

ARKANSAS STATE CAPTIVE INSURANCE PROGRAM INVESTMENT POLICY STATEMENT

1. INTRODUCTION

This Investment Policy Statement (IPS) is adopted by the State of Arkansas State Board of Finance on behalf of the Arkansas State Captive Insurance Program (“the Company”) to establish the framework for the prudent investment of its assets. This IPS defines the objectives, guidelines, and eligible investments in accordance with the nature of the Company’s obligations, risk profile, and applicable regulatory standards.

As a Pure Captive Insurance Company licensed under the Arkansas Insurance Code, the Company is subject to certain investment restrictions and surplus maintenance requirements as regulated by the Arkansas Insurance Department (AID). This IPS is designed to ensure the Company’s investment portfolio is managed prudently while maintaining adequate liquidity, preserving capital, and achieving appropriate risk-adjusted returns.

2. RESPONSIBILITY

The Investment Committee is charged with the responsibility of investing the assets of the Company. The Investment Committee shall discharge their duties solely in the interest of the Company. These duties shall be discharged with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and like aims.

3. INVESTMENT MANAGEMENT

The Investment Committee may engage the services of an Investment Advisor(s), as defined under the Investment Advisors Act of 1940, and other investment professionals to provide the specialized research and skilled manpower to meet these investment objectives and guidelines. Accordingly, the Investment Committee requires the investment advisor to adhere to the “prudent man rule” and/or such other federal or state laws as may be applicable, or which may be applicable in the future.

4. INVESTMENT OBJECTIVES

The primary objectives of the investment program are:

- Capital Preservation: Safeguard the principal value of assets to ensure continued solvency and claims-paying ability.

- **Liquidity:** Maintain adequate liquidity to meet the Company's obligations, including claims, expenses, and capital needs.
- **Regulatory Compliance:** Ensure all investments adhere to Arkansas state regulatory requirements and any other relevant statutes or administrative rules.
- **Prudent Growth:** Generate a reasonable rate of return on invested assets commensurate with the risk profile and investment horizon of the Company.

5. ELIGIBLE INVESTMENTS

- U.S. Treasury Securities
- U.S. Government Agency Bonds
- Certificates of Deposit (CDs)
- Money Market Funds - primarily comprised of short-term obligations issued or guaranteed by the U.S. government, its agencies, or instrumentalities.
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- Municipal Bonds
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- Mortgage-Backed Securities (MBS) – Agency
- Commercial Mortgage-Backed Securities (CMBS) – Investment grade
- Collateralized Loan Obligations (CLOs) – Senior tranches only, rated investment grade
- Guaranteed Investment Contracts (GICs) – From creditworthy counterparties

6. PROHIBITED INVESTMENTS

The Company is prohibited from making the following investments:

- Investment in an insolvent entity
- Any investment as a general manager
- Letter stock and other unregistered securities
- Naked options – puts or calls

- Restricted stock
- Use of derivatives for speculative purposes
- Commodities or commodity contracts

The captive cannot invest cash funds with financial service providers who are listed on the Treasurer's website because they discriminate against energy companies, firearms entities, or agriculture producers or otherwise refuse to deal based on environment, social justice, and other governance related factors. Ark. Code Ann. in § 25-1-1002-04. [About E.S.G. - Arkansas Treasurer of State](#)

7. PORTFOLIO GUIDELINES & CONSTRAINTS

A. Diversification: The portfolio shall be diversified to avoid disproportionate exposure to any single issuer, asset class, sector, or geographic area, except for U.S. government securities.

B. Liquidity: Sufficient assets must be held in highly liquid instruments (e.g., Treasuries, government money market funds) to meet projected cash needs over a 6- to 12-month horizon.

C. Credit Quality: All investments must have an investment grade rating of A or better

D. All investments must have at minimum two ratings issued by a Nationally Recognized Statistical Rating Organization.

8. ASSET ALLOCATION GUIDELINES

Target allocations will be reviewed annually and adjusted as appropriate.

9. REBALANCING POLICY

The goal of the rebalancing policy is to maintain the Company's asset allocation guidelines and its risk-to-return profile. The Company has delegated rebalancing to the Investment Advisor which will review allocation levels for rebalancing at least quarterly.

10. PERFORMANCE EVALUATION

Investment performance will be measured on a total return basis, net of fees, and benchmarked against commonly accepted investment category indices.

11. REGULATORY COMPLIANCE

As a Pure Captive Insurance Company operating in Arkansas, the Company must comply with Ark. Code Ann. § 23-63-1601 et seq. and all applicable rules issued by the Arkansas Insurance Department (AID).

Capital and Surplus Requirements: The Company must maintain unimpaired paid-in capital and surplus of not less than \$150,000, or a higher amount as may be required by the AID based on the nature and volume of risk retained. All investments must be consistent with maintaining this minimum surplus level.

12. REVIEW & AMENDMENT

This IPS shall be reviewed at least annually by the State Board of Finance or as necessitated by changes in the Company's risk profile, operations, or applicable regulatory requirements. Amendments require formal Committee approval.

13. ADOPTION OF INVESTMENT POLICY STATEMENT

Adopted by the State of Arkansas Bureau of Legislative Research on this date:
_____, 2025.

Name: _____

Title: _____

Signature: _____

Name: _____

Title: _____

Signature: _____

Stephens Capital Management Advisor: Douglas Seelicke

Title: Managing Director

Date: _____

Signature: _____

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