

INVESTMENT POLICY

I. Policy

It is the policy of the City of Fair Oaks Ranch, Texas (the “City”) to invest public funds in a manner which will provide the highest, reasonable investment return with the maximum security of principal while meeting the daily cash flow demands of the City and conforming to all federal, state, and local statutes governing the investment of public funds. It is also the policy of the City that the administration of its funds and the investment of those funds shall be handled as its highest public trust.

II. Purpose

The purpose of this policy is to comply with the Texas Government Code, Chapter 2256, the Public Funds Investment Act (the “Act”), and Texas Government Code, Chapter 2257, the Public Funds Collateral Act, which requires City Council to adopt a written investment policy regarding the investment of its funds and funds under its control. The investment policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of the City’s funds.

III. Scope

This investment policy applies to all financial assets and funds of the City. Funds listed in this section are as defined in the City’s audited Annual Financial Report. Funds are created by the City unless specifically exempted by the City Council and this policy.

1. General Fund
2. Capital Projects Funds to include the Strategic Projects Fund
3. Equipment Replacement Fund
4. Debt Service Fund created for general obligation indebtedness and revenue bonds
5. Enterprise Fund for our Water and Wastewater Utilities
6. Any other fund created by the City Council

Investments are being pooled into a pooled group fund that consists of balances from the City’s funds above. The strategy of pooling investments is subject to change as deemed appropriate by the Investment Officer, and subject to the provisions of this Policy.

IV. General Objectives

The primary objectives, in priority order, of the City's investment activities shall be safety, liquidity, diversification, and yield.

Safety - Safety of the principal is the foremost objective of the city. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio guarding against security defaults or erosion of market value.

Liquidity - The investment portfolio will remain sufficiently liquid to meet all operating requirements which might be reasonably anticipated. To the extent possible, this will be achieved

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by matching investment maturities with forecasted cash flow liabilities and maintaining additional liquidity for unexpected liabilities.

Diversification - Diversification of the portfolio will include diversification by maturity and market sector to manage market risk.

Yield - The investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account the investment risk constraints and liquidity needs. Market rate of return may be defined as the average yield of the current six-month US Treasury Bill. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

Effective cash management is recognized as essential to good fiscal management. Cash Management is defined as the process of managing monies in order to ensure maximum cash availability. The City will effectively collect account receivables, practice prudent investment of its available cash, disburse payments in accordance with invoice terms and manage banking services.

V. Standards of Care

Prudence - The standard of prudence to be used by investing officials shall be the "prudent person" rule and shall be applied in the context of managing the City's overall portfolio with the objectives and priority of preservation of safety of principal, liquidity, and yield. This standard states:

"Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the expected income to be derived."

Prudence of an investment officer's decisions shall be exercised and measured by considering the investment of all funds under the City's authority, which the Investment Officer had a responsibility, rather than a consideration to the prudence of a single investment, and whether the investment decision was consistent with the written investment policy.

Limitation of Personal Liability - Investment officials acting in accordance with this policy and in accord with the Prudent Person Rule, shall be relieved of personal liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change is reported in a timely fashion and the appropriate action is taken to control unfavorable developments.

VI. Delegation of Authority and Responsibilities

Delegation of Authority - The City's Finance Director, acting on behalf of the city, is designated as the Investment Officer of the City. Responsibility for the operation of the investment program is hereby delegated to the Investment Officer, who shall act in accordance with established procedures and internal controls for the operation of the investment program consistent with this investment policy. The Investment Officer shall be responsible for all investment transactions undertaken and shall establish a system of controls to regulate the activities of subordinate

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officials. No person may engage in an investment transaction except as provided under the terms of this policy and established written procedures.

Training – In accordance with the Act, the Investment Official shall attend ongoing training from an independent source authorized to provide PFIA certification. Investment officials must complete at least 10 hours of investment training within 12 months of taking office or assuming duties and shall attend an investment training session not less than once in a two-year fiscal period and receive not less than 10 hours of instruction relating to investment controls, security risks, strategy risks, market risks, diversification, and compliance.

Ethics and Conflicts of Interest - Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions that conduct business with the City. An investment official who has a personal business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest. An investment official who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing the relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and City Council.

City Council Responsibilities – The City Council holds ultimate fiduciary responsibility for the investment portfolio. City Council will designate investment officer(s), review quarterly reporting, approve authorized broker/dealers, and annually review and adopt the Investment Policy and Strategy.

VII. Internal Controls

The City Manager and Investment Officer are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (a) the cost of a control should not exceed the benefits likely to be derived and (b) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall focus on the following points:

- Separation of duties to prevent collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Clear delegation of authority
- Documentation of transactions

The City's Investment Officer shall perform an internal compliance audit of management controls on investments and adherence to investment policies in conjunction with the annual financial audit.

VIII. Safekeeping and Custody

Safekeeping – All securities purchased by the City under this Policy, excluding Investment Pools and Mutual Funds, shall be settled on a delivery versus payment basis and held in safekeeping by

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an independent third-party financial institution approved by the City. All safekeeping arrangements will be approved by the Investment Officer and an agreement of the terms executed in writing. The safekeeping institution shall be required to issue safekeeping receipts to the City including all pertinent information for each security and clearly indicating the ownership by or pledge to the City.

Authorized Financial Dealers and Institutions - The Investment Officer will maintain a list of financial institutions and security broker/dealers authorized to provide investment/depository services. The list of qualified brokers/dealers shall be reviewed and adopted annually by City Council as part of the investment policy resolution. All authorized brokers/dealers will be provided with a copy of our investment policy and have a qualified representative sign a policy certification stating they have (1) read and reviewed the policy and (2) have implemented reasonable procedures and controls in an effort to prevent unauthorized investment transactions not authorized by this Policy, except to the extent that this authorization is dependent on an analysis makeup of the City's entire portfolio or requires an interpretation of subjective investment standards. A broker may be removed from eligible status, without notice, at the City's sole discretion.

Those firms that request to become qualified bidders for securities transactions must provide the following as appropriate:

- Proof of Financial Industry Regulatory Authority (FINRA) certification and FINRA's Central Depository Registration (CRD) number
- Proof of Texas State Securities registration
- Annual audited financial statements
- Proof of National Association of Security Dealers certification
- Trading resolution

Each pool in which the city participates will be provided a copy of the City's current investment policy and have a qualified representative sign a compliance certification stating they have (1) read and reviewed the policy and (2) have implemented reasonable procedures and controls to preclude unauthorized investment transactions in the entity's investment policy, except to the extent authorization is dependent on an analysis makeup of the City's entire portfolio, requires an interpretation of subjective investment standards.

The Investment Officer of the City may not use any dealer or institution which has not met the requirements above.

Investment Management Firms – The City may, at City Council's approval, contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for investment and management of its public funds or funds under its control. This contract term shall be a maximum of 2 years with renewal or extensions subject to approval by City Council by resolution.

Depository Agreement – At least every five (5) years, a primary banking services depository shall be selected by the City through a competitive request for proposal (RFP) or bid process in accordance with Section 105 of the Texas Government Code. In selecting this depository, the services, cost of services, credit worthiness, earnings potential, and collateralization by the institutions shall be considered. This institution shall be used for normal banking services including disbursements, collections, and safekeeping. Other banking institutions from which the City may purchase certificates of deposit

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will also be designated as a depository and must execute a written agreement in accordance with the provisions of this Policy if collateral is required.

Delivery vs Payment - All trades with the exception of investment pools and mutual funds will be executed by delivery vs payment to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities and collateral will be held in the City's name by a third-party custodian as evidenced by safekeeping receipts of the institution with which the securities are deposited.

Competitive Bidding – All investment transactions, excluding market mutual funds, local government investment pools and securities made at prevailing market rates, shall be made on a competitive basis to assure that the City is receiving fair market prices. Bids, of at least three competitive offers, may be orally, in writing, electronically, or in any combination of those methods.

Monitoring Credit Ratings – The Investment Officer shall monitor the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by the Policy, the investment officer will notify the City Manager of the loss or rating immediately and make a recommendation as to the conditions affecting the rating and possible loss of principal with available liquidation options.

Monitoring Insurance Status – The Investment Officer shall monitor the status and ownership of all banks issuing brokered CDs owned by the City based upon information from the FDIC / NCUA / SIPC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officer will immediately liquidate any brokered certificate of deposit which placed the City above the FDIC / NCUA / SIPA insurance level.

IX. Authorized and Suitable Investments

Eligible Investments - Assets of the City may be invested in the following instruments as authorized by the Public Funds Investment Act (Section 2256). Only those instruments listed in this section are authorized and will be used as needed to maintain an appropriate diversified portfolio. An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. Prudent measures will be taken to liquidate any investment that drop below the required minimum rating in accordance with the City's policy.

1. Local Government Investment Pools which meet the requirements of Chapters 2256.016-2256.019 of the Public Funds Act which include being rated no lower than AAA or AAA- m or an equivalent rating by at least one nationally recognized rating service and strive to maintain a \$1 net asset value.
2. Obligations of the United States or its agencies and instrumentalities, excluding mortgage-backed securities.
3. Certificates of Deposit issued by a depository institution that has its main office or a branch in Texas. The CD must be guaranteed or fully insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance

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Fund or its successor and secured by obligations and collateralized in a manner and amount as provided by law.

4. Brokered Certificates of Deposit issued by one or more federally insured depository institutions, wherever located within the United States, delivered versus payment to the City's safekeeping agent. The CD must be guaranteed or fully insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor and secured by obligations and collateralized in a manner and amount as provided by law. Before purchase, the Investment Officer must verify the FDIC/NCUA status of the bank to assure the bank is FDIC/NCUA insured.
5. No-load Money Market Mutual Funds that comply with SEC Rule 2a-7 and 1) are registered and regulated by the Securities and Exchange Commission and provides a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, 2) seek to maintain a net asset value of \$1 for share, and 3) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service.

Existing Investments - The City is not required to liquidate investments which were authorized investments at the time of purchase under the Public Funds Investment Act (Section 2256.017).

Collateralization - Collateralization will be required on all funds on time and demand deposits with a depository bank, other than investments, above the FDIC coverage by pledged collateral. In order to anticipate market changes and provide a level of security, the collateralization level will be at least one hundred two percent (102%) of market value of principal and accrued interest. All collateral must be pledged to the City and shall be held by an independent third-party institution approved by the City outside the holding company of the pledging bank. A depository/collateral agreement shall be executed between the City, City depository, and custodian. The pledging institution will monitor and maintain the margins daily. The custodian will provide a monthly report of collateral pledged to the City.

Authorized Collateral – Only securities prescribed as eligible investments under the Public Funds Investment Act qualify as pledged securities and are limited by the City as appropriate.

X. Investment Parameters

Diversification - See Section IV; General Objectives

Maximum Maturities - To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. The average dollar-weighted maturity of investments of the City's portfolio shall not exceed one (1) year. The maximum allowable maturity of an individual investment shall be no more than two (2) years.

Performance Standards - The investment portfolio shall be managed in accordance with the objectives specified in this policy (safety, liquidity, diversification, and yield). The City shall pursue a conservative buy-and-hold portfolio and swaps will be prohibited. However, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. As the benchmark, the Investment Officer

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shall determine whether market yields are being achieved by comparing the portfolio market yield to the three (3) month U.S. Treasury Bill, the six (6) month U.S. Treasury Bill and the two (2) year U.S. Treasury Note.

XI. Investment Strategies

The City may maintain separate portfolios, or one commingled portfolio for individual funds that are managed according to the terms of this Policy. Investments may be pooled or invested for the benefit of one or more funds. If pooled, principal and interest income is distributed to each respective fund on a pro rata basis. Whether investments are pooled or invested separately is decided by the Investment Officer based upon which method is most beneficial to the City for the investment strategies established. The investment strategy for portfolios established after the annual Investment Policy review and adoption will be managed to ensure that it will meet all the requirements established by the City's investment policy and the Public Funds Investment Act.

The City maintains and pools all following fiscal funds into a pooled fund group recognizing the parameters and needs of each unique fund. This pooled fund group is an aggregation of the majority of City funds including tax receipts, enterprise fund revenues, fine and fee revenues, as well as some, but not all, bond proceeds, and grants. This portfolio is maintained to meet anticipated daily cash needs for City operations, capital projects and debt service. In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the investment portfolio shall not exceed one (1) year. The objectives of this portfolio are to ensure safety of principal; ensure adequate investment liquidity; limit market and credit risk through diversification; and attain the best feasible yield in accordance with the objectives and restrictions set for in this Policy. The City's fund groups represented in the pooled fund group and their individual investing objectives are as follows:

Investments pertaining to the General Fund, Equipment Replacement Fund, Strategic Projects Fund, and Enterprise Fund, for our Water and Wastewater Utilities have the primary objective of assurance that anticipated daily cash needs are matched with adequate investment liquidity. All securities authorized are high credit quality securities to manage credit risk.

Investments pertaining to the Debt Service Funds are structured with the objective of providing assurance of investment liquidity adequate to cover the timely payment of debt service obligations. Due to the definitive debt service schedules, the nature of these funds allow for precise forecasting of required cash flows.

XII. Reporting

Methods - As required by Government Code 2256.023, on a quarterly basis, the Investment Officer shall prepare, sign, and submit to the City Manager and City Council a written report for the preceding quarter in accordance with the Public Funds Investment Act. The report will include the following, at a minimum:

- A description of the investment position of the City on the date of the report.
- A summary statement for each pooled fund group stating the beginning market value for the period, additions and changes to the market value during the period, and the ending market value for the period, and any fully accrued interest.
- 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.

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- Maturity date of each separately invested asset that has a maturity date.
- Account or fund or pooled group fund of the City for which each individual investment was acquired.
- Statement of compliance of the investment portfolio of the City with the Act and Investment Policy.

Market prices for market value calculation of the investment portfolio will be calculated quarterly by independent sources.

If the City invests in any investments other than money market mutual funds, investment pools, or depository bank investment accounts then the City's internal controls and quarterly reports shall be reviewed by the City's independent auditor during the annual audit process.

XIII. Investment Policy Adoption

The Investment Policy shall be adopted by Resolution as part of the Financial Management Policies. The policy shall be reviewed and adopted by Resolution annually by the City Council.

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List of Qualified Brokers/Dealers

Frost Bank 111 W. Houston Street San Antonio, TX 78205	Manuel Long Vice President - Public Finance manuel.long@frostbank.com	(210) 220-5372 (210) 262-9081 C
Frost Bank Securities 111 W. Houston Street San Antonio, TX 78205	Eileen Slater Sr. Vice President - Capital Markets eileen.slater@frostbank.com	(210) 220-5546 (210) 404-8815 C
TexPool Participant Services 1001 Texas Avenue Suite 1150 Houston, TX 77002	Denise Hamala Unit Manager denise.hamala@FederatedHermes.com	(866) 839-7665
Texas CLASS 6907 Shavelson St. Houston, TX 77055	Zach Brewer Director - Investment Services zach.brewer@texasclass.com	(281) 642-4350
Hilltop Securities Inc. 1201 Elm Street Suite 3500 Dallas, TX 75270	Gilbert Ramon Vice President gilbert.ramon@hilltopsecurities.com	(713) 654-8606 (713) 724-4178 C
UBS Financial Services, Inc. 1780 Hughes Landing Blvd. 3 Hughes Landing, Suite 200 The Woodlands, TX 77380	Richard Ebert First Vice President - Wealth Management richard.ebert@ubs.com	(281) 362-6340
Stifel, Nicolaus & Company, Inc. 2107 Elliott Avenue Suite 208 Seattle, WA 98121	Josh Gorham Managing Director gorhamj@stifel.com	(206) 443-7260 (206) 963-1280 C