



Missouri Highways and Transportation Commission Policies

Category: FINANCIAL
Subcategory: Investment

INVESTMENT

Missouri Department of Transportation (MoDOT) funding comes from both state and federal sources. Most of the money is dedicated by federal law or the state constitution and statutes to specific purposes. Funds are held in two locations: State funds are held at the State Treasury and non-state funds are held outside of the State Treasury at a bank selected during the Commercial Banking, Investment Management and Security Safekeeping Services Request for Proposals process.

As mandated by the Missouri Constitution, the State Treasurer's Office holds custody of all state moneys, specifically, those that get appropriated by the legislature. The State Treasurer's Office Investment Committee is responsible for developing and reviewing the investment process of the State Treasurer's Office within the framework provided by the Constitution and statutes of the State of Missouri. The State Treasurer's Office Investment Committee shall set and monitor policies, set general strategies, and implement necessary monitoring mechanisms.

Non-state funds include the Local Fund, Medical and Life Insurance Fund, Self Insurance Fund, Missouri Transportation Finance Corporation (MTFC) highway and transportation accounts, and Department of Revenue-Motor Carrier Services.

Investments through external programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

I. Scope

The purpose of the Investment Policy shall be to establish the investment objectives of MoDOT and provide a set of investment parameters to govern the type, quality, diversification and term of investments in order to realize those objectives. To assist in accomplishing investment objectives, MoDOT shall employ an Investment Advisor to act in a fiduciary capacity as custodian for the interest and benefit of MoDOT and to, among other responsibilities, develop, implement and execute an investment strategy consistent with this Investment Policy.

The Investment Advisor and MoDOT shall have an agreement defining the duties expected of them as MoDOT's Investment Advisor. In developing and implementing any investment strategy for the assets, the Investment Advisor shall comply with the investment parameters set forth in this policy.

II. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. **Safety.** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective is to mitigate credit risk and interest rate risk.
 - a. **Credit Risk.** MoDOT's Investment Advisor will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
 - limiting investments to the safest types of securities, as defined in Section V; and
 - diversifying the investment portfolio so that potential losses on individual securities will be minimized, as defined in Section VI.
 - b. **Interest Rate Risk.** MoDOT's Investment Advisor will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations; thereby, avoiding the need to sell securities on the open market prior to maturity.
2. **Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements. This is accomplished by structuring the portfolio so securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in money market mutual funds, local government investment pools or overnight repurchase agreements that offer next day liquidity for short-term funds. In the event a security must be sold prior to maturity, all measures will be taken to preserve loss of principal.
3. **Yield.** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is the least important objective. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

III. Standards of Care

1. **Delegation of Authority.** Responsibility for the operation of the investment program and execution of documents in accordance with this Investment Policy is hereby delegated to the Director, Deputy Director/Chief Engineer, and Chief Financial Officer and his or her delegate(s), hereinafter referred to as MoDOT personnel. MoDOT personnel shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. Procedures should include references to: safekeeping, delivery vs. payment,

investment accounting, repurchase agreements, wire transfer agreements and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this Investment Policy and the procedures established by MoDOT personnel. MoDOT personnel shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate employees.

The Director, Deputy Director/Chief Engineer, and the Chief Financial Officer may execute documents in accordance with the Investment Policy, including those listed in Section IX of this policy, and may delegate authority as needed per written notification to the Commission Secretary's Office.

2. **Prudence.** The standard of prudence to be used by MoDOT personnel shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The standard of prudence to be used by the Investment Advisor shall be the "prudent expert" standard and shall be applied in the context of managing an overall portfolio.

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, liquidity and yield to be derived.

3. **Ethics and Conflicts of Interest.** Investment Advisors, MoDOT personnel and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. MoDOT personnel and employees involved in the investment process shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. MoDOT personnel and employees involved in the investment process shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of MoDOT.

IV. Safekeeping and Custody

1. **Authorized Financial Dealers and Institutions.** MoDOT's Investment Advisor will serve as MoDOT's Financial Dealer and Institution. The Investment Advisor shall retain principal collection subject to MoDOT's direction and shall distribute income to MoDOT. All securities will be registered in the name of the Missouri Highways and Transportation Commission (MHTC) unless otherwise instructed. Reviews of the financial condition and registration of MoDOT's Investment Advisor will be conducted by MoDOT personnel. MoDOT's Investment Advisor will supply the following information as requested:
 - Audited financial statements; and

- Certification of having read and understood and agreeing to comply with MHTC's Investment Policy.
- 2. Internal Controls.** MoDOT personnel are responsible for establishing and maintaining an internal control structure designed to ensure the assets of MoDOT are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance these objectives are met. The concept of reasonable assurance recognizes (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, MoDOT personnel, as a part of its annual review of all of the Department's internal controls, shall establish a process for an annual review to ensure compliance with policies and procedures. The internal controls shall address the following points:

- Separation of transaction authority from accounting and record keeping;
- Custodial safekeeping;
- Avoidance of physical delivery securities;
- Clear delegation of authority to subordinate staff members;
- Written confirmation of transactions for investments and wire transfers; and
- Sufficiency check of repurchase agreement collateral.

In addition, as part of the Department's annual financial statement audit, the financial statement auditors will review investments to determine they are fairly presented in the financial statements.

- 3. Delivery vs. Payment.** All trades where applicable will be executed by delivery vs. payment (DVP) to ensure securities are deposited in an eligible financial institution prior to the release of funds. All securities will be held to avoid custodial credit risk as defined by Governmental Accounting Standards Board (GASB) standards. DVP is the industry standard, and it is the Investment Advisor's responsibility to notify MoDOT personnel of any changes to this standard.

V. Suitable and Authorized Investments

- 1. Investment Types.** In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments MoDOT will consider. MoDOT may directly invest in or purchase money market mutual funds with the following as underlying securities:
- a. United States Treasury Securities.** MoDOT may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.

- b.** United States Agency Securities. MoDOT may invest in obligations issued or guaranteed by any agency of the United States Government as described below:

 - i.** U.S. Govt. Agency Coupon and Zero Coupon Securities. Bullet coupon bonds with no embedded options.
 - ii.** U.S. Govt. Agency Discount Notes. Purchased at a discount.
 - iii.** U.S. Govt. Agency Callable Securities. Restricted to securities callable at par or above.
 - iv.** U.S. Govt. Agency Step-Up Securities. The coupon rate is fixed for an initial term. At specific future rate reset dates, the coupon rate changes to a new pre-determined rate, for a specific period of time.
 - v.** U.S. Govt. Agency Floating Rate Securities. The coupon rate floats off one index and resets at least quarterly.
 - vi.** U.S. Govt. Mortgage Backed Securities. Restricted to securities with average life of five (5) years or less at time of purchase. Collateralized Mortgage Obligations must pass the Federal Financial Institutions Examination Council (FFIEC) test at the time of purchase.
 - c.** Repurchase Agreements. MoDOT may invest in contractual agreements between MoDOT and commercial banks or primary government securities dealers for periods of ninety (90) days or less. The purchaser in a repurchase agreement (repo) enters into a contractual agreement to purchase U.S. Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices. This includes the purchase of reverse repurchase agreements for not longer than ninety (90) days.
 - d.** Collateralized Public Deposits (certificates of deposit). MoDOT may invest in instruments issued by financial institutions, which state that specified sums have been deposited for specified periods of time, and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by State statute.
 - e.** Bankers' Acceptances. Definition - Bills of exchange or time drafts on and accepted by a commercial bank, otherwise known as bankers' acceptances. MoDOT may invest in bankers' acceptances issued by domestic commercial banks possessing the highest rating issued by at least two nationally recognized statistical rating organizations (NRSRO's).
- 2. Investment Restrictions and Prohibited Transactions.** To provide for the safety and liquidity of MoDOT's funds, the investment portfolio will be subject to the following restrictions:

- a. Borrowing for investment purposes (“Leverage”) is prohibited.
 - b. Instruments known as Structured Notes having internal leverage (e.g., inverse floaters, leveraged floaters and equity-linked securities) are not permitted. Investment in any instrument, which is commonly considered a “derivative” instrument (e.g., options, futures, swaps, caps, floors, and collars), is prohibited.
 - c. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.
 - d. No more than five (5) percent of the total market value of the portfolio may be invested in bankers’ acceptances issued by any one commercial bank.
 - e. The portfolio shall not invest, directly or indirectly, in cryptocurrencies, digital tokens, or any other blockchain-based digital assets, including but not limited to Bitcoin, Ethereum, stablecoins, non-fungible tokens (NFTs), or any derivative or pooled investment vehicle (e.g., ETFs, trusts, or funds) whose underlying assets are primarily composed of such instruments.
- 3. Collateralization.** Collateralization will be required on the following types of investments: demand deposit accounts, certificates of deposit and repurchase agreements. The market value (including accrued interest) of the collateral should be at least 100 percent. For certificates of deposit, the market value of collateral must be at least 100 percent or greater of the amount of certificates of deposits plus demand deposits with the depository, less the amount, if any, which is insured by the Federal Deposit Insurance Corporation, or the National Credit Union Administration. All securities, which serve as collateral against the deposits of a depository institution, must be safekept at a non-affiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts by the next business day from the settlement date. MoDOT shall have a *pledgee agreement* with each safekeeping bank. This will ensure that MoDOT’s security interest in collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution.
- 4. Repurchase Agreements.** The securities for which repurchase agreements will be transacted will be limited to U.S. Treasury and government agency securities that are eligible to be delivered via the Federal Reserve's Fedwire book entry system. Securities will be delivered to MoDOT’s designated Custodial Agent. Funds and securities will be transferred on a delivery vs. payment basis.

VI. Investment Parameters

- 1. Diversification.** The aggregate investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and

periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

- a. U.S. treasuries and securities having principal and/or interest guaranteed by the U.S. government $\leq 100\%$
 - b. Collateralized time and demand deposits $\leq 100\%$
 - c. U.S. Government agencies, and government sponsored enterprises (with no more than 50% of the portfolio in any one Government-sponsored enterprise) $\leq 100\%$
 - d. Collateralized repurchase agreements $\leq 100\%$
 - e. U.S. Government agency callable securities $\leq 50\%$
 - f. Bankers' Acceptances $\leq 20\%$
- 2. Maximum Maturities.** To the extent possible, MoDOT shall attempt to match its investments with anticipated cash flow requirements. MoDOT shall adopt weighted average life limitations for the individual portfolios as defined below:
- a. Self Insurance Plan – the weighted average life should not exceed two (2) years and is consistent with the investment objectives.
 - b. Medical & Life Insurance Plan – the weighted average life should not exceed three (3) years and is consistent with the investment objectives.
 - c. Missouri Transportation Finance Corporation – the weighted average life for the Transportation and Highway account investments should not exceed three (3) years and is consistent with the investment objectives.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio shall be continuously invested in readily available funds such as in bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

VII. Reporting

- 1. Methods.** MoDOT personnel shall maintain monthly investment and market value reports tracking investment performance and verifying the market value of the investment portfolio has been reviewed by the State Treasurer's Office. MoDOT personnel shall also prepare a management summary investment report at least quarterly that provides an analysis of the status of the current investment portfolio. Timing of the management summary investment report will be as of month-end January, April, July and October. This management summary will be prepared in a manner that will allow MoDOT to ascertain whether investment activities during the

reporting period have conformed to the Investment Policy. The management summary investment report will include the following:

- A portfolio summary by investment type of the securities held at the end of the reporting period.
- Market value of cash and investments of the portfolio.
- Realized and unrealized gains or losses resulting from appreciation or depreciation of the market value of securities held during the reporting period.
- Average weighted yield to maturity of the portfolio as compared to applicable benchmarks.
- Average weighted life of the portfolio.

The report shall be provided to the Director, Chief Financial Officer, Financial Services Director, and his or her delegate(s). MoDOT, at their discretion, will meet with the Investment Advisor to review and discuss investment activities as needed.

- 2. Performance Standards.** The investment portfolio will be managed in accordance with the parameters specified within this Investment Policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

Commercial paper and bankers' acceptances must be reviewed monthly to determine if the rating level has changed. The commercial paper and bankers' acceptances should be reviewed for possible sale if the securities are downgraded below the minimum acceptable rating levels.

VIII. Policy Considerations

- 1. Exemption.** Any investment currently held that does not meet the guidelines of this Investment Policy shall be exempted from the requirements of this Investment Policy. At maturity or liquidation, such monies shall be reinvested only as provided by this Investment Policy.

IX. List of Documents

The following documents are associated with this Investment Policy and should be in-place, reviewed and updated on a regular basis:

- Commercial Banking, Investment Management and Security Safekeeping Services Contract Agreement, including any safekeeping agreements, wire transfer agreements, and BusinessLink agreements
- Listing of authorized personnel as identified in the Delegation of Investment Authority memorandum,
- Relevant investment statutes and ordinances,
- Repurchase agreements,
- Credit ratings for securities purchased,

- Pledgee Agreement Form with the Federal Reserve Bank of Boston, and
- Portfolio stress testing if necessary

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