Public Funds Investment Act

Chapter 2256 | Investment Policy

Tony D. Sekaly
Regional Director, Marketing
Texas CLASS | Public Trust Advisors, LLC
Objectives of this Session

Understand the General Requirements of PFIA

Investment Policies - Requirements

- Written policy
- Written investment strategy
- Investment officials
- Investment training
- Internal management reports
- Disclosure of personal business interest
- Authorized investments
- Mark-to-market
- Safe keeping and custody
General Requirements of PFIA
Investment Policy (Sec. 2256.005)

- Written policy required

- Prioritize
  - Safety of principal
  - Liquidity
  - Yield

- Must address the following
  - Authorized investments
  - Maturity/WAM/average life limits
  - Methods for monitoring market valuations
  - Requirement of DVP settlement
STANDARD OF CARE. (a) 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. Investment of funds shall be governed by the following investment objectives, in order of priority:

1) preservation and safety of principal;

2) liquidity; and

3) yield.
General Requirements of PFIA
Investment Strategies (Sec. 2256.005 (d))

• Separate written investment strategy may be adopted
• Must be reviewed at least annually
• Investment officer(s) can be designated – various restrictions placed on such person(s)
• Priority of objectives
  • Suitability of investments
  • Preservation and safety of principal
  • Liquidity
    • Marketability of the investment
• Diversification of the portfolio
• Yield
Investment Diversification: Examples

• Up to 90% par of the portfolio may be invested in direct obligations of the U.S. or its agencies/instrumentalities.

• No more than 50% par of the portfolio may be invested in certificates of deposit.

• No more than 80% par may be invested in investment pools.

• No more than 55% par of the portfolio may be invested any one institution excluding bond proceeds.

• Additionally, these investments shall not exceed 10% of the capitalization of the financial institution.
In the PFIA Act, there are no minimum or maximum maturities.

In the Investment Policy, the length of any investment must be addressed:
  • Twelve months, two years, three years, or ten years.

The WAM (weighted average maturity) must also be stated.
  • WAM:
    o 1 year
    o 1.5 year
    o 2 years
Diversification of the Portfolio: Investments

Govt Bonds – U.S. Treasuries & Agencies

Certificates of Deposits or CDs (Direct or Brokered)

Munis (Tax Free or Taxable)

Commercial Paper (CP)

Local Governmental Investment Pools (LGIP)
1. Obligations, including letters of credit, of the United States or its agencies and instrumentalities

2. Direct obligations of this state of its agencies and instrumentalities

3. Collateralized mortgage obligations (CMO) directly issued by a Federal agency or instrumentality of the U.S.

4. Other obligations where by the principal and interest payments are backed by the full faith & credit of this state or the U.S. government or their respective agencies and instrumentalities including obligations fully guaranteed by the FDIC.

5. Obligations of other state, agencies, counties, cities, and other political subdivisions rated “A” or better by a nationally recognized rating firm.

6. Bonds issued, assumed, or guaranteed by the state of Israel.
**Authorized Investments:** Agency Bonds

Non-amortizing – generally pay interest semi-annually

GSE Issuers (Established)

- Federal Home Loan Banks (1932)
- Fannie Mae (1938/68)
- Freddie Mac (1970/88)
- Farm Credit (1916)
- Farmer Mac (1987)

Structures

- Discount notes
- Fixed maturity - bullets
- Callable
**Federal Government Sponsored Entities (GSEs)**

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<th>Description</th>
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<td>Federal National Mortgage Association (Fannie Mae – FNMA)</td>
<td>Support the nation’s housing finance system through the secondary mortgage market</td>
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<td>Federal Home Loan Mortgage Corporation (Freddie Mac – FHLMC)</td>
<td>Support the nation’s housing finance system through the secondary mortgage market</td>
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<tr>
<td>Federal Home Loan Bank (FHLB)</td>
<td>Provides financing to its member depositories to fund housing</td>
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<tr>
<td>Federal Farm Credit Bank Funding Corp. (FFCB)</td>
<td>Provides financing to the Farm Credit System, a leading provider of loans and leases to U.S. agriculture and rural America</td>
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**Authorized Investments:** Agency Bonds
Authorized Investments:

Collateralized Mortgage Obligations (CMOs)

- Only bonds with stated maturity of <10 years are authorized under PFIA
- Cannot be interest only (IO)
- Principal only (PO)
- Inverse floating structures
Municipal Bonds

- Issued by political subdivisions
- Maturities typically out to 30 years
- Generally provide long call protection without a large “cost”
- Tax-free & taxable issues available
- Taxable munis currently in favor with public funds due to higher nominal yields
- State of Texas – does not have to be rated
  - If out of state, must be rated ‘A’ or better
Issuing institution has main office or a branch office in Texas and is:

- Guaranteed or insured by FDIC or NCUSIF or successors
- Collateralized by PFIA authorized investments
- Secured in any other manner and amount provided by law

Funds may also be invested in CDs through CD brokerage services like CDARS provided that the broker has its main office or a branch in Texas and is selected from a list adopted by the investing entity

- Full amount of the principal and accrued interest of each CD must be insured by the U.S. or an instrumentality of the U.S.
Other Authorized Investments:

Repurchase Agreements | Basics & Requirements

- Also known as repos
- Short-term borrowing arrangements for broker/dealer and other entities that hold positions in government securities
- Must be fully collateralized by a combination of cash and PFIA authorized investments
- Must have a defined termination date
- Positions must be pledged to the entity (county), held in the entity’s name, and deposited at the time the investment is made
- Requires third party safekeeping arrangement
- Counterparty must be a primary dealer or financial institution doing business in this state
- Other restrictions defined in 2256.011
Other Authorized Investments:

Securities Lending Program | Basics & Requirements

• The act of loaning a security to another investor or dealer

• Authorized under 2256.0115(a)

• Value of securities loaned under the program must be not less than 100% collateralized including accrued income

• Must allow for termination of the loan at any time

• Must be secured by pledged securities authorized under PFIA, pledged irrevocable letters of credit issued by a bank with restrictions or cash

• Loan must be placed through a primary government securities dealer or a financial institution doing business in Texas

• Must have a term of one year or less
Other Authorized Investments:
Bankers’ Acceptances | Basics & Requirements

- Short-term debt instruments issued by a company that is guaranteed by a commercial bank
- Similar to T-bills – trade at a discount to par
- Must have a stated maturity of 270 days or fewer from date of issuance
- Liquidated in full at maturity
- Eligible for collateral for borrowing from Federal Reserve Bank
- Accepted by a bank that is rated not less than A-1 or P-1 or an equivalent rating
Other Authorized Investments:

Commercial Paper

- Unsecured, short-term debt instrument issued by a corporation typically for the financing of short term liabilities (accounts receivable, inventory, etc.)

- Must have a stated final maturity of 270 days or fewer

- Issuer must be rated not less than A-1 or P-1 or an equivalent rating by at least:
  A. Two nationally recognized statistical rating organizations
  B. One nationally recognized credit rating organization and is fully secured by an irrevocable letter of credit
Other Authorized Investments:
Mutual Funds | Basics & Requirements

• Investment made up of a pool of money invested in a basket of securities

• Shares are redeemed at a Net Asset Value (NAV)

• Offer diversification and professional management for a fee

• SEC registered no-load money market mutual funds
  o Must provide a prospectus and other information required by Federal law
  o Must have a dollar-weighted average stated maturity of 90 days or fewer
  o Must seek the objective of maintaining a stable NAV of $1/share
  o Investing entity (county) must not own more than 10% of the fund’s total assets
Other Authorized Investments:

Mutual Funds | Basics & Requirements

SEC registered no-load mutual fund

- WAM less than two years
- Must be invested exclusively in obligations that are PFIA approved
- Must be continuously rated no less than ‘AAA’ or equivalent by a nationally recognized statistical ratings organization
- Must conform to requirements in section 2256.016(b)

Not Authorized

- Entity must not invest in the aggregate more than 15% of its monthly average fund balance excluding bond proceeds, reserves, and other funds held for debt services
- Must not own more than 10% of the mutual fund’s total assets
Other Authorized Investments:

Guaranteed Investment Contracts | Basics & Requirements

- Insurance contracts that guarantee repayment of principal and a stated return
  - May be fixed or floating

- Must have a defined termination date

- Secured by obligations authorized under PFIA

- Third party safekeeping

- Bond proceeds, other than reserve and funds maintained for debt service, may not be invested with a term longer than five years
To be eligible:

- Entity (county) must specifically authorize GIC as an eligible investment
- Must receive bids from at least three separate providers
- Must purchase the highest yielding GIC bid received
- Price must take into account expected drawdown schedule
- Must have reasonable administration fees
State or local pool offered to public entities:

- Texas CLASS
- TexPool
- Tex Star
- Logic, etc.

Government pools vs “prime” pools
Pool manager must furnish the following:

- Types of investments in pool
- Maximum dollar-weighted maturity allowed
- Maximum state maturity allowed
- Objectives of the pool
- Size of the pool
- Names of the members on the advisory board
- Custodian bank & independent auditor
- Existence of insurance or guarantees held as a source of secondary payment
- Requirements for the deposit and withdrawal of funds
- Historical performance of the pool
  - Yields
  - WAM
  - Expense ratios
Other Authorized Investments:

LGIPs | Basics & Requirements

- To maintain eligibility, pool must furnish:
  - Transaction confirms
  - Monthly report that contains:
    - Breakdown of securities held
    - WAM of assets
    - % of pool’s portfolio invested in assets with maturities longer than one year
    - Book value vs market value
    - Size of pool and number of participants
    - Custodian bank that is safekeeping the assets
    - Listing of daily transaction activity
    - Yield and expense ratios
    - Names of portfolio managers
    - Any changes to addendum to the offering circular
Advisory Board must be composed:

1. Equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool for a public funds investment pool created under Chapter 791 and managed by a state agency; or,

2. Of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool for other investment pools.

Must be rated no lower than ‘AAA,’ ‘AAAm,’ or equivalent by at least one nationally recognized statistical rating organization.

If pool offers breakpoints, they must provide information on all levels of return based on breakpoints or state the lowest possible level of return based on breakpoints in advertising investment rates.
Methods for Monitoring Market Valuations

- Bank
- Brokers
- Safekeeping account
Safe Keeping and Custody

- All security transactions entered into by the public fund shall be conducted on delivery-versus-payment (DVP).

- Funds shall not be wired or paid until verification has been made that the security was received by safekeeping institution.

- This must be stated in the investment policy.
General Requirements of PFIA

Compliance Audit & Investment Training

Compliance audit of management controls

- Once every two years
- Internal or private auditor
- Ensure compliance to established investment policies

Investment training – local governments

- Required if investing public funds in anything other than CDs
- Treasurer, CFO (if treasurer is not CFO), & Investment Officer
- Investment training must be from an independent and approved source
Additional Items that can be in the Investment Policy

- Definitions or glossary
- List of Broker/ Dealers
- List of Investment Pools
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Contact Information

Tony Sekaly
Regional Director, Marketing
Texas CLASS/Public Trust Advisors, LLC

tony.sekaly@texasclass.com
(713) 502-8575
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Performance results are shown net of all fees and expenses and reflect the reinvestment of dividends and other earnings. Many factors affect performance including changes in market conditions and interest rates and in response to other economic, political, or financial developments. Investment involves risk including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. *Past performance is not an indicator of future performance or results. Any financial and/or investment decision may incur losses.*

The investment advisor providing these services is Public Trust Advisors, LLC, an investment adviser registered with the U.S. Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940, as amended. Registration with the SEC does not imply a certain level of skill or training. Public Trust is required to maintain a written disclosure brochure of our background and business experience. If you would like to receive a copy of our current disclosure brochure, privacy policy, or code of ethics, please contact us.

Benchmarks are provided for illustrative purposes only. Comparisons to benchmarks have limitations because benchmarks have volatility and other material characteristics that may differ from the portfolio. Performance results for benchmarks do not reflect payment of investment management/incentive fees and other fund expenses. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison.
LEE COUNTY, TEXAS

INVESTMENT POLICY
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I. INVESTMENT AUTHORITY AND SCOPE OF POLICY

General Statement
This policy serves to satisfy the statutory requirements of Local Government Code 116.112 and Government Code Chapter 2256 to define and adopt a formal investment policy. See attachment A: Resolution to Adopt Investment Policy. This policy will be reviewed and adopted by resolution at least annually according to Section 2256.005(e).

Funds Included
This investment policy applies to all financial assets of all funds of the County of Lee, at the present time and any funds to be created in the future and any other funds held in custody by the County Treasurer, unless expressly prohibited by law or unless it is in contravention of any depository contract between Lee County and the depository bank.

County’s Investment Officer
In accordance with Sec. 116.112(a), Local Government Code and/or Chapter 2256, Sec. 2256.005(f) and (g), the County Investment Officer, under the direction of the Lee County Commissioners Court, may invest County funds that are not immediately required to pay obligations of Lee County. The Commissioners Court shall designate by resolution one or more officers or employees as investment officer(s). (See attached resolution.)
If the investment officer has a personal business relationship with an entity—or is related within the second degree by affinity or consanguinity to an individual—seeking to sell an investment to the county, the investment officer must file a statement disclosing that personal business interest—or relationship—with the Texas Ethics Commission and the Commissioners Court in accordance with Government Code 2256.005(l).
II. INVESTMENT OBJECTIVES

General Statement
Funds of Lee County will be invested in accordance with federal and state laws, this investment policy and written administrative procedures. Lee County will invest according to investment strategies for each fund as they are adopted by Commissioners Court resolution in accordance with Sec.2256.005(d).

Safety and Maintenance of Adequate Liquidity
Lee County is concerned about the return of its principal; therefore, safety of principal is a primary objective in any investment transaction.

The County’s investment portfolio must be structured in conformance with an asset/liability management plan which provides for liquidity necessary to pay obligations as they become due.

Diversification
It will be the policy of Lee County to diversify its portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments. Investments of Lee County shall always be selected that provide for stability of income and reasonable liquidity.

Yield
It will be the objective of Lee County to earn the maximum rate of return allowed on its investments within the policies imposed by its safety and liquidity objectives, investment strategies for each fund, and state and federal law governing investment of public funds.

Maturity
Portfolio maturities will be structured to meet the obligation of Lee County first and then to achieve the highest return of interest. When Lee County has funds that will not be needed to meet current-year obligations, maturity restraints will be imposed based upon the investment strategy of each fund. The maximum allowable stated maturity of any individual investment owned by Lee County is one year.

Quality and Capability of Investment Management
It is Lee County’s policy to provide training required by the Public Funds Act, Sec.2256.008 and periodic training in investments for the County Investment Officer through courses and seminars offered by professional organizations and associations in order to insure the quality, capability and competency of the County Investment Officer in making investment decisions.
**Investment Strategies**

In accordance with the Public Funds Investment Act, Section 2256.005(d), a separate written investment strategy will be developed for each of the funds under Lee County’s control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities of importance:

1. Understanding of the suitability of the investment to the financial requirements of Lee County;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability of the investment if the need arises to liquidate the investment before maturity;
5. Diversification of the investment portfolio;
6. Yield; and
7. Maturity restrictions.

Attachment B includes investment strategies for all funds. In accordance with the Public Funds Investment Act, Section 2256.005(e), investment strategies will be reviewed and adopted by resolution at least annually.
III. INVESTMENT TYPES

Authorized

The Lee County Investment Officer shall use any or all of the following authorized investment instruments consistent with governing law (Government Code 2256):

A. Except as provided by Government Code 2256.009(b), the following are authorized investments:
   (1) obligations of the United States or its agencies and instrumentalities;
   (2) direct obligations of this state or its agencies and instrumentalities;
   (3) 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, and
   (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities.

B. Certificates of deposit if issued by a state or national bank domiciled in this state or a savings and loan association domiciled in this state and is:
   (1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor;
   (2) secured by obligations that are described by Section 2256.009(a) of the Public Funds Investment Act, including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b) of the Public Funds Investment Act; or
   (3) secured in any other manner and amount provided by law for deposits of the county.

C. Eligible investment pools (as discussed in the Public Funds Investment Act, Sec. 2256.016-2256.019) if the Commissioners Court authorizes investment in the particular pool. An investment pool shall invest the funds it receives from Lee County in authorized investments permitted by the Public Funds Investment Act. Lee County, by contract, may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

Current authorized investment institutions are:

TEXPOOL (Added Feb. 9, 1998)
FUNDS MANAGEMENT GROUP INC. (Added Jan. 24, 2000)
MUNICIPAL INVESTORS SERVICE (MBIA) (Added Jan. 24, 2000)
COUNTY DEPOSITORY (Added March 28, 2005)
TEXSTAR (Added May 14, 2007)
Prohibited

The Lee County Investment Officer has no authority to use any of the following directly purchased investment instruments which are allowed by the Public Funds Investment Act but not deemed appropriate for Lee County as directly purchased investments.

1. obligations of other states, counties, cities, and other political subdivisions of any state regardless of its rating;
2. repurchase agreements of any type
3. bankers’ acceptance
4. commercial paper
5. no-load mutual funds

The Lee County Investment Officer has no authority to use any of the following investment instruments which are strictly prohibited by law:

1. obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
2. obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
3. collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
4. collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Authorized depository pledged securities

The institution chosen as Lee County’s depository bank may use any securities that are authorized by the Public Funds Investment Act as pledge against Lee County funds. In the event of a bank failure, the Lee County Investment Officer should use discretion in the sale of these securities in order to preserve the principal. The Investment Officer will not be in violation of the provisions of authorized securities (as noted in section III), if they are obtained in this manner.
IV. INVESTMENT RESPONSIBILITY AND CONTROL

Investment Institutions Defined
The Lee County Investment Officer shall invest County funds with any or all of the following institutions or groups consistent with federal and state law and the current Depository Bank contract:
1. Depository bank;
2. Other state or national banks domiciled in Texas that are insured by FDIC;
3. Public funds investment pools that have been approved by Commissioners Court;

Qualifications for Approval of Broker/Dealers
In accordance with 2256.005(k), a written copy of this investment policy shall be presented to any person seeking to sell to the county an authorized investment. The registered principal of the business organization seeking to sell an authorized investment shall execute a written instrument substantially to the effect that the registered principal has:
   (1) received and thoroughly reviewed the investment policy of the county; and
   (2) acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the county and the organization.
The investment officer may not buy any securities from a person who has not delivered to the county an instrument in substantially the form provided above according to Section 2256.005(1).

Standards of Operation
The County Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with this investment policy.

Delivery Vs. Payment
It will be the policy of Lee County that all Treasury Bills, Notes, Bonds and Government Agencies’ securities shall be purchased using the “Delivery vs. Payment” (DVP) method through the Federal Reserve System. By so doing, County funds are not released until the County has received, through the Federal Reserve wire, the securities purchased.

Audit Control
The Lee County Investment Officer will assist the Lee County Auditor in preparing investment forms to assist the County Auditor for accounting and auditing control. The Investment Officer is subject to audit by the Lee County Auditor. In addition, the Lee County Commissioners Court will have a periodic audit of all Lee County funds by an independent auditing firm, as well as a compliance audit of management controls on investments and adherence to Lee County’s established investment policies in accordance with Gov. Code 2256.005(m).
Standard of Care

In accordance with Government Code 2256.006, 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. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal; liquidity; and yield.

In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

(1) the investment of all funds, or funds under the county’s control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and

(2) whether the investment decision was consistent with the written investment policy of Lee County.
V. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

Monthly Report
The Investment Officer is required to report to the Lee County Commissioners Court monthly a summary of all balances being held in investments, the type of investment, and the interest rate if rates vary from month to month.

Quarterly Report
In accordance with Government Code 2256.023, not less than quarterly, the investment officer shall prepare and submit to the Commissioners Court a written report of investment transactions for all funds for the preceding reporting period within a reasonable time after the end of the period. The report must:
1. describe in detail the investment position of the county on the date of the report;
2. be prepared jointly by all investment officers of the county;
3. be signed by each investment officer of the county;
4. contain a summary statement of each pooled fund group that states the:
   A) beginning market value for the reporting period;
   B) additions and changes to the market value during the period; and
   C) ending market value for the period;
5. state the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
6. state the maturity date of each separately invested asset that has a maturity date;
7. state the account or fund or pooled group fund in the county for which each individual investment was acquired; and
8. state the compliance of the investment portfolio of the county as it relates to:
   A) the investment strategy expressed in the county’s investment policy; and
   B) relevant provisions of this chapter.
9. although not required by statute, the report should state the total rate of return so the performance of the counties portfolio can be easily evaluated by management.

Notification of Investment Changes
It shall be the duty of the County Investment Officer of Lee County, Texas to notify the Lee County Commissioners Court of any significant changes in current investment methods and procedures prior to their implementation, regardless of whether they are authorized by this policy or not.
VI. INVESTMENT COLLATERAL AND SAFEKEEPING

Collateral or Insurance
The Lee County Investment Officer shall insure that all county funds are fully collateralized or insured consistent with federal and state law and the current Bank Depository Contract in one or more of the following manners:
1. FDIC insurance coverage;
2. Obligations of the United States or its agencies and instrumentalities

Safekeeping
All purchased securities shall be held in safekeeping by the County, or a County account in a third party financial institution, or with the Federal Reserve Bank.
All certificates of deposit, insured by the FDIC, purchased outside the Depository Bank shall be held in safekeeping by either the County or a County account in a third party financial institution.
All pledged securities by the Depository Bank shall be held in safekeeping by the County, or a County account in a third party financial institution, or with a Federal Reserve Bank.
The purpose of this attachment is to provide general and specific information regarding the applicability of investments to the various funds of Lee County. This is provided as a guideline for the County Investment Officer, the Commissioners Court, and others who would be doing investment business with Lee County. It should be understood that anyone reading this policy would have general understanding of investments and how they are handled. Because of the diversity of Lee County funds and their uses, the investment strategy for the various funds vary greatly. All Lee County funds not specified separately shall be considered *General Fund* for purposes of investments. The appropriate investment goal of all funds will be described by various common guidelines as listed below.

1. understanding of the suitability of the investment to the financial requirements of Lee County;
2. preservation and safety of principal;
3. liquidity;
4. marketability of the investment if the need arises to liquidate the investment before maturity;
5. yield; and
6. maturity restrictions.
GENERAL FUND

(1) This fund may invest in products that will mature in the current budget year. Investments with maturity dates should be staggered to allow enough funds to be available for immediate needs without early withdrawal.

(2) Lee County will use those investments authorized by this investment policy and covered by F.D.I.C. insurance or federal/state guarantees.

(3) A maximum of 50% of general fund money may be invested in short term (less than 9 months) investments. The balance should be held in account that would be available in 2 days or less.

(4) Marketable securities purchased may be only federal or state guaranteed investments as these are considered very marketable.

(5) In order to maximize return, only minimum amounts should be held in the local depository. Most funds should be in eligible investment pools or securities.

(6) Maturities should not have a maturity of over 9 months.
ROAD & BRIDGE FUNDS

(1) This fund must remain very liquid to cover major purchases on short notice. It is not generally suited for investments that should be held to maturity.

(2) Lee County will use those investments authorized by this policy and covered by F.D.I.C. insurance or federal/state guarantees.

(3) Liquidity should be of utmost consideration and these funds are not approved for investments in products that should be held to maturity.

(4) Marketability does not apply, since these types of funds are not approved.

(5) In order to maximize return, only funds needed for immediate (1 month) need should be in the local depository. Most funds should be in eligible investment pools or other very liquid accounts that draw a better rate of return.

(6) Maturity is not applicable to road & bridge funds.
RIGHT OF WAY FUND

(1) It is anticipated that most of the funds in this account will not be used during the current budget year so it will be generally better suited for longer term investments.

(2) Lee County will use those investments authorized by this investment policy and covered by F.D.I.C. insurance or federal/state guarantees.

(3) Due to those funds not being budgeted to be spent this year, they may be invested in securities with the longest maturity allowed by the investment policy.

(4) Marketable securities purchased may be only federal or state guaranteed investments as these are considered very marketable.

(5) In order to maximize return, only minimum amounts should be held in the local depository. Most funds should be eligible investment pools or securities.

(6) Securities should not have maturity longer than allowed in the County Investment Policy.
HILL COUNTY  
INVESTMENT POLICY  

I. INVESTMENT SCOPE

GENERAL STATEMENT

This policy serves to satisfy the statutory requirements of Local Government Code 116.112 and "Public Funds Investment Act" (PFIA) Government Code Chapter 2256 to define and adopt a formal investment policy. This policy will be reviewed and adopted annually by the Hill County Commissioners Court according to Government Code section 2256.005(e).

FUNDS INCLUDED

The investment policy applies to all financial assets of all funds of Hill County, Texas at the present time; any funds to be created in the future; any other funds held in custody by the County Treasurer; unless expressly prohibited by law or unless it is in contravention of any depository contract between Hill County and any depository bank.

II. INVESTMENT OBJECTIVES

Funds of the County will be invested in accordance with federal and state laws, this investment policy and written administrative procedures. The County will invest according to investment strategies for each fund as they are adopted by Commissioner’s Court resolution in accordance with 2256.005(d).

Safety

The County is concerned about the return of its principal; therefore, safety of principal is a primary objective in any investment transaction.

Liquidity

The County’s investment portfolio must be structured in conformance with an asset/liability management plan that provides for liquidity necessary to pay obligations as they become due, utilizing investment instruments, the final maturity of which, is one (1) year or less unless approved in advance by the Investment Committee.

Diversification

It will be the policy of the County to diversify its portfolio to eliminate the risk of loss resulting from a concentration of assets in a specific maturity (save and except zero duration funds), a specific issuer or a specific class of investments. Investments of the County shall always be
selected that provide for safety of principal, stability of income and reasonable liquidity prior to maturity.

Yield

It will be the objective of the County to earn the maximum rate of return allowed on its investments within the policies imposed by safety and liquidity objectives, investment strategies for each fund, and state and federal laws governing investment of public funds.

Maturity

Portfolio maturities will be structured to meet the obligations of the County first and then to achieve the maximum rate of return consistent with liquidity requirements. When the County has funds not required to meet current-year obligations, maximum restraints will be imposed upon the investment strategy for each fund. The maximum allowable stated maturity of any individual investment owned by the County is three years.

Quality and Capability of Investment Management

It is the County’s policy to provide training as required by the Public Funds Investment Act, Sec. 2256.008 and periodic training in investments for the County Treasurer, who is also named as the County Investment Officer, and other members of the Investment Committee through courses and seminars offered by professional organizations and associations in order to insure the quality, capability, professional expertise and timeliness of the County Investment Officer and other members of the Investment Committee in making investment decisions. The Investment Officer is required to receive 10 PFIA hours of education every two calendar years. Other members of the Investment Committee are encouraged to attend PFIA training sessions every two calendar years or as required by the PFIA. Certified Investment Officer (CIO) training is recommended for the Investment Officer. Members shall submit a copy of their respective certificates to the Investment Officer and the Commissioners Court as a matter of record.

III. INVESTMENT COMMITTEE RESPONSIBILITY

Investment Committee

It is further the purpose of this policy to establish an Investment Committee comprised of not less than five (5) members consisting of the County Judge, County Auditor, County Treasurer, one County Commissioner, and a Citizen at Large; and not more than seven (7) members with the addition of the Tax-Assessor Collector, District Clerk or another elected official not to include a County Commissioner. The Investment Committee derives its authority and responsibility from the Commissioners’ Court. It will be the responsibility of the committee to oversee the investment of the County’s funds and those proprietary and fiduciary funds that Hill County has the responsibility and authority to invest.

The Investment Officer shall serve as Chair of the Investment Committee and the position of secretary shall be determined by a vote of the Committee. Meetings may be called, as deemed necessary, by any Investment Committee member. The Investment Committee shall meet a minimum of four (4) times per year, the schedule to be determined by the needs of the County and the Committee.
County’s Investment Officer

In accordance with sec. 116.112 (a), Local Government Code and/or Government Code Section 2256.005 (f) and (g), the County Treasurer, shall serve as Investment Officer of the County. The County Investment Officer, under the supervision of the Commissioners’ Court, may invest County funds that are not immediately required to pay obligations of the County.

If the investment officer has a personal business relationship with an entity, or is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the County, the Investment Officer must file a statement disclosing that personal business interest, or relationship, with the Texas Ethics Commission and the Commissioners’ Court in accordance with Government Code 2256.005(i).

In the administration of the duties of investment officer, the person designated as investment officer shall exercise the judgment and care, under prevailing circumstances that a prudent person would exercise in the management of the person’s own affairs but the governing body of the county retains ultimate responsibility as fiduciaries of the assets of the County.

Liability of Investment Officer

In accordance with Sec 113.005 Local Government Code, the County Investment Officer is not responsible for any loss of the County funds through the failure or negligence of a depository. This section does not release the Investment Officer from responsibility for a loss resulting from the official misconduct or negligence of the Investment Officer, including a misappropriation of funds, or from responsibility for funds until a depository is selected and the funds are deposited. If the Investment Officer is other than the County Treasurer, that person must be fully bonded.

Citizen Member of Committee

The citizen member of the Investment Committee shall not be included on the Broker Dealer Listing. The citizen member shall refrain from personal business activity that could conflict with proper execution of the County’s investment program or which could impair their ability to make impartial investment decisions.

Competitive Bidding Method of Monitoring

In order to achieve a fair market price in all its investment transactions, the County requires a competitive bidding process for all individual security purchases and sales except for transactions in money market mutual funds, local government investment pools, and depository “sweep” products. At least three bids or offers must be solicited for all other transactions involving individual securities. The County’s investment advisor is also required to solicit at least three bids or offers when transacting trades on the County’s behalf. In situations where the exact security being offered is not offered by other dealers, offers on the closest comparable investment may be used to establish a fair market price for the security.

Investment Advisors

The County may designate, with approval from the Investment Committee and Commissioners Court, a professional investment advisory firm, registered with the Securities and Exchange Commission under the 1940 Investment Advisors Act, as well as the State Securities Board to assist the County in the management of its funds. This investment advisor shall act solely in an advisory and administrative capacity within the guidelines of this policy. The County’s
relationship with the advisor shall be governed by a formal management contract between the two parties.

IV. INVESTMENT OBJECTIVE SUMMARY

The overall investment objectives of the County shall be to:

- Match the suitability of investments to financial requirements;
- Achieve safety of principal;
- Maintain required liquidity;
- Diversify the portfolio by investment type, issuer and maturity sector; and
- Seek the highest possible yield within policy and cash flow constraints.

V. INVESTMENT RESPONSIBILITY AND CONTROL

Investment Institutions Defined

The Investment Officer shall invest County funds with any or all of the institutions or groups consistent with federal and state law and the current depository contract.

- Depository and/or sub-depository bank
- Other state or national banks domiciled in Texas that are insured by FDIC;
- State or national credit unions domiciled in Texas that are insured by National Credit Union Association (NCUA)
- Public funds investment pool; or
- Primary government securities brokers and dealers

Qualification for Approval of Broker/Dealers

In accordance with 2256.005(k), a written copy of this investment policy shall be presented to any person seeking to sell to the County an authorized investment. The registered principal of the business organization seeking to sell an authorized investment shall execute a written instrument, provided by the County that the business organization has:

- Received and thoroughly reviewed the Investment Policy of the County; and acknowledges that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the County and the organization.

The investment officer may not purchase any securities from a person who has not delivered to the County an instrument in substantially the form provided above according to Section 2256.005(l).

Along with the signed affidavit the business organization shall supply the County with the following:

- Completed Broker/Dealer questionnaire.
- Completed Anti-Collusion Agreement.
- Executed PSA Master Repurchase Agreement (primary dealers only).
- Financial statements (to be provided annually).
- Delivery Instructions.
- NASD Certification Proof
On an annual basis, the Investment Committee shall review, revise, and adopt a list of qualified brokers authorized to engage in investment transactions with the County.

If the County chooses to utilize the services of an Investment Advisor, the advisor shall be responsible for performing due diligence on the dealers with which it conducts investment transactions.

Standard of Operation

The County Investment Officer shall develop and maintain written administrative procedures for the operation of the Investment program, consistent with this investment policy.

Delivery vs. Payment (DVP)

It will be the policy of the County that all investment securities shall be purchased using “Delivery vs. Payment,” (DVP) method through the Federal Reserve System. By doing so, the County funds are not released until the County has received through the Federal Reserve wire, the securities purchased.

Standard of Ethics

The designated Investment Officer shall act as custodian of the public trust avoiding any transaction, which might involve a conflict of interest, the appearance of a conflict of interest, or any activity, which might otherwise discourage public confidence. The Investment Officer shall refrain from personal business activity that might conflict with proper execution of the investment program or might impair their ability to make impartial investment decisions. Additionally, the Investment Officer shall file with Hill County and the Texas Ethics Commission, a statement disclosing any personal business relationship with any organization seeking to sell investments to the County or any relationship within the second degree of affinity or consanguinity to an individual seeking to sell investments to the county.

For purposes of this subsection, an Investment Officer has a personal business relationship with a business organization if:

- the Investment Officer owns 10 percent or more of the voting stock or shares of the business organization or owns $5,000 or more of the fair market value of the business organization;
- funds received by the Investment Officer from the business organization exceed 10 percent of the Investment Officer’s gross income for the previous year; or
- the Investment Officer has acquired from the business organization, during the previous year, investments with a book value of $2,500 or more for the personal account of the Investment Officer.

Downgrade Provision for Investment Ratings

An investment that requires a minimum rating does not qualify as an authorized investment during the period the investment does not have the minimum rating. The County shall take all prudent measures that are consistent with its Investment Policy to liquidate an investment that does not have the minimum rating.
VI. INVESTMENT REPORTING

Portfolio Market Valuation

All securities held in the County investment portfolio shall be priced at the current market value on a quarterly basis and reported as part of the Quarterly Investment Report. Regular market-to-market pricing will ensure awareness of portfolio value and price volatility by County officials. Market values should be obtained from a reputable and independent source including but not limited to Bloomberg, the Wall Street Journal, and Interactive Data Corporation (IDC).

Quarterly Investment Report

Not less than quarterly, the Investment Officer shall prepare and submit to the County Investment Committee and the County Commissioners Court a written report of investment transactions for all funds for the preceding reporting period within a reasonable time after the end of the period. The report must:

1. describe in detail the investment position of the County on the date of the report;
2. be signed by the Investment Officer of the County;
3. contain a summary statement of each pooled fund group that states the;
   - beginning market value for the reporting period;
   - additions and changes to the market value during the period; and
   - ending market value for the period
4. state the book value and market value of each separately invested asset at the beginning and the end of the reporting period by the type of asset and fund type invested;
5. state the maturity date of each separately invested asset that has a maturity date;
6. state the account, fund or pooled group fund in the County for which each individual investment was required; and
7. state the compliance of the investment portfolio of the County as it relates to:
   - strategy as expressed in the Investment Policy; and
   - relevant provisions of the Public Funds Investment Act.

The independent auditor shall review reports annually with findings presented to the County Commissioners Court.

Notification of Investment Changes

It shall be the duty of the County Investment Officer to notify the County Commissioners Court of any significant changes in the current investment methods and procedures prior to their implementation, regardless of whether they are authorized by this policy or not.

VII. INVESTMENT COLLATERAL AND SAFEKEEPING

Collateral Policy

Pursuant to the requirements of Government Code 2256 and consistent with the requirements of the Public Funds Collateral Act, Government Code 2257; the County requires full collateralization of all funds on deposit with a depository bank, other than investments. In order to anticipate market changes and provide a level of security for all funds, the collateralization
level will be 105% of market value of principle and accrued interest on the deposits or investments less an amount insured by the Federal Deposit Insurance Corporation (FDIC). Securities pledged as collateral shall be held by an independent third party with whom the County has a current custodial agreement. The County Judge shall be responsible for entering into collateralization agreements with third party custodians in compliance with this Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. A safekeeping receipt must be supplied to the County. Collateral shall be reviewed monthly by the County Investment Officer, County Judge, and County Auditor to assure that the market value of pledged securities is adequate.

Financial institutions serving as County Depositories are required to sign a Depository Agreement with the County and the County’s Investment Officer/safekeeping agent. The safekeeping portion of the Agreement will define the County’s rights to collateral in the event of default, bankruptcy, or closing and will establish a perfected security interest in compliance with federal and state regulations. In addition, repurchase agreements must be fully collateralized during the term of agreement.

Allowable Collateral

Securities eligible as collateral are defined by the Public Funds Collateral Act, as amended, and include all securities permitted under the Public Funds Investment Act. Collateral adequacy shall be verified against monthly safekeeping reports. More frequent verification may be required during periods of high market volatility.

- **CERTIFICATE OF DEPOSIT**
  The market value of the principal portion of collateral pledged for certificates of deposit must be at all times equal to or greater than the par value of the certificate of deposit plus accrued interest, less the applicable level of FDIC/NCUA insurance.

- **REPURCHASE AGREEMENTS**
  A repurchase agreement’s collateral level must be maintained at or about 105% of the agreement’s outstanding balance plus accrued interest.

Correcting Collateral Deficiencies

- **CERTIFICATES OF DEPOSIT**
  If the collateral pledged for a Certificate of Deposit (CD) falls below the par value of the deposit, plus accrued interest less FDIC/NCUA insurance, the bank or credit union issuing the CD will be notified by the Investment Officer(s) and will be required to pledge additional securities no later than the end of the next succeeding business day.

- **REPURCHASE AGREEMENTS**
  If the value of the securities underlying a repurchase agreement falls below the margin maintenance levels specified above, the Investment Officers will request additional securities. If the repurchase agreement is scheduled to mature within five business days and the amount is deemed to be immaterial, then the request is not necessary.

Collateral Substitution

Collateralized certificates of deposit and repurchase agreements often require substitution of collateral. Any broker, dealer or financial institution requesting substitution must contact the
Investment Officer(s) for approval and settlement. The substituted security’s value will be calculated and approved if its value is equal to or greater than the required security level. Substitution is permitted, but should be limited if possible, to minimize potential administrative problems and transfer expense.

Safekeeping

All purchased securities shall be held in safekeeping in the County, or a County account in a third party financial institution, or with the Federal Reserve Bank.

All certificates of deposit, insured by the FDIC/NCUA, purchased outside the County Depository Bank shall be held in safekeeping in the County.

All pledged securities by the County Depository Bank shall be held in safekeeping with the Federal Reserve Bank and/or a custodial bank approved by the Commissioners Court.

VIII. INVESTMENT TYPES

Authorized Investments

The County Investment Officer shall use any or all of the following authorized investment instruments consistent with Title X, Chapter 2256, Texas Government Code:

1. Obligations of the United States or its agencies and instrumentalities;

2. Direct obligations of this state or its agencies and instrumentalities;

3. No-load money market mutual funds if the mutual fund;
   - is regulated by the SEC;
   - has a dollar-weighted average stated maturity of 90 days or less;
   - includes in its investment objectives the maintenance of a stable $1.00 net asset value per each share;
   - is limited as the amount invested per the requirements set forth in Government Code Section 2256.014; and
   - has supplied the County with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940.

4. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of this state or the United States or their respective agencies or instrumentalities; and

5. 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.

6. Certificates of deposit, if issued by a state or national bank or credit union domiciled in this state and are;
   - guaranteed or insured by the FDIC/NCUA or its successor;
   - secured in any other manner and amount provided by law for deposits of the County.
7. Eligible investment pools approved by the Investment Committee and the County Commissioners’ Court by resolution authorize investment in the particular pool. The investment pool shall invest the funds it receives from entities in authorized investments permitted by the Public Funds Investment Act. The County by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

Prohibited Investments

The following securities are not eligible investments for Hill County:

1. An obligation whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.

2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.

3. Collateralized mortgage obligations that have a stated maturity date of greater than ten (10) years.

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

IX. INVESTMENT FUND STRATEGIES

It is the policy of Hill County that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, adopted Investment Policy and adopted Investment Strategy. In accordance with the Public Funds Investment Act, the County’s Investment strategies shall address the following priorities (in order of importance):

- Understanding the suitability of the investment to the financial requirements of the County,
- Preservation and safety of principal,
- Liquidity,
- Marketability of the investment prior to maturity,
- Diversification of the investment portfolio, and
- Yield.

Effective investment strategy development coordinates the primary objectives of the County’s Investment Policy and cash management procedures to enhance interest earnings and reduce investment risk. Active cash management will increase the available “investment period” and subsequently interest earnings. Maturity selections shall be based on cash flow and market conditions to take advantage of various interest rate cycles. The County’s portfolio shall be designed and managed in a manner responsive to the public trust and consistent with the Investment Policy.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore specific strategies shall be implemented considering the fund’s unique requirements. County’s funds shall be analyzed and invested according to the following major fund types:
Fund Investment Strategy

GENERAL FUND - Accounts for all financial resources traditionally associated with governments which are not required legally to be accounted for in another fund. Shall be invested to insure funds are available to meet operating demands.

SPECIAL REVENUE FUNDS - Accounts that are legally restricted to expenditure for a particular purpose. Maturity no longer than twelve (12) months except on special projects for which the department can provide cash flow projections.

DEBT SERVICE FUND - Accumulated for payment of general obligation bond principal and interest from government resources and special assessment bond principal and interest from special assessment levies when the government is obligated in same manner for payment. Invested to meet obligation payments on February 15th and August 15th each year.

CAPITAL PROJECT FUNDS - Acquisition and construction of major capital facilities. Invested to meet needs over the length of the project. Based on cash flow projections provided by the appropriate entity.

SURPLUS FUNDS - Funds not expended during a budget year. Shall be maintained and accounted for using generally accepted accounting principles.

INVESTMENT STRATEGIES

In order to minimize risk of loss due to interest rate fluctuations investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines are as follows:

- **SUITABILITY** - Any investment eligible in the Investment Policy is suitable for the Operating Funds.
- **SAFETY OF PRINCIPAL** - All Operating Funds shall be invested in high quality securities with no perceived default risk. Market price fluctuations will occur, but by managing the portfolio's weighted average maturity to less than 365 days and restricting the maximum allowable maturity to three years, the price volatility of the overall portfolio will be minimized.
- **MARKETABILITY** - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.
- **LIQUIDITY** - The Operating Fund requires the greatest short-term liquidity of any of the fund types. Short-term investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.
- **DIVERSIFICATION** - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the County. Market cycle risk will be reduced by diversifying the appropriate maturity structure.
- **YIELD** - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The 6-month Constant Maturity Treasury (CMT) bill shall be the minimum yield objective.

INVESTMENT POLICY ADOPTION [PFIA 2256.005(e)]

The County Investment Policy shall be approved by the Investment Committee and adopted by resolution of the Commissioners Court. It is the County's intent to comply with state laws and regulations. This Investment Policy shall be subject to revisions consistent with changing laws.
regulations and needs of the County. The County Commissioners Court shall adopt a resolution stating that it has reviewed the policy and investment strategies annually, approving any changes or modifications.
The Hill County Investment Committee hereby approves the 2019 Investment Policy and recommends to the Hill County Commissioners Court that said policy be approved as presented.

In witness thereof our signatures are hereunto affixed this the 26th day of April, 2019.

Rhonda Burkhart
County Treasurer

Susan Swilling
County Auditor

Martin Lake
Commissioner Precinct 3

Krystal Hightower
Tax Assessor/Collector

February

Justin Lewis
County Judge

District Clerk

Jim Haddaway
Citizen Member
INVESTMENT POLICY
HILL COUNTY, TEXAS

For the year beginning January 1, 2019

The Hill County Investment Committee, having reviewed and approved the Hill County Investment Policy on March 12, 2019 respectfully requests the Commissioners’ Court of Hill County approve said policy as presented.

Rhonda Burkhart
Hill County Treasurer

Approved by the Commissioners’ Court of Hill County this 12th day of March 2019.

Justin W. Lewis, County Judge

Andy Montgomery, Commissioner
Precinct 1

Larry Crompton, Commissioner
Precinct 2

Martin Lake, Commissioner
Precinct 4

Attest:
Nicole Tanner
County Clerk
HILL COUNTY CERTIFICATION

I hereby certify that I have personally read and understand the investment policy of Hill County, Texas and have implemented reasonable procedures and controls designed to fulfill said policy’s objections and conditions. Transactions between this firm and Hill County will at all times reflect due concern for the preclusion of imprudent investment activities.

All sales personnel of this firm dealing with Hill County’s account have been informed of the county’s investments horizons, limitations, strategies, and risk constraints. Sales personnel will be updated on these guidelines whenever material changes to the county’s policy are communicated to our firm in writing by the Hill County Investment Officer.

This firm will notify Hill County immediately by phone and in writing in the event of a material adverse change in our financial condition. This firm pledges to exercise due diligence in informing Hill County of all foreseeable risk associated with financial transactions conducted with our firm.

Firm: ______________________
Registered Principal: ______________________
Dealer Registration Number: ______________________
Title: ______________________
Signature/Date: ______________________

I, Rhonda Burkhart, have provided Hill County’s policies and copies of the Texas Government Code Title 10 Chapter 2256 which regulates public funds investments with _________ (name) of _________ (firm) and will maintain this agreement on file.

____________________________
Rhonda Burkhart
Hill County Treasurer
Hill County Investment Officer

Date
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I. INVESTMENT AUTHORITY AND SCOPE OF POLICY - 2019

A. General Statement

This policy serves to satisfy the statutory requirements of Local Government Code 116.112 and Government Code Chapter 2256 cited as the Public Funds Investment Act (“PFIA”) to define and adopt a formal investment policy. See Attachment A: Resolution to Adopt Investment Policy. This policy will be reviewed and adopted by Resolution at least annually according to Govt. Code Section 2256.005(e).

B. Funds Included

This investment policy applies to all financial assets of all funds of Comal County, Texas at the present time, any funds to be created in the future, and any other funds held in custody by the Comal County Treasurer unless expressly prohibited by law or unless it is the contravene of any depository contract between Comal County and any depository bank as directed by Commissioner Court.

C. County’s Investment Officer

In accordance with (IAW) Sec. 116.112(a), Local Government Code and/or Gov’t Code Chapter 2256, Sec. 2256.005 (f) and (g), the Comal County Treasurer, under the direction of the Comal County Commissioners Court, may invest County funds that are not immediately required to pay obligations of the County. The commissioners’ court shall designate by resolution one or more officers or employees as investment officer. See Attachment B. If the investment officer has a personal business relationship as defined by the PFIA with an entity—or is related with the second degree by affinity or consanguinity to an individual—seeking to sell and investment to the county, the investment officer must file a statement disclosing that personal business interest—or relationship—with the Texas Ethics Commission and the Comal County Commissioners Court IAW Government Code 2256.005 (i).

D. Comal County’s Investment Committee

The Commissioner’s Court will appoint a committee of experts to advise the court and the Comal County Treasurer on investment policy. All members of the committee will have a strong background in the financial industry. The County Treasurer will serve as the Chairman of the Investment Committee. The Committee will adhere to the following procedures:

1. On a monthly basis a member of the committee will inform the Comal County Commissioner’s Court on the county’s investment posture;

2. Annually the Investment Policy will be reaffirmed or updated to the Commissioners Court; and,

3. In making such reports and recommendations to the Court, the Committee shall be governed by the following guidelines
   - Investing by the Investment Officer is not to be viewed as a profit center, but rather, as the timely return of principal.
   - No mortgage-backed or collateralized mortgage obligations of any type will be permitted;

4. The Investment Officer will purchase securities only from brokers who meet the following requirements:
   - Approval by the Investment Committee
II. INVESTMENT OBJECTIVES

A. General Statement
Comal County funds will be invested in accordance with (IAW) federal and state laws, this investment policy and written administrative procedures. The County will invest according to investment strategies for each fund as are adopted by commissioners’ court resolution IAW the PFIA, Section 2256 of the Texas Government Code.

B. Safety and Maintenance of Adequate Liquidity
Comal County is concerned about the return of its principal; therefore, safety of principal is the primary objective in any investment transaction. The County’s investment portfolio must be structured in conformance with an asset/liability management plan that provides for liquidity necessary to pay obligations as they become due.

C. Diversification
It will be the policy of Comal County to diversify its portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments. Investments of the county shall always be selected that provide protection of principal, for stability of income and reasonable liquidity. No more than twenty-five percent (25%) of the funds as determined from the County’s total available cash balance on November 30th will be invested in maturities of 24 to 36 months. The period from 24 to 36 months will be committed after the Commissioner’s Court assures the Treasurer that the funds will not be needed during the term of investment. The remaining funds will be invested in maturities of up to 24 months.

D. Yield
It will be the objective of Comal County to earn the maximum rate of return allowed on its investments within the policies imposed by its safety and liquidity objectives, investment strategies for each fund, and state and federal law governing investment of public funds.

E. Maturity
Portfolio maturities will be structured to meet the obligations of the County first and then to achieve the highest return of interest. When the County has funds that will not be needed to meet current year obligations, maturity restraints will be imposed based upon the investment strategy for each fund. The maximum allowable stated maturity of any individual investment owned by the county is thirty-six (36) months. The County Treasurer will invest funds with maturities less than twenty-four (24) months and can invest funds, not to exceed a cumulative total of $5,000,000.00, with maturities between 25 and 36 months. These investments will be brought to the attention of Commissioners’ Court with the next month’s Treasurer’s Monthly Investment Report.

F. Quality and Capability of Investment Management
It is Comal County’s policy to provide training required by the Public Funds Act, Sec. 2256.008 and periodic training in investments for the County Investment Officer through courses and seminars offered by professional organizations and associations in order to insure the quality, capability and currency of Comal County’s Investment Officer in making investment decisions. The Investment Officer and his/her personnel will attend investment training within 12 months after taking office and have on file with the Texas Ethics Commission appropriate paperwork, if pertinent.

G. Investment Strategies
IAW the PFIA, Section 2256.005(d), a separate written investment strategy will be developed for each of the funds under Comal County’s control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities of importance:

1. Understanding of the suitability of the investment to the financial requirements of the entity;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability of the investment if the need arises to liquidate the investment before maturity;
5. Diversification of the investment portfolio;
6. Yield;
(7) Maturity restrictions; and
(8) Procedures to monitor rating changes

Attachment C includes investment strategies for all funds. IAW with the Public Funds Investment Act, Section 2256.005(e), investment strategies will be reviewed and adopted by resolution at least annually.

III. INVESTMENT TYPES

A. Authorized Investments:
The Comal County Investment Officer shall use any or all of the following authorized investment instruments consistent with governing laws and the PFIA contained in Texas Government Code Section 2256;

(1) Obligations, including letters of credit, of the United States or its agencies and instrumentalities;

(2) Direct obligations of this state or its agencies and instrumentalities;

(3) Other obligations, the principal and interest which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities; and

(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.

(5) Certificates of deposit and Share Certificates, are an authorized investment if the certificate is issued by a depository institution that has its main office or a branch office in this state and is:

(a) Guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or its successor, or the National Credit Union Share Insurance Fund ("NCUSIF") or its successor; or

(b) Secured in any other manner and amount provided by law for deposits of the county.

(6) In addition to the authority to invest funds in certificates of deposit as detailed in (5) above, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment if:

(a) the funds are invested by the county through a depository institution that has its main office or a branch office in Texas and that is selected by Comal County;

(b) the depository institution selected by the county arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of Comal County;

(c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;

(d) the depository institution selected by the county acts as custodian for the county with respect to the certificates of deposit issued for the account of Comal County; and

(e) at the same time that the funds are deposited and the certificates of deposit are issued for the account of the county, the depository institution selected by the county receives an amount of deposits from customers or other federally insured depository institutions, wherever located, that is equal to or greater than the amount of the funds invested by the county through the depository institution selected.
(7) A fully collateralized repurchase agreement, as defined in the Public Funds Investment Act, if it:
   (a) Has a defined termination date;
   (b) Is secured by obligations described by Section 2256.009(a)(1) of the Public Funds Investment Act; and
   (c) Requires the securities being purchased by the county to be pledged to the county, held in the county’s name, and deposited at the time the investment is made with the county or with a third party selected and approved by the county; and
   (d) Is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.
   (e) Notwithstanding any law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.
   (f) Money received by a county under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

(8) A bankers’ acceptance if it:
   1. Has a stated maturity of 270 days or fewer from the date of its issuance;
   2. Will be, IAW its terms, liquidated in full at maturity;
   3. Is eligible for collateral for borrowing from a Federal Reserve Bank; and
   4. Is 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) MUTUAL FUNDS AND MONEY MARKET FUNDS with limitations as described below:
   (a) NO-LOAD MONEY MARKET MUTUAL FUND is authorized if it:
       1. Is registered with and regulated by the Securities and Exchange Commission;
       2. Has a dollar-weighted average stated maturity of 90 days or fewer;
       3. Includes in its investment objectives the maintenance of a stable net asset value of $1 for each share; AND,
       4. Provides Investment Officer with an annual prospectus IAW Section 2256.014.
   AND

   (b) NO-LOAD MUTUAL FUND is authorized if it:
       1. Is registered with the Securities and Exchange Commission;
       2. Has an average weighted maturity of less than two years;
       3. Is invested exclusively in obligation approved by this subchapter;
       4. Is continuously rated as to investment quality by at least one national recognized investment rating firm of not less than AAA or its equivalent; AND
       5. Conforms to the requirements set forth in PFIA Sections 2256.016 (b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities such as Comal County.
(10) AUTHORIZED INVESTMENTS: INVESTMENT POOLS.

(a) An entity may invest its funds and funds under its control through an eligible investment pool if the governing body of the entity by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter.

(b) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

1. the types of investments in which money is allowed to be invested;
2. the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
3. the maximum stated maturity date any investment security within the portfolio has;
4. the objectives of the pool;
5. the size of the pool;
6. the names of the members of the advisory board of the pool and the dates their terms expire;
7. the custodian bank that will safekeep the pool's assets;
8. whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
9. whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
10. the name and address of the independent auditor of the pool;
11. the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and
12. the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

(c) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity:

1. investment transaction confirmations; and
2. a monthly report that contains, at a minimum, the following information:
   A. the types and percentage breakdown of securities in which the pool is invested;
   B. the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
   C. the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
   D. the book value versus the market value of the pool's portfolio, using amortized cost valuation;
   E. the size of the pool;
   F. the number of participants in the pool;
   G. the custodian bank that is safekeeping the assets of the pool;
   H. a listing of daily transaction activity of the entity participating in the pool;
   I. the yield and expense ratio of the pool;
   J. the portfolio managers of the pool; and
   K. any changes or addenda to the offering circular.
(d) An entity by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

(e) In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

(f) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a $1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

(g) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool must have an advisory board composed:

1. equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 and managed by a state agency; or
2. of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

(h) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

B. PROHIBITED INVESTMENTS:

The Comal County Investment Officer will not invest in funds of any type or form of collateralized mortgage obligation of any description.

IV. INVESTMENT RESPONSIBILITY AND CONTROL

A. Investment Institutions Defined

The Comal County Investment Officer shall invest County funds with any or all of the following institutions or groups consistent with federal and state law and the current Depository Bank contract:

1. Depository bank;
2. Other state or national banks or credit unions, or branches thereof, domiciled in Texas that are insured by the FDIC or NCUSIF, or their successors;

B. Qualifications for Approval of Broker/Dealers

IAW PFIA Section 2256.005(k), a written copy of this investment policy shall be presented to any person offering to engage an investment transaction with Comal County. The qualified representative of the business organization offering to engage in an investment transaction with Comal County shall execute a written instrument substantially to the effect that the business organization has:

1. Received and thoroughly reviewed the investment policy of Comal County;
2. Acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities IAW the current Comal County Investment Policy arising out investment transactions conducted between Comal County and the organization; and
3. IAW PFIA Section 2256.025 the broker must be deemed by the Comal County Investment Committee as qualified and authorized to engage in investment transactions with Comal County.
C. Standards of Operation: The County Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program consistent with this investment policy.

D. Delivery vs. Payment: IAW Gov't Code Sec. 2256.005(b)(4)(e), it will be the policy of Comal County that all Treasury Bills, Notes and Bonds and Government Agencies' securities shall be purchased using the "Delivery vs. Payment" (DVP) method through the Federal Reserve System. By so doing, County funds are not released until the County has received, through the Federal Reserve wire, the securities purchased.

E. Audit Control: The Comal County Investment Officer will establish liaison with the Comal County Auditor in preparing investment forms to assist the County Auditor for accounting and auditing control. The Investment Officer is subject to audit by the Comal County Auditor. In addition, the Comal County Commissioners Court, at a minimum, will have an annual financial audit of all County funds by an independent auditing firm, as well as an annual compliance audit of management controls on investments and adherence to the entity's established investment policies in accordance with PFIA Section 2256.005(m).

F. Standard of Care:

1. IAW with PFIA Section 2256.006, investments shall be made with judgment and care, under prevailing circumstance, 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. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal, liquidity, and yield.

2. In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

   a. the investment of all funds, or funds under the county's control, over which the officer has the responsibility rather than a consideration as to the prudence of a single investment; and

   b. whether the investment decision was consistent with the written investment policy of Comal County.

V. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

A. Quarterly Report

IAW with PFIA Section 2256.023, not less than quarterly, the investment officer shall prepare and submit to the Commissioners Court a written report of investment transactions for all funds for the preceding reporting period within a reasonable time after the end of the period. The report must

1. Describe in detail the investment position of the county on the date of the report;

2. Be prepared by the investment officer of the county;

3. Be signed by the investment officer of the county;

4. Contain a summary statement of each pooled fund group that states the;

   • Beginning market value for the reporting period;
   • Additions and changes to the market value during the reporting period;
   • Ending market value for the reporting period; and,
   • Fully accrued interest for the reporting period.

5. State the book value and market value of each separately invested asset at the beginning and the end of the reporting period by the type of asset and fund type invested.
6. State the maturity date of each separately invested assets that have a maturity date;
7. State the account or fund or pooled group fund in the county for which each individual investment was acquired; and
8. State the compliance of the investment portfolio of the county as it relates to:
   - The investment strategy expressed in the county’s investment policy; and,
   - Relevant provisions of the PFIA.

B. Methods to Monitor Market Value:
The County Investment officer will obtain the market value for each security held in all portfolios at least on a monthly basis. On a monthly basis the collateral pledged to Comal County for bank deposits shall be valued from recognized market pricing sources.

C. Notification of Investment Changes
It shall be the duty of the County Investment Officer of Comal County, Texas to notify the Comal County Commissioners Court of any significant changes in current investment methods and procedures prior to their implementation, regardless of whether they are authorized by this policy.

VI. INVESTMENT COLLATERAL AND SAFEKEEPING

A. Collateral or Insurance
The Comal County Investment Officer shall insure that all county funds are fully collateralized or insured consistent with federal and state laws and the current Bank Depository Contract in one or more of the following manners;
1. FDIC insurance coverage
2. Obligations of the United States or its agencies and instrumentalities.

B. Safekeeping
1. All purchased securities shall be held in safekeeping by the County, or a County account in a third party financial institution, or with the Federal Reserve Bank.
2. All certificates of deposit, insured by the FDIC, or share certificates, insured by the NCUSIF, purchased outside the Depository Bank shall be held in safekeeping by the County or a County account in a third party financial institution.
3. All pledged securities by the Depository Bank shall be held in safekeeping by the Comal County or with a Federal Reserve Bank.
COMAL COUNTY RESOLUTION #2018-27
ADOPTION OF 2019 COMAL COUNTY INVESTMENT POLICY & STRATEGIES,
INVESTMENT COMMITTEE AND APPOINTMENT OF AN INVESTMENT OFFICER

WHEREAS, the Texas Legislature set forth the Public Funds Investment Act in Government Code Section 2256, and
WHEREAS, compliance with the Public Funds Investment Act requires that each county adopt by resolution a County Investment Policy & Investment Strategies and appoint a County Investment Officer.

NOW, THEREFORE, BE IT RESOLVED, the Commissioners’ Court of Comal County, in a regular meeting duly convened and acting in its capacity as the governing body of Comal County, hereby affirms the attached 2019 Comal County Investment Policy, setting forth its investment strategies by fund type and designating the Comal County Investment Committee, and hereby appointing the Comal County Treasurer, Renee L. Couch, as the Comal County Investment Officer to implement and carry out the stated investment policy.

IN WITNESS WHEREOF, we have hereunto set our hands and caused the great seal of Comal County to be affixed this ___13th___ day of December 2018.

_____________________________________
SHERMAN KRAUSE, COUNTY JUDGE

_____________________________________
DONNA ECCLESTON
COMMISSIONER, PRECINCT #1

_____________________________________
SCOTT HAAG
COMMISSIONER, PRECINCT #2

_____________________________________
KEVIN WEBB
COMMISSIONER, PRECINCT #3

_____________________________________
JEN CROWNover
COMMISSIONER, PRECINCT #4

ATTEST:

_____________________________________
BOBBIE KOEPP, COUNTY CLERK
**Attachment B:**  
**APPOINTMENT TO COMAL COUNTY INVESTMENT POLICY COMMITTEE 2019**

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Address</th>
<th>City, State Zip</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mrs. Renee L. Couch</td>
<td>Chair</td>
<td>Comal County Treasurer</td>
<td>New Braunfels, TX 78130</td>
</tr>
<tr>
<td>Ms. Mary Ayala</td>
<td>Secretary</td>
<td>Comal County Treasurer's Office</td>
<td>New Braunfels, TX 78130</td>
</tr>
<tr>
<td>Mrs. Donna Eccleston</td>
<td>Comal County Commissioner</td>
<td>100 Main Plaza</td>
<td>New Braunfels, TX 78130</td>
</tr>
<tr>
<td>Mr. Larry Hammonds</td>
<td>Frost Bank</td>
<td>315 Landa Street</td>
<td>New Braunfels, TX 78130</td>
</tr>
<tr>
<td>Mr. Mark Long</td>
<td>First Commercial Bank</td>
<td>1336 East Court Street</td>
<td>Seguin, TX 78155</td>
</tr>
<tr>
<td>Mr. Michael Mullins, CPA</td>
<td>Mullins &amp; Timmerman PC</td>
<td>1527 Common Street</td>
<td>New Braunfels, TX 78130</td>
</tr>
<tr>
<td>Mrs. Jessie Rahe</td>
<td>Comal County Auditor</td>
<td>150 N. Seguin Ave, #201</td>
<td>New Braunfels, TX 78130</td>
</tr>
<tr>
<td>Mr. Charles E. Teeter</td>
<td>Capital West Securities</td>
<td>259 N. Seguin Ave.</td>
<td>New Braunfels, TX 78130</td>
</tr>
<tr>
<td>Mr. Kevin Webb</td>
<td>Comal County Commissioner</td>
<td>100 Main Plaza</td>
<td>New Braunfels, TX 78130</td>
</tr>
<tr>
<td>Mr. Duane Westerman</td>
<td>SAMCO Capital Markets, Inc</td>
<td>1020 NE Loop 410, Ste. 640</td>
<td>San Antonio, TX 78209</td>
</tr>
<tr>
<td>Mr. Barry Williams</td>
<td>Prosperity Bank</td>
<td>401 Main Plaza</td>
<td>New Braunfels, TX 78130</td>
</tr>
</tbody>
</table>
1. Funds of the General Fund, Road & Bridge, Jury, Farm to Market & Lateral Roads, Right of Way, and proceeds from Bonds will be invested in the following types of instruments:
   - Money Market Funds IAW current Comal County Investment Policy;
   - Local Government Investment Pools current Comal Investment Policy
   - Government securities IAW current Comal County Investment Policy; and,
   - Certificates of Deposit or Share Certificates IAW current Comal County Investment Policy.

2. Funds that are listed daily in the Combined Statement of Current Assets and provided to Commissioners Court in the Treasurer’s Monthly Report will be invested in a Money Market Fund or Local Government Investment Pool with an objective of maintaining a constant dollar average.
Attachment D:

LIST OF APPROVED BROKERS 2019:

Cody Hundley or Successor
Frost Bank/Frost Brokerage Securities, Inc.
100 W. Houston Street
San Antonio, TX  78205
(210) 220-6156

Monte Marshall
Vining-Sparks IBG, L.P.
6351 Preston Road, Suite 225
Frisco, TX  75034
(214) 451-5830

Joan Alexander
Funds Mgmt. Group, Inc
2726 Bissonnet St., Suite 240-613
Houston, TX  77005
(713) 626-5741