or entrusted to the Exchange by the Exchange’s employees for investment in the 401K plan established for the benefit of the Exchange’s employees. These policies have been adopted by, and can be changed only by, a two thirds vote of full voting membership of the Board of Directors of the Exchange.

These policies are designed: 1) to ensure the prudent management of public funds, the availability of operating and capital funds, when needed, and an investment return competitive with comparable funds and financial market indices, and 2) to ensure the prudent management of the Exchange’s 401K plan.

## **2. GENERAL POLICY**

- a) Exchange investments will conform to all state statutes and bond resolution restrictions governing the investments of Exchange funds. All investments whether of Exchange Funds or 401K funds and all selection of investment advisors and plan managers 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 principal as well as the probable income to be derived. The standard of prudence to be used by investment officials shall be the "prudent investor" standard. With respect to Exchange Funds the “prudent investor” standard shall be applied in the context of managing an overall portfolio.
- b) Management of the Exchange’s 401 K will conform to state statutes, the Exchange’s Policy for Contracting for Personal Services and federal law including the Employment Retirement and Income Security Act (“ERISA”). The Exchange employee responsible for managing the Exchange’s 401K is charged with acting solely in the interest of plan participants and their beneficiaries; following the plan documents and the requirements of ERISA; and carrying out his/her duties prudently including careful selection of the plan’s service providers and prudent monitoring to insure that the chosen provider is handling the plan’s investments prudently, offering plan beneficiaries a reasonably broad range of investment alternatives; and charging and/or paying only reasonable plan expenses.

### **3. SCOPE**

This Investment Policy applies to all financial assets, funds and 401K plans of the Exchange, including all funds assigned to external parties through Board approved bond resolutions or contractual agreements. This policy authorizes the Chief Financial Officer to act as the investment officer and to invest the funds in accordance with this policy.

### **4. OBJECTIVES FOR INVESTMENT OF EXCHANGE FUNDS**

The primary objectives of the Exchange's investment activities, in priority order, shall be:

a) Preservation of Principal

The preservation and safety of principal is the foremost objective of the Exchange's investment program. Investment activity of the Exchange shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. In the event that investments are made in non-U.S. government or U.S. agency securities, the Exchange shall maintain adequate diversification of instruments, issuers, and maturities to protect against losses from credit risks and market changes.

b) Maintenance of Liquidity:

The Exchange's portfolio shall be managed in such a manner that assures that Exchange funds are available as needed to meet those immediate and/or future operating requirements of the Exchange. The Chief Financial Officer shall ensure that investments are maintained with maturities that meet these requirements.

c) Return on Investment:

The Exchange's investment portfolio shall be designed with the objective of attaining a maximum rate of return but within the context and parameters set forth by objectives a) and b) above. Return on investment is subordinate to the primary objectives of safeguarding principal and providing necessary liquidity.

### **5. OBJECTIVES FOR 401K MANAGEMENT**

The primary objectives for 401K management shall be to:

- a) Act with care, skill and diligence in the best interest and for the exclusive benefit of plan participants;
- b) Comply with all plan documents and all applicable federal and state laws and

regulations;

- c) Provide plan participants with a diversity of plan investment options;
- d) Defray plan expenses in a reasonable manner;
- e) Monitor the performance of service providers;
- f) Provide reasonable educational materials so that participants can make informed choices among their investment options;
- g) File an annual return with IRS giving information about the plan's qualification, financial condition, and operations;
- h) Maintain records with respect to each employee sufficient to determine the benefits due, or that may become due, to the employee and disclose plan information to participants and beneficiaries as required by law including the provision of the summary plan description and a comprehensive explanation of plan contents. Furnish certain materials to participants or beneficiaries on their request and make certain records available for inspection at reasonable times and places;
- i) Report annually to the U.S. DOL and provide supplemental reports and supporting documentation as required; and
- j) Not participate in any transaction between a plan and a party in interest barred by ERISA (29 U.S.C.A § 1106(a)(1)).

## **6. DELEGATION OF AUTHORITY AND DISCLOSURE OF THIRD PARTY FEES**

Management responsibility for the investment program is delegated to the Chief Financial Officer, who shall establish written procedures for the operation of the investment program consistent with the Investment Policy. Management responsibility for the 401K plan is delegated to the Chief Financial Officer who shall follow the plan documents and state and federal laws and regulations.

No person may engage in an investment transaction except as provided under the terms of the Investment Policy and the procedures established by the Chief Financial Officer. The Chief Financial Officer shall have responsibility for all transactions undertaken and shall establish and maintain a system of internal controls to regulate the activities of subordinate officials.

The Exchange may employ an outside investment manager to assist in managing some or all of the investment portfolio. Such outside investment manager(s) must be registered under the Investment Advisors Act of 1940 and prior to entering into a contract for

investment services, as defined in section 9-333n of the general statutes, any party to the contract shall disclose to the Exchange, in writing, all third party fees attributable to such contract. Such disclosure shall be made by sworn affidavit in the manner and form set forth on the Form, titled Affidavit of Disclosure of Third Party Fees which is incorporated by reference as part of this Investment Policy and included in this policy as Appendix A. In addition, any such outside investment manager(s) will provide evidence of their continued registration, upon written request of the Authority.

In the absence of the Chief Financial Officer, all responsibilities and duties delegated to the Chief Financial Officer under this Investment Policy will be conducted by the Chief Operating Officer, or a designee of the Chief Executive Officer.

## **7. STANDARD OF PRUDENCE**

Except where specifically directed by statutes or regulations of the State of Connecticut, the general investment policies of the Authority will be guided by the "prudent investor" rule. Those with investment responsibility for public funds are fiduciaries and, as such, will exercise the judgment and care under the circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital.

## **8. ETHICS AND CONFLICTS OF INTEREST**

Investment activities shall be performed in full accordance with state statute including the State Code of Ethics and federal law as applicable.

## **9. ELIGIBLE FINANCIAL DEALERS AND INSTITUTIONS**

The Chief Financial Officer will establish and maintain a list of eligible brokers, dealers and other financial institutions that are responsible and financially sound. The Chief Financial Officer may invest any funds not needed by the Exchange for immediate use or disbursement in obligations issued or guaranteed by the United States of America or the state and in obligations that are legal investments for savings banks in the state. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). It shall be the policy of the Exchange to purchase securities only from those authorized institutions and firms.

The purchase of any investment, other than those purchased directly from the issuer of such investment, shall be executed with an institution authorized to do business in the State of Connecticut as a broker/dealer, which is a member of the National Association of Securities Dealers, or a member of a federally-regulated securities exchange, a national- or state-chartered bank, or a brokerage firm designated as a Primary Government Dealer by the Federal Reserve Bank or a financial institution approved by the Authority's Board of

Directors.

## **10. INTERNAL CONTROLS**

The Chief Financial Officer shall establish a written system of internal controls governing the administration and management of the Exchange's investment portfolio, approved by the Chief Executive Officer. These controls shall be designed to prevent and control losses of Exchange funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees and officers of the Exchange. Procedures should include reference to wire transfer agreements, collateral/depository agreements, safekeeping and banking service contracts. In addition, these procedures will include explicit delegation of authority to persons responsible for investment transactions.

## **11. SAFEKEEPING AND CUSTODY**

All security transactions entered into by the Exchange shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian bank or trust department, acting as agent for the Exchange under the terms of a custody or trust agreement executed by the bank and the Exchange, as designated by the Chief Financial Officer and evidenced by safekeeping receipts.

## **12. REQUIRED PORTFOLIO DIVERSIFICATION FOR EXCHANGE INVESTMENTS**

In the event that investments are made in non-U.S. government or U.S. agency securities, the Exchange will diversify that portion of the investment portfolio to eliminate the risk of loss from an over concentration of assets in a specific class of security, a specific maturity, and/or a specific issuer. The asset allocation in the portfolio should, however, be flexible +depending upon the outlook for the economy and the securities markets, thereby assuring adequate liquidity should one sector or corporation experience difficulties.

## **13. PERFORMANCE STANDARDS FOR EXCHANGE INVESTMENTS**

The investment portfolio shall be designed to obtain a maximum rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs. The Chief Financial Officer will identify expected returns for each asset class based on the prevailing market rates of return.

Short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return on the three-month U.S. Treasury Bill. Funds that have a longer-term investment horizon will be compared to an index of U.S. Treasury securities having a similar duration or other appropriate benchmark.

In general, within the constraints of preserving liquidity and minimizing risk, the

investment objective for funds subject to rebate is to maximize retainable earnings and minimize negative arbitrage and for funds not subject to rebate to earn a market rate of return. The stated goal of the Exchange is to develop the capacity to measure investment returns on both a book and market value basis no less than semi-annually.

#### **14. REPORTING INVESTMENT OF EXCHANGE FUNDS**

##### a) Semi-Annual Reporting

The Chief Financial Officer and/or any outside investment manager shall prepare and submit a semi-annual investment report to the Finance Committee of the Board. The semi-annual investment report shall be submitted within 60 (sixty) days following the end of the period covered by the report. The report shall contain information sufficient to provide a comprehensive review of the investment activity and performance and shall include, but not be limited to, the following:

- (1) a summary of the investment strategies employed in the most recent period;
- (2) summary portfolio information including maturity distribution, asset allocations and risk characteristics (such as a credit rating for non-governmental obligations and any call provisions);
- (3) representative portfolio performance; and
- (4) a summary of broker activity.

The semi-annual investment report will also include:

- (5) A statement that the Exchange's portfolio is in compliance with this Investment policy, and
- (6) A statement denoting the ability of the Exchange to meet its expenditure requirements for the next nine months (or an explanation as to why sufficient money shall, or may, not be available), and
- (7) Any area of policy concern and suggested or planned revision of investment policies.

##### b) Annual Reporting

Within 120 days after the end of the Exchange's fiscal year, the Chief Financial Officer shall provide the Finance Committee of the Board with a comprehensive report, using the audited financial statements, on the Exchange's investment program and investment activity.

##### c) Reporting by Contracted Professionals

All contracted professional investment advisors shall provide the Exchange with the following information on any purchase or sale that has taken place at the time of any transaction:

- Trade and settlement date
- Type of investment
- Exact issuer name
- Par dollar amount invested
- Coupon rate (if applicable)
- Maturity date
- Call/refunding date and price (if applicable)
- Principal amount
- Accrued interest
- Total cost
- Current credit rating of each security other than Government Securities
- Other special features, characteristics or comments

#### **15. INVESTMENT POLICY ADOPTION**

The policy shall be reviewed on an annual basis by the Chief Executive Officer, Chief Financial Officer and the Finance Committee of the Board of Directors and any modifications are to be approved by the Board of Directors.

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Approved By: Board of Directors

P&P No.: BOD 10

Effective Date: 10/xx/2012

**APPENDIX A**

**FORM A: AFFIDAVIT OF DISCLOSURE OF THIRD PARTY FEES**

**FORM A: AFFIDAVIT OF DISCLOSURE OF THIRD PARTY FEES  
CONNECTICUT HEALTH INSURANCE EXCHANGE**

I, \_\_\_\_\_, a duly authorized officer and/or representative  
of \_\_\_\_\_  
(the "Contractor"), being duly sworn, hereby depose and say that:

1. I am over eighteen (18) years of age and believe in the obligations of an oath;
2. The Contractor seeks to enter into the \_\_\_\_\_  
(the "Agreement") with the Connecticut Health Insurance Exchange; and
3. All third party fees and agreements to pay third party fees attributable to the Agreement are as follows:

Name Of Payee	Dollar Amount Paid Or Value Of Non-Cash Compensation <u>AND</u> Date	Fee Arrangement	Specific Services Performed or To Be Performed By Payee <sup>1</sup>

**(Required by CGS 3-13j (b); Attach additional copies of this page as necessary.)**

**NOTE:** For each third party fee arrangement described above (if any), complete the attached Form A2.

4. The information set forth herein is true, complete and accurate to the best of my knowledge and belief under penalty of perjury.

Signed: \_\_\_\_\_  
Name (Print): \_\_\_\_\_  
Title: \_\_\_\_\_

Sworn to before me this \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_\_\_

\_\_\_\_\_  
Notary Public/Commissioner of the Superior Court

<sup>1</sup> Please attach documents evidencing the terms of the fee arrangement and services.

**FORM A2: ADDENDUM TO FORM A: AFFIDAVIT OF DISCLOSURE OF THIRD PARTY FEES**

**CONNECTICUT HEALTH INSURANCE EXCHANGE**

For each third party fee arrangement disclosed in the attached Affidavit, please explain whether and how each such payment falls within one or more of the following categories of compensation:

- (1) Compensation earned for the rendering of legal services when provided by an attorney while engaged in the ongoing practice of law;
- (2) Compensation earned for the rendering of investment services, other than legal services, when provided by an investment professional while engaged in the ongoing business of providing investment services;
- (3) Compensation for placement agent, due diligence or comparable tangible marketing services when paid to a person who is an investment professional (i) engaged in the ongoing business of representing providers of investment services, or (ii) in connection with the issuance of bonds, notes or other evidence of indebtedness by a public agency;
- (4) Compensation earned by a licensed real estate broker or real estate salesperson while engaging in the real estate business on an ongoing basis; or
- (5) Payments for client solicitation activities meeting the requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940.

***Attach additional pages as necessary.***

**APPENDIX B**  
**STATUTES AND REGULATIONS**

C.G.S.A. § 3-13j  
Connecticut General Statutes Annotated

Section 3-13j

(b) Prior to any quasi-public agency, as defined in section 1-120, entering into a contract for investment services, as defined in section 9-333n, any person or entity who would be a party to that contract shall disclose to the quasi-public agency entering into the contract, in writing, all third party fees attributable to such contract. Such disclosure shall be made by firms providing such services and shall be in a sworn affidavit in a manner and form as prescribed in procedures which shall be adopted by each such agency, in accordance with the provisions of chapter 12, not later than May 3, 2000. Information disclosed under this subsection shall be made available for public inspection in accordance with the Freedom of Information Act, as defined in section 1-200.

(c) For purposes of this section and section 3-13k, "third party fees" includes, but is not limited to, management fees, placement agent fees, solicitation fees, referral fees, promotion fees, introduction or matchmaker fees, and due diligence fees.

(d) Any person who violates any provision of this section shall be liable for a civil penalty not to exceed two thousand dollars for each violation.

(1) The Attorney General, upon complaint of the Treasurer, may bring an action in the superior court for the judicial district of Hartford to recover such penalty for a violation of this section which affects a fund of the state. Any penalty imposed under this section for a violation which affects any such fund shall be paid to the Treasurer who shall deposit such moneys in such fund.

(2) Any quasi-public agency, as defined in section 1-120, may bring an action in the superior court to recover such penalty for a violation of this section which affects any fund under the control of such agency. Any penalty imposed under this section for a violation which affects any such fund shall be paid to such agency which shall deposit such moneys in such fund.