

TOWN OF ADDISON

INVESTMENT POLICY

For

FY 2020-2021

~~Revised and Adopted:~~

~~October 13, 2020~~

**TOWN OF ADDISON, TEXAS
INVESTMENT POLICY**

I. SCOPE

The Public Funds Investment Act, Chapter 2256, Texas Government Code, prescribes that each Town is to adopt rules governing its investment practices and to define the authority of the investment officer. The following Investment Policy addresses the methods, procedures, and practices which must be exercised to ensure effective and judicious fiscal management of the Town's funds. This Policy shall not apply to the selection, retention or other issues concerning the depositories of the Town's funds in demand and time deposits as provided under Chapter 105 of the Local Government Code.

This Policy shall apply to the investment and management of all funds of the Town under its control, other than those expressly excluded herein or by applicable law or valid agreement. This Policy shall not supersede the restrictions on investment and use applicable to any specific fund and, in the event of any conflict between this Policy and the requirements of any fund subject hereto, the specific requirement applicable to such fund shall be followed as well as all other provisions of this Policy other than those in conflict. The Employees Deferred Compensation Agency Fund is excluded from coverage under this Policy.

This Policy also requires the formal adoption of an "Investment Strategy Statement" that specifically addresses each of the Town's fund groups. Each Investment Strategy Statement will describe its objectives concerning:

- a. Suitability of investment type
- b. Preservation and safety of principal
- c. Liquidity
- d. Marketability of each investment
- e. Diversification of the portfolio
- f. Yield

In order to make effective use of the Town's resources, all monies shall be pooled into one investment bank account, except for those monies required to be accounted for in other bank accounts as stipulated by applicable laws, bond covenants or contracts. The income derived from this pooled investment account shall be distributed in accordance with the Town's internal procedures.

II. OBJECTIVES

The Town's principal investment objectives in order of priority are:

1. Conformance with all Federal regulations, State of Texas statutes and other legal requirements including the Town Charter and Town Ordinances, including this Policy
2. Preservation of capital and the protection of investment principal
3. Maintenance of sufficient liquidity to meet anticipated disbursement and cash flows
4. Diversification to avoid incurring unreasonable risks regarding securities owned
5. Attainment of a market rate of return equal to or higher than the performance measure established from time to time by the Chief Financial Officer of the Town which is commensurate with the acceptable risk and liquidity objectives of this Policy

III. INVESTMENT STRATEGY

The Town of Addison may maintain portfolios which utilize three specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the investment portfolios.

- a. Operating funds shall have their primary objective to assure that anticipated cash outflows are matched with the adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short-to-medium term securities which will complement each other in a laddered or barbell maturity structure.
- b. Debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. If the annual debt service obligation is covered, then securities may be purchased that have a stated final maturity date which exceeds the debt service payment date.
- c. Capital project funds shall have as their primary objective to assure that anticipated cash outflows are matched with adequate investment liquidity. These portfolios should have liquid securities to allow for unanticipated project expenditures or accelerated project outlays due to a better than expected or changed construction schedule. Funds invested for capital projects may be from bond proceeds that are subject to arbitrage rebate regulations.

III.IV. DELEGATION OF AUTHORITY

The City Manager appoints the Chief Financial Officer (CFO) and the Chief Financial Officer's designee(s) as the "Investment Officers" of the Town. Direct management responsibility for the investment program is delegated by the City Council to the Chief Financial Officer (hereinafter referred to as the "CFO"). The Investment Officers' authority will at all times be limited by all applicable laws and regulations in effect from time to time and this Policy. The Investment Officers shall exercise the judgment and care, under prevailing circumstances, that a prudent person would exercise in the management of the person's own affairs. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the investing entity.

With written approval from the City Manager, the CFO may delegate any phase of the investment management program to any of the Investment Officers. Such approval shall state specifically the functions such person is authorized to perform or that the person is authorized to perform all activities of the CFO under this Policy. The CFO ~~and Controller~~ shall obtain and maintain, at the Town's expense, fidelity bonds ~~for himself and each of his designees~~ in amounts determined adequate by the CFO (which shall not be less than \$250,000) for each fiscal year as shown by the approved budget. No person may engage in an investment transaction except as provided under the terms of this Policy and the internal procedures established by the CFO. A current list of persons authorized to transact investment business and wire funds on behalf of the Town shall be maintained by the CFO.

The CFO shall develop and maintain written administrative procedures for the operation of the investment program consistent with this Policy. The controls shall be designed to prevent, identify and control losses of public funds arising from deviation from this Policy, fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees and officers of the Town.

In the discretion of the City Council and in any event upon the termination or reassignment of any Investment Officer authorized to conduct transactions for the Town pursuant to this Policy, the authority of such person shall be revoked and such revocation of authority shall be immediately communicated by the CFO orally and in writing to each and every depository, broker/dealer, investment advisor, custodian and other agency or entity with whom the Town has any existing or continuing relationship in the management of its investments.

The CFO and all Investment Officers shall attend at least 10 hours of training relating to the treasurer's or officer's responsibilities within 12 months after taking office or assuming duties; and attend a training session not less than once in a two-year period that begins on the first day of the Town's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 8 hours of training. Such training from an independent source shall be approved or endorsed by the Government Finance Officers Association, Government Finance Officers Association of Texas, Government Treasurers Organization of Texas, Texas Municipal League, or the North Central Texas Council of Governments to include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act.

IV.V. INVESTMENT ADVISORS

The Town may, in the discretion of the CFO, and the approval of the City Council, appoint one or more Investment Advisors to assist the Town's financial staff in the management of the Town's funds. The Investment Advisor must be registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940 and also be registered with the Texas State Securities Board as an Investment Advisor. To be eligible for consideration, an Investment Advisor shall demonstrate to the CFO knowledge of, and experience in, the management of public funds. The CFO will satisfy himself as to the Advisor's qualifications by all appropriate means, including reference checks with the Advisor's other clients, the State Securities Board and the Securities and Exchange Commission. An appointed Investment Advisor shall act solely in an advisor and administrative capacity, within the guidelines of this Investment Policy and without any discretionary authority to transact business on behalf of the Town.

Each Investment Advisor, appointed by the Town, shall agree that its investment advice shall at all times be given with the judgment and care, under circumstances then prevailing, which persons paid for their special prudence, discretion and intelligence, in such matters exercise in the management of their client's affairs, not for speculation by the client or production of fee income by the advisor or broker but for investment by the client with emphasis on the probable safety of the capital while considering the probable income to be derived.

Appointment of an Investment Advisor shall otherwise be according to the Town's normal purchasing procedures for selecting professional services. Any approved investment advisor may be terminated with the approval of the City Manager, if in the opinion of the CFO, the advisor has not performed adequately. The term of any Investment Advisor contract may not exceed five years. Any renewal or extension of the Investment Advisor contract must be made by the City Council by resolution.

V.VI. STANDARD OF CARE

As provided for in the Public Funds Investment Act, the standard of care for the Town's investments shall be that such "investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived."

The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The CFO and the Investment Officers shall recognize that the investment activities of the Town are a matter of public record.

The CFO and the Investment Officers, acting in accordance with written procedures and exercising the proper standard of care, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that this Policy and the CFO's procedures were followed. In determining whether the CFO or an Investment Officer has exercised the proper standard of care, all investments over which the individual had responsibility will be considered rather than a single investment.

VI.VII. AUTHORIZED SECURITIES INVESTMENTS

Subject to any limitations otherwise imposed by applicable law, regulations, bond indentures or other agreements, (including but not limited to Chapter 2256 Texas Government Code, the Public Funds Investment Act), the following securities and deposits are the only ones permitted as investments for the Town's funds:

- a. Direct obligations of the United States government with a maturity not to exceed five (5) years from the date of purchase; U.S. Treasury Bills, U.S. Treasury Notes, U.S. Treasury Bonds, and U.S. Treasury Strips (book entry U.S. Treasury securities whose coupon has been removed).
- b. Senior debt obligations with a maturity not to exceed five (5) years from the date of purchase issued by, guaranteed by, or for which the credit of any of the following Federal Agencies and Instrumentalities is pledged for payment:

Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), and Federal Home Loan Mortgage Corporation (FHLMC). Mortgage-backed securities may be held as collateral although principal-only and interest-only mortgage-backed securities as well as all types of collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs) are expressly prohibited.

- c. Bonds or other interest-bearing obligations of which the principal and interest are guaranteed by the full faith and credit of the United States government, or fully insured by the Federal Deposit Insurance Corporation (FDIC), with a stated maturity not to exceed five (5) years from the date of purchase.
- d. Time Certificates of Deposit with a maturity not to exceed ~~three-five (53)~~ years from the date of purchase, secured by a combination of insurance from the Federal Deposit Insurance Corporation (FDIC) or its successor, and collateral as described in Section XV of this investment policy in depository institutions that have a main office or a branch office in the state of Texas which have been approved by the Town in accordance with Section XI of this Investment Policy.

In addition, separate CDs issued by depositories wherever located, bundled together into a single investment with the full amount of principal and interest of each CD federally insured may be purchased through a broker that has its main office or a branch office in Texas and is selected from a list adopted by the City Council, or from a depository institution with its main office or branch office in Texas. The broker or depository shall act as the custodian for the various certificates on behalf of the Town.

- e. Prime commercial paper with an original maturity of ~~one hundred eighty~~ two hundred seventy (27+80) days or less which at the time of purchase, is rated at least:

- A-1 by Standard & Poor's,
- P-1 by Moody's
- F1 by Fitch

- (1) At the time of purchase, the commercial paper must be rated by at least two (2) of the above stated ratings agencies at the above stated minimum credit rating.
- (2) If more than two (2) of the above stated agencies rates an issuer, all the rating agencies must rate the issuer in accordance with the above stated minimum credit criteria.
- (3) If the commercial paper issuer has senior debt* outstanding, the senior debt must be rated by each service that publishes a rating of the issue at least:

- A-1 by Moody's,
- A+ by Standard and Poor's
- A+ by Fitch

*Senior Debt is defined as the most senior secured or unsecured debt of an issuer with an original maturity exceeding one year.

~~If the commercial paper issuer is given a "plus (+) rating", the maximum maturity of 270 days or less will be allowed.~~

- f. Eligible Bankers Acceptances with original maturities not exceeding 180 days, issued on domestic banks operating under the banking laws of the United States, whose senior long-term debt is rated, at the time of purchase, A-1 or higher by Moody's, A+ by Standard and Poor's, or A+ by Fitch.
- g. Repurchase agreements with a defined termination date of 90 days or less on U.S. Treasury and Federal Agency securities listed in items "a" and "c" above, collateralized initially at a minimum market value of 102% of the dollar value of the transaction, with the accrued interest accumulated on the collateral included in the calculation. An exception to the maturity may be made for bond proceeds, provided the repurchase agreement allows for multiple

draws at the Town's discretion and the maturity date does not exceed the expected final expenditure date.

If the market value of the collateral falls below 101 percent the dollar value of the transaction, the collateral will be required to be brought up to the 102 percent initial maintenance level. A Repurchase Agreement is defined as a simultaneous agreement to buy, hold for 90 days or less, and then sell back an obligation described in item (g) above, the principal and interest of which are guaranteed by the United States.

Repurchase Agreements shall be entered into only with dealers who: 1) are recognized as primary reporting dealers with the Market Reports Division of the Federal Reserve Board of New York; and 2) have an executed, Town approved Master Repurchase Agreement. Collateral (purchased securities) shall be held by the Town's custodian bank or in a segregated account registered in the name of the Town of Addison with an approved third-party safekeeping agent and the market value of the collateral securities shall be marked-to-the market no less than weekly.

For the purpose of item "g" of this section, the term "collateral" shall mean "purchased securities" under the terms of the Town approved Master Repurchase Agreement. Collateral bearing no coupon will have a maturity not to exceed five (5) years. All other eligible collateral shall have a maturity limit of 10 years.

The term repurchase agreements include reverse repurchase agreements. The term of a reverse repurchase agreement shall not exceed 90 days and any investments acquired with the proceeds from the reverse repurchase agreement shall not exceed the term of that agreement.

h. Money Market Funds meeting the following criteria:

- (h.1) Registered with, and regulated by the Securities and Exchange Commission;
- (h.2) Providing the Town with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940;
- (h.3) Charging no commission fee on the purchase or sale of shares;
- (h.4) Stating a fund objective to maintain a constant daily net asset value of \$1.00 per share;
- (h.5) Limiting fund assets to those securities listed in paragraphs "a", "b", "c" and "g" above; and
- (h.6) Having a maximum stated maturity of 13 months and dollar weighted average portfolio maturity of not more than 60 days. A list of Town approved Money Market Funds shall be kept by the CFO.

i. State investment pools organized under the Interlocal Cooperation Act that meet the requirements of Chapter 2256 Texas Government Code and have been specifically approved by the CFO and authorized by the City Council.

j. Local investment pools organized under the Interlocal Cooperation Act that meet the requirements of Chapter 2256 Texas Government Code and have been specifically approved by the CFO and authorized by the City Council.

~~k. Direct obligations of the State of Texas or its agencies rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maturity not to exceed two (2) five (5) years from the date of purchase.~~

~~l.k.~~ Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States with a maturity not to exceed ~~two (2) five (5)~~ years from the date of purchase.

l. Obligations of states, agencies, counties, cities, and other political subdivisions of any State having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less

than “A” or its equivalent with a maturity not to exceed five (5) years from the date of purchase.

m. Interest bearing bank deposits insured by the FDIC or National Credit Union Share Insurance Fund.

VII.VIII. OTHER INVESTMENT GUIDELINES

The Town seeks active management of its portfolio assets. In the effort of meeting the objectives of this Policy, the Town may from time to time sell securities that it owns in order to better position its portfolio assets. Sales of securities prior to maturity shall be documented and approved by the CFO before such a transaction is consummated. Sales of securities, yielding net proceeds less than 98 percent of the book value of the securities, must be approved in advance and in writing by both the City Manager and the CFO.

Each investment transaction must be based upon competitive quotations received from at least three (3) broker/dealers who have been approved by the Town in accordance with Texas law except for government securities purchased at issue through a primary dealer at auction pricepar.

The purchase and sale of all securities shall be on a delivery-versus-payment or payment-versus-delivery basis for securities purchases, monies will not be released by the Town’s safekeeping bank until securities are received at the Federal Reserve Bank for further credit to the Town’s safekeeping bank. In the case of securities sales, monies will be received by the Town’s safekeeping bank via the Federal Reserve Bank, as the securities are simultaneously released to the purchaser). In this manner, the Town will always have possession of either its securities or its monies.

An investment that requires a minimum credit rating does not qualify as an AUTHORIZED SECURITIES INVESTMENT during the period the investment does not have the minimum credit rating even if the investment had the appropriate rating at the time of purchase. ~~The Investment Officers shall take all prudent measures that are consistent with this Policy to liquidate an investment that does not have the minimum rating. However, As stated in Section 2256.017 of the PFIA, the Town is not required to liquidate investments that were authorized investments at the time of purchase. The Town shall consider the time remaining until maturity, the quality of the investment, and the quality and amounts of any collateral which may be securing the investment in determining whether to hold the investment until maturity or to redeem the investment.~~

VII.IX. PORTFOLIO MATURITIES

Maturities shall be selected which provide for both stability of income and reasonable liquidity.

At all times, the Town shall maintain 10 percent of its total investment portfolio in instruments maturing in 90 days or less. The weighted average maturity of all securities ~~and certificates of deposit~~ in the Town’s total investment portfolio at any given time ~~(not including cash or demand deposits)~~ shall not exceed ~~24~~¹⁸ months.

In the case of callable securities, the first “call” date may be used as the “maturity” date for investment purposes in this section if in the opinion of the CFO there is little doubt that the security will be called prior to maturity. At all times the stated final maturity shall be used in portfolio average life calculations and reported as outlined in this Policy.

Investment of bond proceeds shall be invested in the investment types listed in Section VI. “a”, “b”, “c”, “h”, “i”, and “j” for a period of time not to exceed five (5) years. Additionally, bond proceeds may be invested in a repurchase agreement that exceeds 90 days if reductions are allowed from the agreement without penalty for legitimate bond proceeds expenditures and the final maturity is within the “temporary period” as defined by the Internal Revenue Service (this arrangement is commonly referred to as a “flexible repurchase agreement”).

~~IX.X.~~ INVESTMENT LIMITS

It is the policy of the Town to avoid concentration of assets in a specific maturity, a specific issue, or a specific class of securities, with the exception of U.S. Treasury issues listed in Section VI "a." The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy and the securities markets.

The Town will not exceed the following maximum limits as a percentage of the total portfolio for each of the categories listed below:

- 20 percent in Money Market Funds
- ~~as outlined in Section VI "h"~~ 50 percent in Certificates of Deposit
- 30 percent in Commercial Paper
- 30 percent in Bankers Acceptances
- ~~70~~ 40 percent in Local Government Investment Pools ~~as authorized in Section VI "h" and "j"~~ 70
- 70 percent in State Government Investment Pools ~~as authorized in Section VI "i"~~
- 70 percent in Instrumentality Securities ~~described in Section VI "b"~~
- 50 percent in Municipal Bonds

In addition to the limitations set forth above the Town's investment in any single money market fund shall never exceed 10 percent of the total assets of the money market fund.

The CFO and investment officers shall evaluate how each security purchased fits into the Town's overall investment strategy.

Bond proceeds shall be exempt from the maximum limitation stated above for State Government Pools, but only for the period of time required to develop a comprehensive draw-down schedule for the project for which the proceeds are intended, the maximum being 60 days, at which time the funds representing bond proceeds must be prudently diversified.

~~X.XI.~~ SELECTION OF BROKER/DEALERS

The Town shall maintain a list of approved security broker/dealers maintaining minimum capital of \$10,000,000 and being in business for at least five years. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). Securities may only be purchased from those authorized institutions and firms identified in the above list.

Broker/dealers and other financial institutions will be selected by the CFO on the basis of expected financial stability, experience in selling fixed income securities to other local governments as well as perceived ability to service the Town's account. Each broker/dealer authorized to conduct business with the Town, shall be required to submit a Broker/Dealer questionnaire as well as updated financial statements. In addition, all firms shall provide a detailed resume of the firm's primary sales representative, appropriate references and wiring instructions. The CFO shall maintain a file on each firm containing the most recent information.

The CFO shall review the quality of service and financial stability of each broker/dealer and financial institution approved under this Section at least annually. Any approved broker/dealer or financial institution may be removed from the list of approved broker/dealers with the approval of the CFO, if in the opinion of the CFO, the firm has not performed adequately, or its financial condition is considered inadequate. The City Council shall, at least annually, review, revise, and adopt the list of qualified broker/dealers and financial institutions which are authorized to engage in investment transactions with the Town.

All business organizations (specifically, local government investment pools and discretionary investment managers) eligible to transact investment business with the Town shall be presented a written copy of this Policy. The qualified representative of the

business organization seeking to transact investment business with the Town shall execute a written instrument substantially to the effect that the qualified representative has:

- 1) Received and thoroughly reviewed this Policy, and
- 2) Acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the Town.

The Town shall not enter into an investment transaction with a business organization prior to receiving the written instrument described above. In addition, each Investment Advisor appointed by the Town shall execute the written instrument described above.

If the City Council has contracted with a Registered Investment Advisor for the management of its funds, the advisor shall be responsible for performing due diligence on and maintaining a list of broker/dealers with which it shall transact business on behalf of the Town. The advisor shall determine selection criteria. The advisor shall annually present a list of its authorized broker/dealers to the Town for review and likewise shall execute the aforementioned written instrument stating that the advisor has reviewed the Town's investment policy and has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the Town. The advisor shall obtain and document competitive bids and offers on all transactions and present these to the Town as part of its standard trade documentation.

XI.XII. SELECTION OF DEPOSITORIES

Certificates of Deposit (CD) may be placed with banking institutions doing business in the state of Texas which offer competitive and documented interest rates, both at or above interest rates available on government securities to similar maturity dates. All deposits exceeding the current FDIC deposit insurance amount shall be fully collateralized in order to be eligible as Town investments.

In addition to maintaining proper collateral, bank financial positions shall be considered to best assure prudent investment. Relevant criteria shall include capital ratios, liquidity, profitability and asset growth. Information sources for financial data may include www.bankrate.com and the FDIC website at www.fdic.gov. Because the financial condition of banks may change rapidly, primary focus shall be on maintaining adequate levels of collateral to support deposit amounts. If the Town utilizes the services of an investment advisor, the advisor shall assist in the evaluation of both the financial institution and assigned collateral.

XI.XIII. SAFEKEEPING AND CUSTODY

Investment securities purchased for the Town will be delivered by either book entry or physical delivery and shall be held in third-party safekeeping by a Federal Reserve Member financial institution designated as the Town's safekeeping and custodian bank. The Town may designate more than one (1) custodian bank. In no event shall the Town's custodial or safekeeping institution also be the counterparty (broker or dealer) to the purchase or sale of those securities. The Town shall execute a written Safekeeping Agreement with each bank prior to utilizing the custodian's safekeeping services. Only a state or national bank located within the State of Texas may be utilized as a custodian of securities pledged to secure certificates of deposit. The safekeeping agreement must provide that the safekeeping bank will immediately record the receipt of purchased or pledged securities in its books and promptly issue and deliver a signed safekeeping receipt showing the receipt and the identification of the security, as well as the Town's perfected interest.

The CFO shall maintain a list of designated custodian banks and a copy of the Safekeeping Agreement executed with each custodian bank.

The ~~Town~~-CFO must approve release of securities, in writing, prior to their removal from the custodial account. A telephonic facsimile of a written authorization shall be sufficient if the custodian orally confirms receipt of the transmission and an exact copy of the document is retained in the Town's files.

All securities shall be confirmed in the name of the Town and delivered to an approved custodial bank or carried at a Federal Reserve Bank in the name of the Town. The Custodian shall not otherwise deposit purchased or pledged securities. All book entry securities, owned by the Town, shall be evidenced by a safekeeping receipt issued to the Town and signed by the appropriate officer at the custodian bank stating that the securities are held in the Federal Reserve system in a CUSTOMER ACCOUNT naming the Town as the "customer". In addition, the custodian bank will, when requested, furnish a copy of the delivery advice received by the custodian bank from the Federal Reserve Bank.

The original safekeeping receipt for each transaction including purchased securities under a repurchase agreement and collateral securing deposits will be forwarded to the CFO or his designee and held in a secured file by the Town.

Securities delivered as part of a repurchase agreement may be held with an independent third-party safekeeping agent, provided that they are fully registered in the Town's name, segregated in account designated in the name of the Town and governed by a fully executed custodial agreement.

~~XIII~~.XIV. RECORDKEEPING AND REPORTING

A record shall be maintained of all bids and offerings for securities transactions in order to ensure that the Town receives competitive pricing. All transactions shall be documented by the person authorizing the transaction in a form that shows that person's name, the party instructed to execute the transaction, the date, a description of the transaction and a brief statement of the reason(s) for the transaction.

Each depository institution of the Town's funds and purchased securities shall maintain separate, accurate and complete records relating to all deposits of the Town's funds, the securities pledged to secure such deposits and all transactions relating to the pledged securities. Each approved custodian shall maintain separate, accurate and complete records relating to all securities received on behalf of the Town, whether pledged, purchased or subject to repurchase agreement, as well as all transactions related to such securities. In addition, each depository shall file all reports required by the Texas State Depository Board. Each depository and custodian shall agree to make all the records described in this paragraph available to the CFO's designee and the Town's auditors at any reasonable time.

At least once each quarter, the CFO or investment officers shall verify that all securities owned by the Town or pledged to the Town are held in safekeeping in the Town's custodial bank with proper documentation. At least annually the Town's investment program, including the records of custodians and depositories, shall be audited by independent certified public accountants selected by the City Council. This annual audit shall include a compliance audit of the management controls on investments and adherence to the Town's Investment Policy and strategies.

All broker/dealers, custodians, depositories, and investment advisors shall maintain complete records of all transactions that they conducted on behalf of the Town and shall make those records available for inspection by the CFO or other representatives designated by the City Council or City Manager.

All sales of securities for less than the book value of the security shall be approved by the CFO and reported to the City Council at the next regular meeting. Sales of securities for less than 98 percent of the book value of the securities must be approved by both the City Manager and the CFO.

All contracted Investment Advisors shall report at least monthly on the straight-line book value, the market value of investment holdings, and total earnings yield and such other information required by the CFO. Unrealized profits or losses in the Town's investment portfolio will be disclosed but will not be used in the calculation of income earned for the month. Contracted Investment Advisors shall provide monthly reports to the CFO no later than 15 business days following receipt of all depository bank statements, investment pool statements and money market fund statements as necessary to provide a full accounting of the Town's investment and cash position.

An investment report shall be prepared by the CFO within 60 days of the quarter end that:

- a) Describes in detail the investment position of the Town;
- b) States the reporting period beginning book and market values, additions or changes to the book and market values during the period and ending book and market values for the period of each pooled fund group;

- c) States the reporting period beginning book and market value and ending book and market value for each investment security by asset type and fund type;
- d) States the maturity date of each investment security;
- e) States the fund for which each investment security was purchased;
- f) States fully accrued interest for the reporting period;
- g) States the compliance of the investment portfolio with the Town's Investment Policy, Investment Strategy Statement and the Public Funds Investment Act;
- h) Summarizes quarterly transactions, including a detailed list of the gains and losses recognized; and
- i) Explains the total earnings yield during the previous quarter and compares the portfolio's performance to other benchmarks of performance.

This report will be presented to the City Council and signed by all of the Town's Investment Officers.

Market valuations of investments shall be provided by the Investment Advisor on a monthly basis. The Investment Advisor shall use independent market pricing sources including, but not limited to, Interactive Data Corporation (IDC) and Bloomberg, to monitor the market price of investments acquired with the Town's funds.

Within 60 days after the end of the Town's fiscal year the CFO shall prepare, sign and deliver to the City Manager and the City Council an annual report on the Town's investment program and investment activity which has also been signed by each officer and employee of the Town authorized to conduct any of the Town's investment activity. The annual report shall include full year earnings yield. Such annual report shall include an analysis of the compliance with this Policy as well as changes in applicable laws and regulations during the previous year and may include any other items of significance related to the investment program.

If the Town places funds in any investment other than registered investment pools or accounts offered by its depository bank, the above reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council.

~~XIV~~.XV. **ETHICS AND CONFLICTS OF INTEREST**

Officers and employees of the Town involved in the investment process shall refrain from personal business activity that involves any of the Town's approved custodians, depositories, broker/dealers, or investment advisors and shall refrain from investing in any security issue held by the Town. Employees and officers shall not utilize investment advice concerning specific securities or classes of securities obtained in the transaction of the Town's business for personal investment decisions, shall in all respects subordinate their personal investment transactions to those of the Town particularly with regard to the timing of purchases and sales and shall keep confidential all investment advice obtained on behalf of the Town, and all transactions contemplated and completed by the Town, except when disclosure is required by law.

All Investment Officers of the Town shall file with the Texas Ethics Commission and the City Council a statement disclosing any personal business relationship with business organization seeking to sell investments to the Town or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to the Town.

~~XV~~.XVI. **COLLATERAL REQUIREMENTS**

Any and all deposits, including both principal as well as any and all interest that is directly applied to the security, shall be collateralized at the minimum margin of 102%, less applicable FDIC insurance, over the life of the security. Deposits shall be collateralized by securities listed in items "a", "b" and "c" below, and the collateral shall be held by a third-party custodian bank approved by the Town.

- a. Direct obligations of the United States government; U.S. Treasury Bills, U.S. Treasury Notes, U.S. Treasury Bonds, and U.S. Treasury Strips (book entry U.S. Treasury securities whose coupon has been removed).
- b. Debt obligations issued by, including letter of credit, issued by, guaranteed by, or for which the credit of any of the following Federal Agencies and Instrumentalities is pledged for payment: Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), and Federal Home Loan Mortgage Corporation (FHLMC). Mortgage-backed securities are eligible as collateral, but principal-only and interest-only mortgage-backed securities and collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs) are expressly prohibited.
- c. Direct obligations of the State of Texas or its agencies or instrumentalities.

Consistent with the requirements of State law, the Town requires all bank and savings bank deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as Town depositories will be required to sign a Security Agreement with the Town and the Town's custodian. The agreement shall define the Town's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- a. The Agreement must be in writing;
- b. The Agreement has to be executed by the Depository and the Town contemporaneously with the acquisition of the asset;
- c. The Agreement must be approved by the Board of Directors or the loan committee of the Depository and a copy of the meeting minutes must be delivered to the Town; and
- d. The Agreement must be part of the Depository's "official record" continuously since its execution.

~~XVI.~~XVII. POLICY REVISIONS

The Investment Policy and Investment Strategy Statements will be reviewed at least annually by the CFO and the City Council and may be amended as conditions warrant by the City Council.