

CITY OF WACO, TEXAS

INVESTMENT POLICY

This Investment Policy of the City of Waco, Texas is written in compliance with Chapter 2256 of the Texas Statutes otherwise known as the Public Funds Investment Act (the Act). This Investment Policy has been adopted by the City Council of the City of Waco by resolution on September 17, 2019.

The provisions of this Investment Policy shall apply to all investable funds of the City of Waco: General Funds, Special Revenue Funds, Permanent Funds, Debt Service Funds, Capital Projects Funds (including bond proceeds), Enterprise Funds, Internal Service Funds and Agency Funds.

All excess cash, except for cash in certain restricted and special accounts, may be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average balances relative to the total pooled balance. Investment income shall be distributed to the individual funds on a monthly basis.

The objectives of this Investment Policy in order of importance are:

- Preservation of capital and protection of investment principal.
- Maintenance of sufficient liquidity to meet anticipated cash flows.
- Diversification to avoid incurring unreasonable market risks.
- Attainment of a market value yield.

I. AUTHORIZED SECURITIES AND TRANSACTIONS

All investments of the City shall be made in accordance with the Act. This Investment Policy shall be reviewed and adopted by City Council not less than annually. Any revisions or extensions of the Act will not be authorized until this Investment Policy has been amended and adopted by the City Council. .

The City has further restricted the statutorily authorized investment of funds to the following types of securities and transactions:

1. Obligations of the US Treasury with stated maturities not exceeding three years from the date of purchase. In addition, State and Local Government Series Securities (SLGS) purchased directly from the Treasury Department's Bureau of the Public Debt.
2. Other obligations of the U.S. government, including obligations fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full-faith-and-credit of the United States.
3. Federal Agency Securities: Non-subordinated debt securities of US agencies and instrumentalities excluding all mortgage-backed securities, with stated maturities not exceeding three years from the date of purchase.
4. Repurchase Agreements and Flexible Repurchase Agreements: Collateralized by cash or non-

subordinated debt of the U.S. Government, its agencies and instrumentalities including mortgage-backed securities and CMO passing the Federal Reserve *bank test*, issued by federal agencies. For the purpose of this section, the term collateral shall mean purchased/sold securities under the terms of the City's approved Master Repurchase Agreement. Further, for purposes of this section, the term "mortgage-backed securities" shall not include interest-only mortgage-backed securities, inverse or principal-only mortgage-backed securities. The collateral shall maintain an original minimum market value including accrued interest of 102 percent of the dollar value of the transaction and the collateral maintenance level shall be 102 percent. Collateral shall be maintained in the City's name and held by a third-party custodian approved by the City. Collateral shall be marked-to-market on a daily basis. The maximum maturity for each repurchase agreement transaction shall be thirty (30) days with the exception of bond proceeds which may be invested into flexible repurchase agreements with maturities not to exceed the expected construction draw schedule of the related bonds.

Repurchase Agreements shall be entered into only with primary dealers or financial institutions doing business in the State of Texas. Financial institutions approved as Repurchase Agreement counterparties shall have a short-term credit rating of not less than A-1 or the equivalent and a long-term credit rating of not less than A- or the equivalent. Repurchase agreements may not be used as a sweep vehicle in a depository unless the underlying agreement confirms it as a buy-sell transaction.

5. Money Market Mutual Funds: SEC registered under the Investment Company Act of 1940 which (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) strive to maintain a daily net asset value of \$1.00; (3) limit assets of the fund to securities authorized by the Act; (4) are in compliance with Federal Securities Regulation 2a-7; and 5) have a rating of not less than AAAM by Standard and Poor's, Aaa by Moody's or AAA/V1+ by Fitch, or equivalent.
6. Depository Certificates of Deposit: issued by a depository institution having their main office or branch offices in Texas that are insured by the Federal Deposit Insurance Corporation (FDIC) or their successor. Depository certificates of deposit which exceed the FDIC insured amount shall be secured in accordance with Section IV of this policy. Maturities for Certificates of Deposit shall be limited to three years. This includes fully FDIC insured spread certificate of deposit program through the Promontory Network initiated through a Texas bank.
7. Local Government Investment Pools authorized under Section 2256.016 of the Texas Statutes which 1) are "no-load"; 2) have a daily net asset value of \$1.00; 3) limit assets of the fund to securities authorized by the Act; 4) have a maximum stated maturity and weighted average maturity in accordance with Federal Securities Regulation 2a-7; and 5) have a rating of not less than AAAM by Standard and Poor's, Aaa by Moody's or AAA/V1+ by Fitch, or equivalent. Furthermore, authorized Local Government Investment Pools must comply with the disclosure and reporting requirements set forth in Section 2256.016, Authorized Investments: Investment Pools.
8. Fully insured or collateralized depository Interest bearing banking accounts of any bank in Texas to include fully FDIC insured money market account spread programs through the Promontory Network.

Any investment that requires a minimum rating under the Act or this Policy does not qualify as an authorized investment during the period the investment does not have the minimum rating. The City shall take all prudent measures that are consistent with this Investment Policy to liquidate an investment

that does not have the minimum rating.

Any security donated to or received by the City which is not authorized as an investment may be maintained or liquidated but at maturity or liquidation proceeds must be invested in authorized investments.

The City recognizes that bond proceeds may, from time to time, be subject to the provisions of the Tax Reform Act of 1986, Federal Arbitrage Regulations, as amended. Due to the legal complexities of arbitrage law and the necessary immunization of yield levels to correspond to anticipated cash flow schedules, the reinvestment of such debt issuance may, upon the advice of Bond Counsel or financial advisors, deviate from the maturity limitation provisions of this Policy with approval of the City Council.

II. INVESTMENT DIVERSIFICATION AND LIQUIDITY

It is the intent of the City to diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. Nevertheless, the asset allocation in the portfolio should be flexible depending upon the outlook for the economy, the securities markets, and the City's anticipated cash flow needs

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The City will not invest any funds in securities with a stated maturity more than three years from the date of purchase. The weighted average final maturity of the City's total portfolio shall at no time exceed one year with the calculation to include all portfolio securities, bank and savings account deposits and pool and money fund holdings. Bond proceeds will be invested in accordance with requirements of this policy, bond ordinances and the expected expenditure schedule of the proceeds.

As a general guideline and to prevent too much concentration of risk in one market sector, the following guidelines are established for diversification by market sector.

	% of Portfolio
US Treasury Obligations	80 %
US Government Obligations	60 %
US Agencies/Instrumentalities	80 %
Repurchase Agreement	40 %
Flex Repo per bond issue	100 %
Depository certificates of deposit	25 %
Money Market Mutual Funds	40 %
Bond proceeds	100 %
Texas local government pools	50 %
Bank accounts	40 %

III. SELECTION OF BROKERS/DEALERS

The City Council shall at least annually review, revise, and adopt a list of qualified broker/dealers that are

authorized to engage in investment transactions with the City. Adoption of this Investment Policy shall also be considered as approval to conduct business with any broker/dealer on the Authorized Broker/Dealer List (Exhibit 1 of this Policy) or those recognized as a Primary Dealer by the Federal Reserve Bank of New York.

The City shall do business only with broker/dealers that have been individually evaluated. The City may authorize regional broker/dealer firms if it can be demonstrated that such firms are experienced in dealing with local governments in the state of Texas. If the City chooses to contract with an Investment Advisor pursuant to Section XII of this Investment Policy, the Investment Advisor shall evaluate and recommend to the City a pool of qualified brokers/dealers (Exhibit 1). If the City chooses to contract with an Investment Advisor pursuant to Section XII of this Investment Policy, the Advisor, not the broker/dealer, shall be solely responsible for reading and abiding by the Investment Policy. As such, the Advisor shall sign the written certification statement on an annual basis and will assume full responsibility for deviations from Policy guidelines.

All broker/dealers will be sent a copy of this Investment Policy. If material changes are made to the Policy a copy will be sent to each broker/dealer. The City shall not enter into an investment transaction with a broker/dealer prior to sending a copy of the policy to that broker/dealer.

Any pool in which the City participates will be sent a copy of this Investment Policy and certify in writing that it has implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by this Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the city's entire portfolio or requires an interpretation of subjective investment standards. (Exhibit 2)

IV. SAFEKEEPING, CUSTODY AND BANKING SERVICES

At least every five years the City Council shall select one or more financial institutions to provide safekeeping, custodial and banking services for the City. A City approved safekeeping agreement shall be executed with each safekeeping or custodian bank prior to utilizing that bank's safekeeping/custodial services. To be eligible for designation as the City's safekeeping and/or custodian bank, and to provide banking services, a financial institution shall qualify as a depository of public funds in the State of Texas as defined in Chapter 105 of the Texas Statutes.

Demand and time deposits of the City shall be secured in accordance with Texas Government Code Chapter 2257. Specifically, City deposits may be secured by the following:

- A letter of credit (LOC) issued by the Federal Home Loan Bank (FHLB);
- An obligation that in the opinion of the Attorney General of the United States is a general obligation of the United States and backed by its full faith and credit;
- A general or special obligation issued by a public agency that is payable from taxes, revenues, or a combination of taxes and revenues;
- Any security in which a public entity may invest under Chapter 2256 of the Texas Government Code.
- A fixed or floating rate collateralized mortgage obligation (CMO) that has an expected weighted average life of 10 years or less and does not constitute a high-risk mortgage security; or
- A surety bond

Securities pledged to secure deposits of the City shall be deposited with an eligible third-party custodian described in Texas Government Code Chapter 2257. The total market value of eligible securities pledged to secure deposits of the City shall not be less than 102% of the amount of the City's deposits increased by accrued interest and reduced by applicable federal depository insurance.

V. COMPETITIVE BIDDING

Each investment transaction shall be competitively transacted with broker/dealers who have been authorized by the City. It is the intent of the City that at least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, the Investment Officer will document quotations for comparable or alternative securities.

VI. DELIVERY OF SECURITIES

The purchase and sale of securities and repurchase agreement collateral transactions shall be settled on a delivery-versus-payment basis. It is the intent of the City that ownership of all securities be perfected in the name of the City on the records of the safekeeping bank. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except Certificates of Deposit, Money Market Funds, and Local Government Investment Pools, purchased by the City will be delivered by book entry and will be held in third-party safekeeping by a City approved custodian/safekeeping bank, its correspondent New York bank or its Depository Trust Company (DTC) participant account.

All Fed wireable book entry securities owned by the City shall be evidenced by a safekeeping receipt or a customer confirmation issued to the City by the custodian/safekeeping bank stating that the securities are held in the Federal Reserve system in a customer account for the custodian bank which will name the City as "customer."

All DTC eligible securities shall be held in the custodian bank's Depository Trust Company (DTC) participant account and the custodian/safekeeping bank shall issue a safekeeping receipt evidencing that the securities are held for the city as "customer."

VII. MONITORING

Market prices shall be obtained from independent sources such as investment broker/dealers, the Wall Street Journal, or other financial information services. These prices shall be obtained on a monthly basis and used for reporting purposes to calculate current market values on each security held. The price source will be maintained for audit purposes.

VIII. INVESTMENT STRATEGY STATEMENT

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 by fund-type are as follows:

A. Combined and Operating Funds

Suitability - Any investment eligible in the Investment Policy is suitable for the Operating Funds.

Safety of Principal - All investments shall be of high credit quality securities with no perceived default risk.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement.

Liquidity - The Combined Funds require short-term liquidity to meet anticipated and unanticipated liabilities. A liquidity buffer shall be maintained to enhance liquidity. Short-term investment pools, money market mutual funds, and repurchase agreements shall be utilized to the extent necessary to provide adequate liquidity.

Diversification - It is the intent of the City to diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

Yield - The investment portfolio shall be designed to attain a market value yield throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The portfolio's performance shall be compared to the yield on the six-month US Treasury Bill and the one year U.S. Treasury Bill which most closely matches the portfolio's maximum weighted average maturity of one year.

B. Bond Proceeds/Capital Funds

Suitability - Any investment eligible in the Investment Policy is suitable for bond proceeds.

Safety of Principal - All investments shall be of high credit quality securities with no perceived default risk.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement.

Liquidity - The City's funds used for construction and capital improvement programs have reasonably predictable draw down schedules. Therefore investment maturities shall generally follow the anticipated cash flow requirements. Investment pools, money market funds, and repurchase agreements shall be used to provide readily available funds to meet anticipated cash flow needs. A flexible repurchase agreement may be utilized to aide liquidity needs.

Diversification - It is the intent of the City to diversify the investments within the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

Yield - Achieving the best possible yield, consistent with risk and arbitrage limitations is the desired objective for bond proceeds.

IX. AUTHORITY TO INVEST

In accordance with state law, the Director of Finance, Assistant Finance Director and other professional Finance staff as designated by the Director of Finance are hereby named as the Investment Officers with the responsibility to invest all funds including operating, bond and other reserve funds.

- A. Training: Each Investment Officer of the City shall attend at least one training session containing at least 10 hours of instruction from an authorized, independent source approved by City Council relating to the officer's responsibilities described herein within 12 months after assuming duties; and on a continuing basis shall attend an investment training session not less than once in a two-year period that begins on the first day of the fiscal year and consists of the two consecutive fiscal years after that date and receive not less than eight(8) hours of instruction relating to investment responsibilities from an independent source. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with the Texas Public Funds Investment Act. Authorized independent sources of investment training include the Texas Municipal League, the University of North Texas Center for Public Management, the Texas State University Center for Public Service, the Government Finance Officers Association, the Government Finance Officers Association of Texas, the Texas Association of Counties, the Texas Association of School Business Officials, and the Government Treasurers Organization of Texas.
- B. Establishment of Internal Controls: The Investment Officers shall develop written administrative procedures and internal controls, consistent with this Policy, for the operation of the City's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees of the City.

X. PRUDENCE

The standard of prudence to be used by Investment Officers shall be Section 2256.006 of the Act which states: "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 officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally riskless and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses are inevitable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a

security is in the best long-term interest of the City.

XI. ETHICS

The designated Investment Officers shall act as custodians 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. Investment Officers shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Additionally, all Investment Officers shall file a statement with the Texas Ethics Commission and with the City of Waco disclosing any personal business relationship with an entity, as defined by state law, seeking to sell investments to the City or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to the City which meet the conditions below. For purposes of disclosure to the City, an investment officer has a personal business relationship with a business organization if:

- (1) The investment officer owns voting stock or shares of the business organization or owns any part of the fair market value of the business organization;
- (2) Funds have been received by the investment officer from the business organization for the previous year; or
- (3) The investment officer has acquired investments from the business organization during the previous year for the personal account of the investment officer.

XII. INVESTMENT ADVISORS

The City Council may, at its discretion, contract with an investment management firm properly registered with the SEC under the Investment Advisors Act of 1940 (15 U.S.C. Section 80b-1 et seq.) to provide for investment and management of its public funds or other funds under its control. The advisory contract made under authority of this subsection may not be for an initial term longer than two years. A renewal or extension of the contract must be made by City Council by resolution.

An appointed investment advisor shall act solely within the guidelines of this Investment Policy to assist the City's Investment Officers with the management of its funds and other responsibilities including, but not limited to competitive bidding, trade execution, portfolio reporting, and security documentation. At no time shall an investment advisor take possession of securities or funds of the City.

Investment advisors shall adhere to the spirit, philosophy and specific terms of this Policy and shall avoid recommending or suggesting transactions that conflict with this Policy or the standard of prudence established by this Policy. Investment advisors, contracted by the City, shall agree that their investment advice and services shall at all times be provided with the judgment and care, under circumstances then prevailing, as persons paid for their special prudence, discretion and intelligence, in such matters exercised in the management of their client's affairs, not for speculation by the client or production of fee income by the advisor but for investment by the client with emphasis on the probable safety and liquidity of capital while considering the probable income to be derived.

All investment advisors appointed by the City must acknowledge in writing that they have received and reviewed this Investment Policy and have implemented reasonable procedures and controls in an effort to preclude investment transactions that are not authorized by this Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the city's entire portfolio or requires an interpretation of subjective investment standards. The City shall not enter into an investment transaction recommended by an investment advisor prior to receiving the written document described in this paragraph.

Appointment of an investment advisor shall otherwise be according to the City's normal purchasing procedures for procurement of professional services. Any approved investment advisor may be terminated with the approval of the City Council if, in their opinion, the advisor has not performed adequately.

XIII. AUDITING

At least annually, the independent auditor shall audit the investments of the City for compliance with the provisions of these guidelines and state law. Reports prepared by the Investment Officers under Section XIV shall be formally reviewed and the results of that review shall be reported to the City Council. In addition, the Investment Officers and Investment advisor shall, in compliance with the annual audit, perform a compliance audit of management controls on investments and adherence to the City's Investment Policy (2256.005(m)).

XIV. REPORTING

Not less than quarterly, the Investment Officers shall jointly prepare, sign and submit to the City Council a written report of investment transactions for the preceding reporting period. The report shall be prepared in accordance with provisions of Section 2256.023 of the Public Funds Investment Act and shall (1) describe the investment position of the City, (2) summarize investment activity by pooled fund group, (3) provide book value, market value, maturity and fund group information for separately invested assets, and (4) include a statement of compliance with the City's investment policy and the Public Funds Investment Act.

It is the intent of the City to comply fully with the provisions of Subchapter B, Chapter 552 Government Code of the Texas Statutes otherwise known as the Right of Access to Investment Information. With respect to section 52.0225 (b) (7) and (16), the City reports each funds' yield as an annualized figure on a monthly basis. Investment accounting and reporting shall be consistent with GAAP and GASB standards for amortized cost and fair value methodology.

XV. REVIEW BY CITY COUNCIL

The City Council shall adopt a written instrument by resolution stating that it has reviewed the City's Investment Policy and investment strategies and this shall be done not less than annually. The written instrument so adopted shall record any changes made to either the Investment Policy or investment strategies.

EXHIBIT 1

SCHEDULE OF APPROVED BROKER/DEALERS FOR THE CITY OF WACO

Barclays Capital Inc
Bank of America/Merrill Lynch
BOK Financial
Cantor Fitzgerald
FTN Financial
InCapital
Int'l FC Stone
Mizuho Securities
Morgan Stanley
Mutual Securities
Nomura Securities
Oppenheimer Securities
Piper Jaffray & Co.
Raymond James
RBC Capital Markets
Stifel Nicolaus
Vining Sparks
Wells Fargo (as depository this will authorize sweep vehicles only)
Williams Capital Group

In the case of possible use of a "flex repurchase agreement" for bond proceeds the Council authorizes use of any primary dealer as designated by the New York Federal Reserve.

EXHIBIT 2

**City of Waco, Texas
Policy Certification**

In accordance with the Public Funds Investment Act of the State of Texas, this pool acknowledges that the pool has received and reviewed the Investment Policy of the City of Waco, Texas and has implemented reasonable procedures and controls in an effort to preclude investments not authorized by the City's Policy except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

Securities Firm

Printed Name of Representative

Signature of Qualified Representative

Date