CITY OF HOUSTON INVESTMENT POLICY

1.0 PURPOSE

It is the policy of the City of Houston, Texas (the City) to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds. This policy sets forth the investment program of the City and the guidelines to be followed in achieving its objectives.

2.0 SCOPE

This policy is applicable to all investment activities and all funds of the City except employee pension funds, trusteed funds, or escrow funds - any of which is set up and administered separately and whose investment activities are conducted by third parties in accordance with instructions provided in ordinances, contracts, or escrow agreements.

2.1 Funds covered by this policy:

2.1.1 **General Fund** - used to account for all financial resources relating to general government operation except those required to be accounted for in other funds. The General Fund is the City's operating fund.

2.1.2 **Special Revenue Funds** - used to account for the proceeds of specific revenue sources which are restricted to expenditures for specific purposes.

2.1.3 **General Debt Service Funds** - used to account for the payment of interest and principal on all general long-term debt other than debt issued for and serviced by Enterprise Funds.

2.1.4 **Capital Project Funds** - used to account for all resources used for the acquisition and/or construction of capital facilities by the City, except those financed by Enterprise Funds.

2.1.5 **Enterprise Funds** - used to account for the acquisition, operation and maintenance of governmental facilities and services that are entirely or predominantly self-supporting through user charges.

2.1.6 **Trust and Agency Funds** - used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

2.1.7 Other funds maintained by the City, unless specifically exempted.

3.0 **OBJECTIVE**

Investment of the funds covered by this policy shall be governed by the following investment objectives, in order of priority:

3.1 **Safety:** Safety of principal is the primary objective of the investment program. Investment of the City's funds shall be undertaken in a manner that seeks to ensure the preservation of capital for the overall portfolio. To attain this objective, diversification is required in order that exposure to individual sectors of the market will not have an undue impact on the entire portfolio (see Section 17.0 "Diversification and Maximum Maturities").

3.2 **Liquidity:** The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated.

3.3 **Return on Investments:** The City's investment portfolio shall be designed with the objective of attaining the best feasible rate of return, throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. Return on investment, although important, is subordinate to the safety and liquidity objectives described above.

3.4 **Legal Requirements:** The investment yield on certain funds may be restricted from time to time due to state or federal laws regarding arbitrage earnings. The City's investment portfolio shall be designed with the objective of meeting all legal requirements including yield restrictions.

4.0 **INVESTMENT COMMITTEE**

The City Controller is charged by the City Charter with the supervision of the fiscal affairs of the City of Houston, which includes the investment of the City's funds. To assist the City Controller in this function, an Investment Committee has been established. The Committee is chaired by the City Controller with members including the Deputy Controller – Treasury Division, the Investment Manager, up to two other persons appointed by the Controller, up to three persons appointed by the Mayor, and up to three non-City employees recommended by the Investment Committee and appointed by the City Controller. The Committee will be supported, as needed, by the staff of the Internal Audit Division, Finance Division, and the Legal Department. The Committee meets quarterly, upon written notice, or as called for by the City Controller.

The major responsibilities of the Committee are to:

1) Monitor investment results and compliance with this policy
2) Recommend and monitor investment and accounting controls and procedures in accordance with this policy.
3) Recommend investment strategies The Committee may, in its consideration of investment strategies, impose maturity, diversification or liquidity limits, or other investment guidelines, in addition to those required by this policy. In setting investment strategy the Committee may impose guidelines that are stricter than is required by this policy, but in no case shall recommend investments or guidelines not allowed by this policy.
4) Review and approve revisions to this policy.
5) Review, revise, and adopt, at least annually a list of qualified broker/dealers that are authorized to engage in investment transactions with the City.

5.0 **DELEGATION OF AUTHORITY**

Authority to manage the City's investment program is derived from State statutes and applicable City ordinances and resolutions. Day to day management responsibility for the investment program is delegated by the City Controller, as the City's investment officer, to one or more investment managers, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to:

a) Safekeeping of investments
b) Collateral/Depository agreements
c) Wire Transfer agreements
d) Master Repurchase agreements
e) Securities Lending agreement

Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Manager. The Investment Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. The Investment Manager shall possess sufficient working knowledge of investment economics and the technical aspects of securities and markets, as well as the supervisory experience and judgment necessary to carry out the responsibilities outlined in this policy.

6.0 **INVESTMENT TRAINING**

The City Controller, as the investment officer, and all employees who have been delegated the authority to engage in investment transactions (investment officials) shall attend at least one training session relating to their responsibilities under this policy within 12 months after taking office or assuming duties; and attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 10 hours of investment instruction

from an independent source approved by the Investment Committee. Training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act.

7.0 **ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the investment process shall not engage in personal business activity that conflicts with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment officials and employees who are directly involved with the investment function shall disclose to the City Controller, or the Investment Committee, any financial interests in financial institutions that conduct business within this jurisdiction, and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity and shall subordinate their personal investment transactions to those of the City's, particularly with regard to the timing of purchases and sales.

Officers and employees involved in the investment process must file a disclosure statement with the Texas Ethics Commission and the City Secretary, acting on behalf of the governing body of the City of Houston, if:

a) The officer or employee has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or
b) The officer or employee is related within the second degree, by affinity or consanguinity, to an individual seeking to transact investment business with the City.
c) The officer or employee owns 10 percent or more of the voting stock or shares of the business or owns $5,000 or more of the fair market value of the business organization;
d) Funds received by the investment officer from the business organization exceed 10 percent of the officer's or employee gross income for the previous year; or
e) The officer or employee has acquired from the business organization during the previous year an investment with a book value of $2,500 or more for the personal account of the officer or employee.

8.0 **PRUDENCE**

Investments shall be made with judgment and care--under investment and economic 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.

8.1 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 under prevailing economic conditions at the moment of investment commitments. Investment officials, acting in accordance with written procedures and the investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price

changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

8.2 In determining whether an investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than a consideration as to the prudence of a single investment and, whether the investment decision was consistent with the written investment policy of the entity.

9.0 AUTHORIZED AND SUITABLE INVESTMENTS

Investments described below are authorized by the Public Funds Investment Act and considered suitable by the Investment Committee. Section 12 of this Policy describes those investments that are specifically prohibited by the Act. In addition, the purchase of specific investments may at times be restricted or prohibited by the City Controller, as the investment officer, due to current market conditions. Securities that were authorized investments at the time of purchase are not required to be liquidated. Except as provided above, City funds governed by this Policy may be invested in:

9.1 Obligations of the United States of America or its agencies and instrumentalities.

9.2 Direct obligations of the State of Texas or its agencies and instrumentalities.

9.3 Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.

9.4 Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. From time to time, the City may purchase its own general obligation or enterprise-issued obligations. In such cases, the City's intention is to hold its own obligations on a temporary basis and not to extinguish or discharge the obligations. In such cases, the City deems that no funds held in any interest and sinking fund set aside for a specific obligation will be used to purchase that obligation.

9.5 Certificates of Deposit that are issued by a City Council-approved state, national, or savings bank, domiciled in this state, and are:

a) Guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or
b) Secured by obligations that are described by 9.1 above, which have a market value of not less than the principal amount of the certificates, but excluding those securities prohibited by the Public Funds Investment Act and this policy; or

c) Secured in any other manner and amount provided by law for deposits of the City.

Certificates of Deposit may be transacted with approved public depositories provided the City has on file a signed Security Agreement that complies with the Public Funds Collateral Act and details:

a) Eligible collateral;
b) Collateralization ratios for the various types of eligible collateral;
c) Standards for collateral custody and control;
d) Collateral valuation; and
e) Conditions for agreement termination.

9.6 Fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state, and secured by a combination of cash and obligations described by 9.1 above, pledged to the City, held in the City's name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the City, and having a market value at the time the funds are disbursed of no less than the principal amount of the funds disbursed. Repurchase Agreements may be transacted with primary dealers and financial institutions provided the City has on file a signed Master Repurchase Agreement which details:

a) Acceptable types of collateral;
b) Standards for collateral custody and control;
c) Collateral valuation and initial margin, accrued interest, marking to market, and margin calls;
d) Method for transmitting security income;
e) Condition for agreement termination;
f) Acceptable methods for delivery of securities and collateral.

9.6.1 Reverse repurchase agreements are authorized investments if the term of the agreement does not exceed 90 days; and the maturity of the investment acquired with the proceeds of the reverse repurchase agreement does not exceed the expiration date of the reverse repurchase agreement. Reverse repurchase agreements may be transacted with primary dealers and financial institutions provided the City has on file a signed Master Repurchase Agreement.

9.7 Prime Domestic Bankers' Acceptances with stated maturities of 270 days or less from the date of issuance that will be, in accordance with stated terms, liquidated in full at maturity, that are eligible for collateral for borrowing from a Federal Reserve Bank, and that are accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1, or an equivalent rating by at least one nationally recognized credit rating agency.

9.8 Commercial Paper with a stated maturity of 270 days or less from the date of its issuance that is rated not less than A-1 or P-1 or an equivalent rating by at least:

a) Two nationally recognized credit rating agencies; or
b) One nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

The maximum exposure to any one issuer other than the City is limited to the lesser of 3% of the market value of the investment pool at the time of purchase or 10% of the issuer's commercial paper program, provided, however, that at no time will the City hold more than 1.5% of the market value of the investment pool in Commercial Paper from a single issuer with a maturity date beyond 90 days. From time to time, the City may purchase its own general obligation or enterprise-issued commercial paper notes up to 10% of the value of the pool. In such cases, the City's intention is to hold its own notes on a temporary basis and not to extinguish or discharge the notes. In such cases, the City deems that no funds held in any interest and sinking fund set aside for a specific note will be used to purchase that note.

Prior to investing any funds, the Investment Manager will evaluate programs. Individual issuers will be monitored as to credit quality and events that may have an effect on the credit quality. Adverse developments will cause the issuer to be excluded from consideration and existing positions to be liquidated as practical.

9.9 SEC registered and regulated no-load money market mutual funds with a dollar-weighted average stated maturity of 60 days or less, whose investment objectives include the maintenance of a stable net asset value of $1 for each share, and provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.) The City's investment in any one money market mutual fund shall not exceed 10% of the total assets of the money market mutual fund. The City has a sweep relationship with the main depository bank that sweeps the overnight funds into a money market mutual fund. This relationship is subject to the same limits as any other mutual fund relationship, as previously stated.

9.10 SEC registered and regulated bonds issued as the direct obligations of the State of Israel.

9.11 Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, subject to the provisions of Section 12.0.

9.12 Investment Pools that function as a money market mutual fund. To be eligible to receive and invest funds on behalf of the City of Houston, the investment pool functioning as a money market mutual fund must mark its portfolio to market daily, to the extent reasonably possible stabilize at a $1 net asset value, must have an advisory board, must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service, and must have a weighted average maturity of no longer than 60 days. The City's investment in any one investment pool that functions as a money market fund shall not exceed 10% of total assets of that investment pool.

10.0 SECURITIES LENDING

The City may enter into a securities lending program with an authorized broker/dealer or financial institution in order to enhance investment return. The City may administer a securities lending program directly or, if conditions warrant, use an outside agent. Should an agent be used, one will be recommended by the Investment Committee using appropriate criteria. Securities lending will only be transacted with a written agreement, approved by the City Attorney, which details:

a) Acceptable types of collateral;
b) Standards for collateral custody and control;
c) Collateral valuation and initial margin, accrued interest, marking to market, and margin calls;
d) Method for transmitting security income; and
e) Acceptable methods for delivery of securities and collateral.

11.0 SECURITIES SWAPS

The City may take advantage of security swap opportunities to improve portfolio yield. A swap that improves portfolio yield may be selected, even if the transaction results in a current accounting loss, as long as the break-even date occurs within the horizon of the swap.

12.0 PROHIBITED INVESTMENTS

Under the Public Funds Investment Act, the following are not authorized investments, regardless of any other law to the contrary:

12.1 Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal. (Commonly referred to as IOs)

12.2 Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest. (Commonly referred to as POs)

12.3 Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.

12.4 Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

13.0 EFFECT OF LOSS OF REQUIRED RATING

An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. The City shall take all prudent measures that are consistent with this investment policy to liquidate an investment that does not have the minimum rating. The City shall also monitor the credit ratings on securities that require minimum ratings. This may be accomplished through staff research, or with the assistance of broker dealers, banks or safekeeping agents.

14.0 COLLATERALIZATION

All deposits of City funds, repurchase agreements and securities lending agreements, including any accrued interest, will be fully collateralized by securities permitted under this policy. Collateral securities shall have a market value of not less than 102% of the amount of the deposits, secured thereby, adjusted by the insurance coverage provided those deposits by the Federal Deposit Insurance Corporation. Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping or trust receipt) must be supplied to the City and retained. Determination of market value on collateral shall be made on a weekly basis. All collateral relationships will comply with the terms of the Public Funds Collateral Act.

15.0 SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase and securities lending agreements but with the exception of money market transactions, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian, designated by the Controller, and held in the City's name as evidenced by safekeeping or trust receipts of the bank with which the securities are deposited. The custodian will provide listings of the securities that are held in the name of the City on a periodic basis.

16.0 INVESTMENT STRATEGY

The City's investment program uses a "pooled" investment strategy where all monies of all funds covered by this policy are combined and invested in a portfolio that is stratified by various levels of maturities to meet the requirements of all working capital, construction and debt service funds. In some cases, one or more separate pools of funds may be established to meet specific requirements or yield restrictions for certain funds. By combining the net cash flows of all funds, the pooled investment strategy maximizes return on investment without sacrificing safety and liquidity because economies of scale can be taken advantage of to obtain better prices and reduce transaction and administrative costs.

16.1 **General Pool Strategy**: The General Pool consists of those working capital, construction and debt service funds which are not subject to yield restriction under IRS arbitrage regulations. The City combines a variation on the traditional laddered maturity strategy that matches assets and liabilities, with more active management strategies, such as yield curve analysis, to achieve the best feasible rate of return while fulfilling the investment objectives of this policy.

The core of the General Pool strategy is a ladder in which investment maturities are matched to monthly cash requirements for the next 12-18 months. When investments mature, the proceeds are used to pay bills or re-invested. New cash from bond proceeds, taxes, or other revenues can be invested at the long end of the ladder to take advantage of higher yields or to fill other cash requirements. The ladder may be extended for longer-term funds to take advantage of matching long-term assets against long-term liabilities. At times, some investments might be placed shorter or longer, based on the interest rate outlook.

In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the General Pool shall not exceed 2.5 years.

All investments in this pool must comply with the objectives and restrictions set forth in this policy.

16.2 **Tax-Exempt Pool Strategy:** The Tax-Exempt Pool consists of those funds which are subject to yield restriction and arbitrage regulation under the 1986 Tax Reform Act. This pool was created to:

a) Demonstrate compliance with IRS regulations regarding arbitrage;
b) Maximize the amount of interest earned and retained by the City from the investment of funds subject to the regulations;
c) Minimize the amount of the rebate liability; and
d) Minimize the cost of administering the arbitrage tracking program.

Due to the nature of municipal bonds (more risk, less liquidity), the strategy for the Tax-Exempt Pool is, generally, to purchase at least AA rated, insured or pre-refunded municipals with short maturities (generally less than 3 years) if the yield is reasonably higher than that of tax-exempt money market mutual funds. Otherwise, funds in this pool will be invested in one or more tax-exempt money market mutual funds that meet the requirements of IRS arbitrage regulations and the liquidity needs of this pool.

In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the average dollar-weighted stated maturity of the Tax-Exempt Pool shall not exceed 1.5 years.

All investments in this pool must comply with the objectives and restrictions set forth in this policy.

16.3 **Housing Department Pool Strategy:** This pool was created to comply with the U.S. Department of Housing and Urban Development (HUD) which requires separate custodial accounts for funds received under federal HUD programs. The strategy for this portfolio is to purchase U. S. Treasury Bills with maturities less than 6 months; targeted to meet the cash needs of the City of Houston Housing and Community Development Department (HCDD)'s HUD program cash outflows. A deposit account with an approved depository institution (see section 20.2) will contain all funds pending disbursement as well as a minimal reserve, generally under $20,000. All securities are available for sale to meet liquidity needs.

All investments in this pool must comply with the objectives and restrictions set forth in this policy.

16.4 **All Other Special Purpose Pools:** As deemed appropriate, the City Controller has created pools for special purposes, including capital projects, special revenue funds and debt service reserves. Each special purpose is limited in duration and has estimatable cash outflows, although the outflows may change over time, especially in the case of capital projects. In all cases, the City uses a traditional laddered maturity strategy that matches assets with projected cash outflows. The City may, on occasion, utilize more active management strategies, such as yield curve analysis, to achieve better rates of return while fulfilling the investment objectives of this policy and the purposes for which the pools were created.

The core of the strategy for each special purpose pool is a maturity ladder in which investment maturities are matched to periodic cash requirements for the expected life of the pool. As investments mature, the proceeds are disbursed according to the needs of the project or re-invested. New monies added to the pool will be invested to fill new cash requirements. At times, some investments might be placed shorter or longer, based on the interest rate outlook. As cash flow projections are revised, the portfolio ladder may be adjusted to reflect these changes, either through maturities or sales of securities.

The weighted average stated maturity of each special purpose pool shall not exceed the weighted average cash outflows for the project. This will be considered to have been accomplished by laddering the cash flows to the planned outflows.

All investments in this pool must comply with the objectives and restrictions set forth in this policy.

17.0 DIVERSIFICATION AND MAXIMUM MATURITIES

In consultation with the Investment Committee, the City Controller will set explicit asset mix and diversification constraints within which the Investment Manager is to manage the City's portfolios. The asset mix is stated in terms of a maximum or minimum commitment to each asset category

rather than ranges or targets so as to allow the Investment Manager flexibility in implementing investment decisions within the framework of this policy. The Investment Manager may set the commitments anywhere from zero (or the minimum), to the maximum level, based upon the Manager's outlook for the market. All securities must conform to the rules on Authorized and Suitable Investments in Section 9.0 of this policy.

Notwithstanding the limits in this section, for investment pools initially created for funds with limited investment horizons, especially construction projects and other capital project funds, the maximum commitments to each asset category will not apply when the pool has declined to 10% of the original funds deposited to the pool. At that time, the pool is permitted to invest up to a maximum of 100% of the remaining proceeds in money market mutual funds, US Treasuries, or US Agencies and Instrumentalities; and up to a maximum of 50% of the remaining proceeds in commercial paper with a stated maturity of one month or less, or any combination thereof. All other restrictions within this policy are still applicable, including, but not limited to, maturity, credit ratings, and any other specific concentration limitations as discussed in Section 9.

	Percentage of Total Pool		
Instrument	**Minimum**	**Maximum**	**Maximum Maturity** (a)
General Pool and All Other Pools			
Money Market Mutual Funds and Local Government Pools	0%	25%	N/A
Repurchase Agreements	0%	15%	6 months
Reverse Repurchase Agreements	0%	15%	90 days
Securities Lending Agreements	0%	50%	90 days
Certificates of Deposit	0%	15%	2 years
Commercial Paper and Bank Acceptances	0%	15%	270 days (b)
Municipal Notes and Bonds	0%	20%	5 years
U.S. Agencies and Instrumentalities	0%	85% (c)	5 years
Mortgage Pass-through Securities and Collateralized Mortgage Obligations	0%	20% (d)	15 years (d)
U.S. Treasuries	15%	100%	5 years
Callable Agency Securities	0%	25%	5 years
Tax-Exempt Pool			
Tax-Exempt Money Market Mutual Funds	0%	100%	N/A
Tax-Exempt Municipal Notes and Bonds	0%	100%	5 years
Trust and Agency Pools			
U.S. Treasury and Agency Securities		100%	As permitted under trust regulations

(a) Investments with maturities greater than the maximum maturity must be specifically approved by the City Controller or the Investment Committee.

(b) The maximum exposure to any one CP issuer, except for the City, is limited to the lesser of 3% of a pool's market value or 10% of the issuer's commercial paper program, of which 1.5% of a pool's market value can have a maturity beyond 90 days.

(c) The maximum exposure to any one Agency issuer is 35% of the investment pool.

(d) The maximum maturity of CMOs is limited to 10 years under this policy. CMOs are further limited to 5% of the total investment portfolio.

18.0 SALE OF SECURITIES

Securities shall not be sold prior to maturity except under the following circumstances:

a) A decline in the credit quality of the issuer;
b) A security swap designed to improve the quality, yield, or target duration in the portfolio under the conditions of section 11.0 of this policy; or
c) Liquidity needs require that a security be sold; or
d) Diversification limits in section 17.0 of this policy require the reduced concentration in a particular sector.

19.0 COMPETITIVE BIDDING

It is the policy of the City to require competitive bidding for all individual security purchases and sales except for:

1) Transactions with money market mutual funds (which are deemed to be made at prevailing market rates);
2) Government securities purchased at issue through an approved broker/dealer or financial institution; and
3) Commercial paper and bankers' acceptances purchased either directly from the issuer or on the secondary market (verification of competitive market levels must be documented).

At least three broker/dealers must be contacted in all other transactions involving individual securities. For those situations where it may be impractical or unreasonable to receive three bids due to secondary market availability or broker inventory limitations, documentation of a competitive market of comparable securities or an explanation of the specific circumstance must be included with the transaction quote/bid sheet. Competitive bidding for security swaps is required.

20.0 AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS

20.1 Broker/Dealers - The City Controller will maintain a list of approved broker/dealers and financial institutions that have been approved by the Investment Committee and are authorized to provide investment services in the State of Texas. Investments shall only be made with those firms who qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule) and who have:

a) Provided audited financial statements;
b) Completed the City's Broker/Dealer Questionnaire;
c) Acknowledged, in writing, that the policy has been thoroughly reviewed by qualified representatives dealing directly with the City's account and that the organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City and the organization that are not authorized by the City's Investment Policy, except to the extent that this authorization depends on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards; and
d) Met the qualifications and standards recommended and approved by the Investment Committee.

An annual review of the financial condition and registrations of authorized broker/dealers and financial institutions providing investment services will be conducted by the City Controller. In addition, the quantity of transactions conducted with each approved broker/dealer will be reviewed at least semi-annually for the prior six-month period. Broker/dealers that have less than three transactions shall be sent a letter informing them of their status, and be given thirty days to respond in writing. The results of this review and the related recommendations shall be submitted to the Investment Committee. The Investment Committee shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

20.2 Depositories - The City Controller will maintain a list of qualified public depositories that are authorized to hold City funds. Deposits will only be placed with those institutions that have:

a) Provided audited financial statements;
b) Completed the City's Authorized Depository application;
c) Been designated by City Council as an authorized depository;
d) Signed the City's Security Agreement; and
e) Provided collateral as set forth in Sections 9.5 and 14.0 of this policy.

An annual review of the financial condition of each depository holding City funds will be conducted by the City Controller.

A current audited financial statement is required to be on file for each broker/dealer and financial institution that transacts any investment activities with the City.

21.0 **INTERNAL CONTROL**

In conjunction with its annual financial audit, the City shall cause to be performed a compliance audit of management controls on investments, adherence to the City's established investment policies and the quarterly reports prepared by the investment manager. The results of the review shall be reported to the Investment Committee.

22.0 **REPORTING**

22.1 Investment performance is continually monitored and evaluated by the Investment Manager. As requested by the City Controller, but not less than quarterly, the Investment Manager will prepare and submit to the Investment Committee, investment reports which demonstrate conformance to the requirements and objectives of this policy.

In addition, the Investment Manager will prepare and submit to the Mayor and City Council, not less than quarterly, a written report of investment transactions for all funds covered by this policy for the preceding reporting period. The report must:

a) Describe in detail the investment position of the City on the date of the report;
b) Be prepared jointly by all investment officers of the entity;
c) Be signed by each investment officer of the entity;
d) Contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pool fund group that states the beginning market value during the period, additions and changes to the market value during the period, ending market value for the period, and fully accrued interest for the reporting period;
e) State the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;
f) State the maturity date of each separately invested asset that has a maturity date;
g) State the account or fund or pooled group fund for which each individual investment was acquired; and
h) State the compliance of the investment portfolio as it relates to the Public Funds Investment Act of the State of Texas and the investment strategy expressed in this policy.

22.2 The City will utilize the following 3 tier approach for valuing securities:

a) Interactive Data Corporation (IDC) will be the primary source for valuing securities. IDC receives input from multiple dealers when generating a valuation.
b) As a backup for securities that are not priced using IDC, Bloomberg, L.P. will provide a secondary source for values.
c) Investment Committee approved primary government security dealers will offer a final backup for those securities not valued by the previous two sources.

23.0 **PERFORMANCE STANDARDS**

Subject to the investment objectives set forth in section 3.0 of this policy, the investment portfolios shall be designed with the objective of attaining the best feasible rate of return, throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs of the portfolio. The overriding objectives of portfolio management are to preserve the capital invested and to meet the liquidity and debt service needs of the City. These objectives supercede the importance of achieving any performance Benchmarks set by this policy.

23.1 **Market Yield (Benchmark):** The City's selection of portfolio management is active as opposed to passive. Active management uses investment strategies designed to increase portfolio value by exceeding average rates of return normally achieved using passive management. The basis used by the City Controller to determine whether market returns are being achieved shall be a benchmark recommended by the Investment Committee. The Investment Committee may

revise this benchmark if liquidity and debt service needs alter the desired composition of the portfolio.

24.0 **INVESTMENT POLICY ADOPTION**

The City's investment policy shall be adopted by resolution of City Council. The policy shall be reviewed at least annually by the Investment Committee and the City Council, and any modifications made to such policy must be approved by City Council. The City Council shall evidence by resolution that it has conducted such review. Any modifications made to such policy must be approved by City Council and reflected in such resolution.