

City of Plano Investment Policy

The City of Plano (the “City”) is required under the Public Funds Investment Act (“PFIA”) Texas Government Code Chapter 2256 to adopt a written investment policy. The City is required to comply with the investment policy as approved by the City Council.

Statement of Intent

It is the policy of the City to invest funds in a manner which will insure maximum security, provide for the daily cash flow demands of the City, and conform to all state and local statutes governing the investment of public funds.

Scope

This investment policy applies to all financial assets of the City, except certain trust and pension funds contractually invested by outside managers, e.g. Retirement/Pension, and Employee Deferred Compensation.

This policy includes all funds listed and accounted for in the City's Annual Comprehensive Financial Report (ACFR) and include:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Proprietary Funds
- Fiduciary Funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- Component Units

Prudence

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 their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The investment officers, acting in accordance with written procedures and the investment policy, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported immediately upon knowledge of the deviation and appropriate action is taken to control adverse developments.

Investment officers shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

Objectives

The primary objectives of the City's investment activities shall be as follows:

1. Safety of principal is the foremost objective of the City's investment program. Investment transactions of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required so that actual losses on individual securities do not exceed the income generated from the remainder of the portfolio.
2. The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that can be reasonably anticipated.
3. The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints of safety and liquidity.

Investment Strategy

The City intends to maintain a consolidated portfolio in which all funds under the City's control, as specified in this policy, are pooled for investment purposes. One of the portfolio's primary objectives is to insure that anticipated cash flow needs are matched with investment maturities. Both short and longer-term maturities are laddered to meet general operating, capital project and debt service expenditures, based on known and projected cash flows.

Another primary objective of the fund is the preservation and safety of principal by insuring that all securities are of a sufficiently high quality and duration so as to limit exposure to credit and market risks. The portfolio should therefore experience minimal volatility during varying economic cycles. Investments of all types are purchased with the intention of holding until maturity.

Other objectives include maintaining liquidity, including the ability to reasonably meet unanticipated needs by purchasing securities with an active secondary/resale market. Diversification is maintained in order to minimize possible credit risk in a specific investment type.

The final objective of obtaining a market rate of return is much less important than safety of principal and liquidity. The majority of investments are limited to low risk securities earning an equitable rate of return relative to the amount of risk.

Delegation of Authority

City employees authorized to engage in investment transactions and authorized as investment officers are the City Manager, the Director of Finance, the Treasurer and the Treasury Analyst. Management responsibility for the investment program is delegated from the City Manager to the Director of Finance who shall establish written procedures for the operation of the investment program consistent with this investment policy. Investment procedures should include reference to the following: safekeeping agreements, repurchase agreements, wire transfer agreements, collateral agreements, depository service contracts and agreements, broker/dealer selection criteria, and security bidding and purchase processes. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for routine authorization of investments and the Controller shall be responsible for proper accounting of investments in order to maintain appropriate internal controls. The Director of Finance shall establish a system of controls to regulate the activities of subordinates.

Ethics and Conflict of Interest

1. Any investment officer of the City who has a personal business relationship with a business organization offering to engage in an investment transaction with the City, as described in PFIA 2256.005(i), shall file a statement disclosing that personal business interest with the Texas Ethics Commission and City Council.
2. Any investment officer of the City who is related within the second degree by affinity or consanguinity, as determined under Texas Government Code Chapter 573, to an individual seeking to engage in an investment transaction with the City shall file a statement disclosing that relationship with the Texas Ethics Commission and City Council.

Depository Selection

To comply with Texas Government Code Chapter 105, a qualified depository shall be selected through the City's professional services contract process in compliance with Texas bidding requirements and shall include a formal competitive solicitation. The centralization of depository services is designed to maximize investment capabilities while minimizing service costs as well as staff time spent on activities such as reconciliation.

The selection of a depository shall be based on the financial institution offering the most favorable terms and conditions at the best value, while adhering to the guidelines and provisions within the formal solicitation. In selecting a depository, the City shall give consideration to the financial institution's credit characteristics, financial history, service capabilities, and costs for required services.

The City's depository contract shall be in compliance with Texas law. Specialized services may be contracted for by the City with another financial institution or company if the

depository cannot provide such service or charges more for the same service with little or no appreciable benefit.

Authorized Securities Dealers

The Investment Committee will review and adopt annually a list of qualified securities dealers authorized to engage in investment transactions with the City. The City will provide any business organization, including investment pools or investment management firms, offering to engage in an investment transaction with the City a copy of the City's investment policy.

A qualified representative of the business organization offering to engage in an investment transaction must execute a written statement acknowledging that the business organization has:

1. Received and reviewed the City's Investment Policy
2. Implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City and the organization 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, requires an interpretation of subjective investment standards, or relates to the investment transactions of the City that are not made through accounts or other contractual arrangements over which the City has accepted discretionary investment authority.

All approved securities dealers must submit a completed City Broker/Dealer Questionnaire, a written acknowledgment per above guidelines, an executed master repurchase agreement, if applicable, and a copy of current audited financial statements.

Investment Advisers

Investment advisers shall adhere to the spirit, philosophy and specific term of the investment policy and shall invest within the same objectives. The investment officer shall establish criteria to evaluate investment advisers, including:

1. Adherence to the City's policies and strategies
2. Investment strategy recommendations within accepted risk constraints
3. Responsiveness to the City's request for services and information
4. Understanding of the inherent fiduciary responsibility of investing public funds
5. Similarity in philosophy and strategy with the City's objectives

Selected investment advisors must be registered under the Investment Advisers Act of 1940 or with the Texas State Securities Board. A contract with an investment adviser may not be for a term longer than two years and any contract, renewal or extension must be approved by the City Council.

Authorized Investments

PFIA authorized investments include the following:

1. Obligations of, or guaranteed by governmental entities as described in PFIA 2256.009 including:
 - a) Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks;
 - b) Direct obligations of the State of Texas or its agencies and instrumentalities;
 - c) Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;
 - d) Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;
 - e) Bonds issued, assumed, or guaranteed by the State of Israel;
 - f) Interest-bearing banking deposits that are guaranteed or insured by:
 - 1) The Federal Deposit Insurance Corporation or its successor or
 - 2) The National Credit Union Share Insurance Fund or its successor
2. Certificates of deposit as described in PFIA 2256.010, issued by a depository institution that has its main office or a branch office in this state:
 - a) And such certificates of deposits are:
 - 1) Guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or the National Credit Union Share Insurance Fund, or its successor;
 - 2) Secured by obligations that are described by the PFIA 2256.009, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a market value of not less than 102% of the total value of the certificates or in any other manner and amount provided by law for deposits of the City;
 - 3) Secured in accordance with Texas Government Code Chapter 2257 or in any other manner and amount provided by law for deposits of the City.
 - b) An investment in certificates of deposit made in accordance with the following conditions is authorized if the funds are invested through:

- 1) A broker that has its main office or a branch office in the state of Texas and is selected from a list adopted by the City as required by PFIA 2256.025;
 - 2) The broker or the depository institution selected by the City 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 the City;
 - 3) 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;
 - 4) The City appoints the depository institution selected or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the City with respect to the certificates of deposit issued for the account of the City.
3. Fully collateralized repurchase agreements as described in PFIA 2256.011 having a defined termination date, secured by a combination of cash and obligations described by the PFIA 2256.009 (a) (1) or 2256.013, pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas.
4. Commercial Paper as described in PFIA 2256.013 having a stated maturity of 365 days or fewer from the date of issuance and is rated not less than A-1 or P-1 or an equivalent rating by at least two nationally recognized credit rating agencies or one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.
5. Mutual funds as described by in PFIA 2256.014:
 - a) A no-load money market mutual fund (“ MMMF”) that is registered with and regulated by the Securities and Exchange Commission; provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940; and complies with federal Securities and Exchange Commission Rule 2a-7, promulgated by the Investment Company Act of 1940
 - b) A no-load mutual fund that it is registered with the Securities and Exchange Commission; has an average weighted maturity of less than two years; and either has a duration of one year or more and is invested exclusively in obligations authorized by the PFIA; or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities
 - c) The City is not authorized to:

- 1) Invest in aggregate more than 15% of the City's monthly average fund balance, excluding bond proceeds, reserves, and debt service funds, in mutual funds;
 - 2) Invest any portion of bond proceeds, reserves, and debt service funds, in mutual funds;
 - 3) Invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund in an amount that exceeds 10% of the total assets of the mutual fund.
6. Local government investment pools (“LGIP”) must follow the requirements of the PFIA 2256.016 and are required to:
- a) Provide the City a policy regarding holding deposits in cash
 - b) Mark its portfolio to market daily and seek a stable \$1.00 net asset value if using amortized cost or fair value accounting
 - c) Take action as necessary to eliminate or reduce to the extent reasonable any unfair result to the City and attempt to maintain a ratio between \$0.995 and \$1.005
 - d) Be authorized by a separate resolution approved by City Council
 - e) Be rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service

Unauthorized Investments

The City’s authorized investments are more restrictive than those allowed by the PFIA. The City prohibits investments in all collateralized mortgage obligations. The PFIA specifically prohibits investment in the following investment securities:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay 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 market index.

The City is not required to liquidate investments that were authorized investments at the time of purchase. The City will take prudent measures to liquidate any investment that loses its required minimum rating.

Bond Proceeds and Pledged Revenue

Local government investment officers are authorized to invest bond proceeds or revenue

pledged to the payment of the debt obligation only to the extent permitted by the PFIA, in accordance with provisions governing the debt issuance and the City's approved investment policy regarding the debt issuance.

Competitive Selection of Investment Instruments

The City requires a competitive process for all individual investment purchases except for those transactions with MMMFs, LGIPs and for government securities purchased at issue through an approved broker/dealer at the auction price. The investment officer may not rely only on yield in selecting MMMFs and LGIPs but also on adherence to applicable Securities and Exchange Commission (SEC) guidelines for MMMFs and other criteria as determined.

At least three bids or offers must be solicited in all transactions involving individual securities. For those situations where it may be impractical or unreasonable to receive three bids due to secondary market availability, bids may be considered competitive if it outperforms comparable products having similar structure and having maturities within 15 calendar days before or after the investment under consideration. Bids may be solicited in any manner provided by law. All bids received must be documented and filed for auditing purposes.

Collateral, Safekeeping, and Delivery vs. Payment

In order to anticipate market changes, provide a level of security for all funds, and comply with Texas Government Code Chapter 2257, collateralization is required for all City funds held depositories, certificates of deposit, and repurchase agreements. With the exception of deposits secured with irrevocable letters of credit at 100% of the amount, the collateralization level will be 102% of market value of principal and accrued interest.

The City shall accept only the following as collateral:

1. FDIC insurance coverage
2. A bond, bill, or note of the United States Treasury or other indebtedness that is guaranteed by the United States
3. Obligations that are unconditionally guaranteed or insured by the State of Texas
4. A bond of the State of Texas or a county, city or other political subdivision of the State of Texas having been rated at no less than A or its equivalent by a nationally recognized rating agency with a remaining maturity of ten years or less
5. Obligations of the United States' agencies and instrumentalities, limited to the FHLB, FNMA, FFCB and FHLMC
6. A letter of credit issued to the City by the Federal Home Loan Bank

Purchased securities for investment and securities placed as collateral will be held by a third-party custodian and held in the City's name as evidenced by safekeeping receipts of the institution with which the securities are deposited. This evidence shall be maintained by the Director of Finance or a third party financial institution. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is

adequate. If upon review the collateral is found to be of inadequate value, the City will notify the pledging financial institution to immediately provide additional collateral. All collateral shall be subject to inspection and audit by the Director of Finance or the City's independent auditors.

All security transactions entered into by the City, with the exception of investment pools and mutual funds, shall be settled on a delivery-versus-payment (DVP) basis. The City will sign a safekeeping agreement to authorize an independent third-party custodian to act as a transfer agent and execute transactions related to purchased securities on behalf of the City.

Diversification

The City will diversify the portfolio at all times to ensure the reduction of risk while still maintaining reasonable rates of return and to ensure a certain degree of liquidity. The City will diversify its investments in the following manner:

With the exception of United States Treasury securities and authorized pools, no more than 50% of the total investment portfolio will be invested in a single investment type. (Such as FNMA, FHLB, FHLMC, certificates of deposit, etc.)

Risk of market price changes shall be controlled by avoiding over-concentration of assets of the same investment type, avoiding over-concentration of assets of the same final maturity, and limiting the weighted average life of the portfolio. Risk to liquidity due to cash flow complications shall be controlled by maintaining minimum bank, investment pool, and money market mutual fund balances.

Maximum Maturities

To the extent possible, the City will attempt to match its anticipated cash flow requirements with maturing investments. The City will not directly place investments maturing more than five years from the date of purchase. The portfolio's maximum average dollar-weighted maturity will be two and a half years based on the stated maturity date of the investment.

Performance Standards

The investment portfolio will be designed to obtain a market average rate of return during unpredictable budgetary and economic cycles at the local and federal levels, taking into account the City's investment risk constraints and cash flow needs.

The City's investment strategy is primarily passive. Given this strategy, the basis, or benchmark, used by the investment officers to determine whether market yields are being achieved shall be the US Treasury Yield Curve, whichever series is closest to the weighted average maturity of the portfolio.

Reporting

Monthly Reporting:

The Director of Finance is responsible for providing monthly information on investment activity in the Comprehensive Monthly Finance Report, to include the size of the portfolio, the distribution by maturity, the distribution by investment type, interest income earned during the current month and fiscal year to date, and the current portfolio yield.

Quarterly Reporting:

The Director of Finance shall submit a signed quarterly investment report, jointly prepared and signed by all investment officers, that summarizes current market conditions, economic developments and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment type, maturities, risk characteristics, and shall explain the total investment return for the quarter. The report shall list transactions made over the last quarter.

The report will be provided not less than quarterly to the City Manager and City Council. Quarterly reports must be formally reviewed at least annually by an independent auditor.

To comply with PFIA 2256.023, the report must:

1. Describe in detail the investment position of the City on the date of the report
2. Contain a summary statement of each pooled fund group that states the:
 - a) Beginning market value for the reporting period
 - b) Ending market value for the reporting period
 - c) Fully accrued interest for the reporting period
3. State the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested
4. State the maturity date of each separately invested asset that has a maturity date;
5. State the account or fund or pooled group fund in the City for which each individual investment was acquired
6. State the compliance of the investment portfolio of the City as it relates to:
 - a) The investment strategy expressed in the City's investment policy
 - b) Relevant provisions of the PFIA.

Market Pricing

Market value of the investment portfolio will be calculated monthly. Pricing information will come from Bloomberg or any other source deemed reliable by the Director of Finance. If the price of a particular security is not available from these sources, the price may be estimated by analyzing similar securities' market values.

Investment Rating

Investment ratings will be obtained monthly from broker-dealers on the City's approved list or from other independent third parties. Obligations of states, agencies, counties, cities and other political subdivisions must not be rated less than A or its equivalent by at least one nationally recognized investment rating firm, unless explicitly backed by the full faith and credit of the United States. Mutual funds must not be rated less than AAA or its equivalent by at least one nationally recognized investment rating firm. MMMFs are not required to be rated. LGIPs must not be rated less than AAA or an equivalent by at least one nationally recognized investment rating firm. If an investment that was eligible at the time of purchase becomes ineligible during the holding period, consistent with the PFIA 2256.017, the City is not required to liquidate the investment. The City shall take all prudent measures that are consistent with this policy to analyze the investment and determine the most prudent course of action to minimize any potential loss.

Quality and Capability of Investment Management

Subject to availability of funds, the City shall provide periodic training in investments for investment officers through courses and seminars offered by professional organizations and associations, in order to insure the quality and capability of the City's investment officers.

Training

Under the PFIA 2256.008, investment officers must attend at least ten hours of instruction relative to their responsibilities within twelve months after taking office or assuming duties from an independent source approved by the investment committee. In addition, each officer must receive at least eight hours of instruction at least once in a two year period that begins on the first day of the fiscal year and consists of two fiscal years after that date relating to investment responsibilities from an independent source approved by the investment committee. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the PFIA.

Internal Controls and Compliance Audit

The Director of Finance is responsible for establishing appropriate internal controls. The investment policy requires, in conjunction with its annual audit, a compliance audit of management controls on investments and adherence to the City's established investment policies.

Investment Policy Review and Adoption

The City's investment policy shall be reviewed and revised periodically by the Investment Committee and recommended for Council approval, when necessary. In addition, the policy must be reviewed not less than annually by the City Council. This review will include the adoption of a written resolution stating that the Council has reviewed the

investment policy and accepted any changes made.

Investment Committee

An Investment Committee comprised of the investment officers will meet on a quarterly basis. In addition to the monthly and quarterly reporting to City Council, the Treasurer will present a brief report of pertinent investment activities to the Investment Committee. The primary objective of the committee will be to review general strategies and policies, monitor investment program results, select independent training sources, and authorize securities dealers.