

INVESTMENT POLICY FOR THE CITY OF ANGLETON, TEXAS AS OF MAY 19, 1998

I. POLICY STATEMENT

It is the policy of the City of Angleton, Texas (“City”) that the administration of its fund and the investment of those funds shall be handled at its highest public trust. Investments shall be made in a manner, which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the city and conforming to all applicable state and city statutes governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. It is the intent of the City to be in complete compliance with local law and the Texas Public Funds Investment Act. The earnings from investment will be used in a manner that best serves the public trust and interest of the City.

II. SCOPE

This investment policy applies to all the financial assets and funds held by the City. The City commingles its funds into one pooled investment fund for investment purposes for efficiency and maximum investment opportunity.

III. OBJECTIVES AND STRATEGY

It is the policy of the City that all funds shall be managed and invested with three primary objectives, listed in order of their priority: safety, liquidity, and yield. These objectives encompass:

1. Safety

Safety of principal is the foremost objective of the investment policy of the City. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

1) Credit Risk

Credit Risk is the risk of loss due to the failure of the security issuer or backer. Credit risk may be mitigated by:

- Limiting investments to the safest types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which an entity will do business; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

2) Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk may be mitigated by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and
- By investing operating funds primarily in shorter-term securities.

2. Liquidity

The investment portfolio shall remain liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

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. "Market rate of return" may be defined as the average yield of the current three months U.S. Treasury Bill or such other index that most closely matches the average maturity of the portfolio. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earnings fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- 1) a declining credit security could be sold early to minimize loss of principal;
- 2) a security swap would improve the quality, yield, or target duration in the portfolio; or
- 3) liquidity needs of the portfolio required that the security be sold.

Effective cash management is recognized as essential to good fiscal management. Cash availability. The city shall maintain a comprehensive cash management program, which includes collection of accounts

receivable, prudent investment of its available cash, disbursement of payments in accordance with invoice terms and the management of banking services.

IV. STANDARDS OF CARE

1. Prudence

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investments officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provide deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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 of their capital as well as the probable income to be derived.

2. Ethics and Conflicts of Interest

Officers and employers 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 institutions with which they conduct business. They shall disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transaction with the same individual with whom business is conducted on behalf of their entity.

3. Delegation of Authority

Authority to manage the investment program is granted to the City Administrator, derived from the following: Home Rule Charter. Responsibility for the operation of the investment program is hereby delegated to the City Administrator, who shall carry out 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, collateral/depository agreements and banking services contracts. No

person may engage in an investment transaction undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

V. LEGAL LIMITATIONS, RESPONSIBILITIES AND AUTHORITY

Direct specific investment parameters for the investment of public funds in Texas are found in the Public Funds Investment Act, Chapter 2256, Texas Government Code, (The “Act”).

The Interlocal Cooperation Act Chapter 791, Texas Government Code, authorizes local governments in Texas to participate in an investment pool established there under. That statute and reference to authorized investment in investment pools in Act, is primary authority for use of investment pools by political subdivisions of the State of Texas.

VI. AUTHORIZATION RESOLUTION

A Trading Resolution is established with this investment policy, and attached hereto, authorizing the investment Officer or Agent to engage in investment transaction on behalf of the City. The Trading Resolution shall be used to establish brokerage and banking accounts in the performance of this policy. The persons authorized by the Trading Resolution to transact business of the City are also authorized to approve wire transfer used in the process of investing. See Exhibit A.

VII. INTERNAL CONTROLS

The City Administrator shall establish a system of written internal controls, which will be reviewed annually with the independent auditor of the City. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the City.

Cash Flow Forecasting

Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. Supplemental to the financial and budgetary systems, the Investment Officer will maintain a cash flow forecasting process designed to monitor and forecast cash position for investment purposes. Cash flow will include the historical researching and monitoring of specific cash flow items, payables and receivables as well as overall cash position and patterns.

VIII. AUTHORIZED INVESTMENTS

Acceptable investments under this policy shall be limited to the instruments listed below. The investments are to be chosen in a manner, which promotes diversity of market sector and maturity. The choice of high-grade government investments and high-grade, money market investments are designed to assure the marketability of those investments should liquidity needs arise.

- A. Obligations of the United States Government, its agencies and instrumentalities, and government sponsoring enterprises, not to exceed two years to stated maturity;
- B. Fully insured or collateralized certificates of deposit from a bank domiciled in the state of Texas and under the terms of a written depository agreement with that bank, not to exceed one year to the stated maturity;
- C. Bankers acceptances as defined by the Public Funds Investment Act not to exceed 180 days to stated maturity;
- D. Commercial paper rated A-1/P-1 or the equivalent by at least two nationally recognized rating agencies not to exceed 180 days to stated maturity;
- E. Repurchase agreement and reverse repurchase agreements as defined by the Public Funds Investments Act, not to exceed 180 day to stated maturity, provided an executed PSA Master Repurchase Agreement is on file with the City and the counter party bank or primary dealer;
- F. No-load, SEC registered money market funds, each approved specifically before use by the City Council. No more than 80% of the entity's monthly average balance may be invested in money market funds;
- G. Texas Local Government Investment Pool as defined by the Public Funds Investment Act; and
- H. No-load, mutual fund registered with the SEC, rated AAA by at least one nationally recognized rating agency, investing exclusively in this policy's authorized investments, and having a stated maturity of not more than two (2) years. This fund must conform to all requirements of investment pools, including prospectus information, confirmations and monthly reporting. No more than 15% of the City's monthly average balance may be invested in money market funds.

If additional types of securities are approved for investment by public funds by state statutes, they will not be eligible for investment by the City until this policy has been amended and the amended version approved by the City Council.

Competitive Bidding Requirement

All security, including certificates of deposit, will be purchase or sold after three (3) offers/bids are taken to verify that the City is receiving fair market value/price for the investment.

Delivery Versus Payment

All security transactions, including collateral for repurchased agreements, entered into by the City, shall be conducted on a delivery versus payment (DVP) basis.

IX. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

All investments made by the City will be made through either the City's banking services bank (trading desk), a primary dealer, or the City's Financial Advisor.

The City shall maintain a list of financial institutions, which are authorized to provide investment services. Banks shall continuously provide their most recent "Consolidated Report of Condition" (call report). At a minimum the City shall conduct an annual evaluation of each bank's creditworthiness to determine whether it should be on the "qualified Institution" listing.

Securities broker/dealers not affiliated with a bank, shall be required to be classified as reporting dealers affiliated with the New York Federal Reserve as primary dealers, and meet certain other criteria as determined by the Investment Officer. A list of no more than ten (10) authorized primary dealers will be established and maintained. The following criteria must be met by those firms on the list:

- ❖ provision of an audited financial statement for the most recent period,
- ❖ proof of certification by the National Association of Securities Dealers (NASD),
- ❖ proof of current registration with the State Securities Commission, and
- ❖ completion of a City questionnaire.

Every dealer with whom the City transacts business will be provided a copy of this Investment Policy to assure that they are familiar with the goals and objectives of the investment program. The broker/dealer will be required to return a signed copy of the Certification Form certifying that the policy has been received and reviewed. (Exhibit B)

As investments are made, the Investment Officer shall rotate from the authorized bidder's list for bids/offers. An attempt will be made to alternate to all names on the list.

X. DIVERSIFICATION AND MATURITY LIMITATIONS

It is the policy of the City to diversify its investment portfolio. Invested funds shall be diversified to minimize risk or loss resulting from over-concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed.

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officer may not invest more than 20% of the portfolio for a period greater than one (1) year. Unless matched to a specific requirement, the Investment Officer may not invest any portion of the portfolio for a period greater than two (2) years.

XI. SAFEKEEPING AND COLLATERALIZATION

The laws of the State and prudent treasury management require that all purchased securities be bought on a delivery versus payment basis and be held in safekeeping by either the City, an independent third party financial institution, or the City's designated depository.

All safekeeping arrangements shall be designated by the Investment Officer and an agreement of the terms executed in writing. The third party custodian shall be required to issue safekeeping receipts to the City listing each specific security, rate, description, maturity, cusip number, and other pertinent information. Each safekeeping receipt will be clearly marked that the security is held for the City or pledged to the City

All securities pledged to the City for certificates of deposit of demand deposit shall be held by an independent third party bank domiciled in Texas. The safekeeping bank may be within the same holding company as the bank from which the securities are pledged.

Collateralization

Collateralization shall be required on two types of investments:

- a. certificates of deposits over the FDIC insurance coverage of \$100,000, and
- b. repurchase agreements.

In order to anticipate market changes and provide a level of additional security for all funds, the collateralization level required will be 102% of the market value of the principal and accrued interest.

XII. PERFORMANCE EVALUATION AND REPORTING

The Investment Officer shall submit quarterly and annual reports to the City Council containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program. At a minimum, this report shall contain:

Beginning and ending market value of the portfolio by market sector and total portfolio,

Beginning and ending carrying (Book) value of the portfolio by market sector and total portfolio,

Transactions, which change market and book value, detail reporting on each asset (book, market, and maturity dates at a minimum),

Overall current yield of the portfolio,

Overall weighted average maturity of the portfolio, and maximum maturities in the portfolio.

The report will be prepared jointly by all involved in the investment activity and be signed by the staff involved.

XIII. DEPOSITORIES

The City will designate one banking institution through a competitive process as its central banking services provider at least every three years. This institution will be used for normal banking services including disbursements, deposit, lockbox, controlled disbursement and safekeeping of securities. Other banking institutions form, which the City may purchase certificates of deposit, will also be designated after they provide their latest audited financial statements to the City.

XIV. INVESTMENT POLICY ADOPTION BY CITY COUNCIL

The City's investment policy shall be adopted by City Council. The policy shall be reviewed be on an annual basis by the City Administrator and City Council.

XV. AMENDMENT

In the event state law changes and the City cannot invest in the investment described in this policy this policy shall automatically be conformed to existing law.

APPROVED BY CITY COUNCIL BY RESOLUTION
NO. _____ **DATE** _____.

City Clerk

Date

EXHIBIT B
BROKER/DEALER CERTIFICATION FORM
As required by Texas Government Code 2256.005 (k)

CITY OF ANGLETON, TEXAS (the “City”)

The City acknowledges that the only means the firm has to preclude “imprudent investment activities arising out of transactions between the firm and the City” is to confirm that all provisions of the City’s investment policy are followed in investment transactions conducted between the firm and the City, and , the second paragraph below should read accordingly.

I, as a registered principal for the firm _____
do hereby certify that I, and the broker covering this account, _____
_____, have received and both have thoroughly reviewed the
investment policy of the City.

We acknowledge that this firm has implemented reasonable internal procedures and controls in an effort to preclude imprudent investments between this firm and the City arising from transactions between the City and the firm.

Signature

Name: _____

Title: _____

Date: _____