



Smith County Emergency Services District 2

Investment Policy

1. Definitions

- a) **Board** – means the Board of Commissioners of the District.
- b) **District** – means Smith County Emergency Services District 2.
- c) **Investment Officer** – means a person designated by the Board to handle District Investments.
- d) **PFIA** – means the Texas Public Funds Investment Act, Government Code 2256.
- e) **Policy** – means this written and adopted Investment Policy.

2. Purpose and Scope

a) Purpose

It is the policy of the District to invest all available funds in compliance with applicable federal, state and local statutes. This Investment Policy is adopted in order to comply with the Texas Government Code 2256, the Public Funds Investment Act, and to set forth and promote a general understanding of the constraints, objectives and other general policies governing the conduct of the investment program of District funds.

b) Scope

This Investment Policy applies to all financial assets of the District. **No investment transactions shall be made outside the limits of this Policy.**

To enable the District to pool cash for investment purposes, all regular deposits will be concentrated with one central depository. In addition, to the fullest extent possible, all un-invested District funds shall be deposited with the District's main depository bank.

If funds deposited with the District's depository bank(s) exceed the value insured by the Federal Deposit Insurance Corporation, then such excess value shall be secured by pledged collateral in accordance with the Public Funds Collateral Act, Chapter 2257 of the Texas Government Code as well as with Section 5 of this Policy.

3. Investment Strategy and Objectives

The primary investment strategy of the District is to invest public funds in a suitable manner that will provide a reasonable rate of return, compatible with the stated safety of principal constraint, whilst meeting the daily cash flow demands as well as conforming to all state and local statutes governing the investments of public funds.

A further strategic imperative is to ensure that the Board and Investment Officers always have a complete and full understanding of the features of authorized investments and their suitability in regards to the District's stated investment objectives, listed below in order of priority:

- a) **Safety of Principal** – The single most important objective of the District is to ensure the preservation of principal. All other objectives are secondary to the safety of principal objective.
- b) **Liquidity** – Funds must always be available to pay for the District's ongoing operating expenses and for planned capital expenditures. As such, investments should be managed to ensure that a balance of at least three (3) months of projected expenses and expenditures are always kept extremely liquid.
- c) **Marketability** – Although the District will purchase investments with the original intent to hold to maturity, any investments bought by the District should have an active and efficient secondary market, should the need arise to liquidate an investment before maturity.
- a) **Diversification** – The District shall endeavor to diversify its investment portfolio in terms of the following dimensions:
 - Final Maturities (i.e., spread the investments amongst several different maturities).
 - Agencies and Instrumentalities (i.e., invest in securities issued by more than one agency or instrumentality and amongst States and the U.S. Government securities).
 - Investment Pools (i.e., invest in more than one Pool).
- d) **Weighted Average Maturity for Authorized Investment Pools** – The maximum dollar-weighted average maturity allowed for the investment pool portfolio is 365 days, based on the stated final maturity date.
- e) **Maximum Maturities** – The District shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the maximum stated final maturity for any individual investment is two (2) years from the date of purchase.
- f) **Yield** – The District will seek to attain a reasonable yield within the constraints of the above mentioned objectives with a particular emphasis on the primary objectives of Safety of Principal and Liquidity.

4. Authorized Investments

The District's investment options are more restrictive than those authorized by the Texas Public Funds Investment Act ("PFIA"). **Only those investments listed in this section are authorized investments in which the District's funds may be invested:**

- a) Direct obligations of the United States or its agencies and instrumentalities.
- b) Direct obligations of the State of Texas or its agencies and instrumentalities.
- c) Other obligations, the principal and interest of which, are unconditionally guaranteed, collateralized, insured, or backed by the full faith and credit of the United States or the State of Texas, as well as any obligation fully guaranteed or fully insured by the Federal Deposit Insurance Corporation.
- d) Obligations of states, agencies, counties, cities, and other political subdivisions of any State having an S&P credit rating not less than AA or its equivalent.
- e) Government Money Market Mutual Funds, with these specifications: No load, SEC regulated and holdings limited to U.S. Government / Agency positions.
- f) Texas Local Government Constant Dollar Investment Pools, approved through a resolution by the Board, continuously rated no lower than AAA or AAA-m or equivalent by at least one nationally recognized rating service. To constitute an Authorized Investment, an Investment Pool must limit its portfolio holdings to the following instruments:
 - **US Government Securities:** Treasury Bills, Notes and Bonds.
 - **US Agencies**, including:
 - Federal Home Loan Bank (FHLB)
 - Federal National Mortgage Association (aka Fannie Mae or FNMA)
 - Federal Home Loan Mortgage Corp. (aka Freddie Mac or FHLMC)
 - Federal Farm Credits Bank (aka FFCB)
 - **Repurchase Agreements**, collateralized with US Governments /Agencies
 - **Government Money Market Mutual Funds**, with these specifications: No load, SEC regulated and holdings limited to U.S. Government / Agency positions.
 - **FDIC Insured Certificates of Deposits**

To constitute an Authorized Investment under this Policy, an Investment Pool must **NOT** include Commercial Paper in its holdings.

Lastly, to be eligible to receive funds from and invest funds on behalf of the District, an investment pool must furnish to the Investment Officer or other authorized representative an offering circular or other similar disclosure instrument that contains information required by the Texas Public Funds Investment Act, Government Code 2256.016.

5. Collateralization by Means of Pledged Securities

Collateralization under a Collateral Pledge Agreement conforming to the Texas Public Funds Collateral Act, Government Code 2257 will be required on the following balances:

- a) Bank deposits (amounts over and above the FDIC coverage).
- b) Certificates of deposits (amounts over and above the FDIC coverage).

To provide additional security, the collateralization level will be 102% of market value of all uninsured balances, plus accrued interest, if any. The District chooses to limit eligible collateral to the following:

- Direct obligations of the United States or its agencies and instrumentalities.
- Direct obligations of the State of Texas or its agencies and instrumentalities.
- Other obligations, the principal and interest of which, are unconditionally guaranteed, collateralized, insured, or backed by the full faith and credit of the United States or the State of Texas, as well as any obligation fully guaranteed or fully insured by the FDIC.
- Obligations of states, agencies, counties, cities, and other political subdivisions of any State having an S&P credit rating not less than AA or its equivalent.
- A Standby Letter of Credit issued by the Federal Home Loan Bank (FHLB).

The right of collateral substitution may be granted provided that the Investment Officers have reviewed and approved of any requested collateral substitution before such substitution is executed. **However, the Investment Officers are explicitly prohibited from making any Policy changes or waiving any requirements of the Policy without prior Board approval.**

6. Delegation of Investment Authority

The Treasurer of the Board of Commissioners and the District's staff Executive Director will serve as the Investment Officers for the District and are so designated by this resolution of the Board. The Board may authorize additional individuals as Investment Officers by resolution. The Investment Officers are responsible for the investment of District funds and have the authority to deposit, withdraw, invest, transfer, and manage the District's funds in accordance with this Investment Policy. **However, the District Board of Commissioners retains the ultimate fiduciary responsibility for investment of the District's funds.**

7. Capability and Training of Investment Officers

To ensure the quality and capability of the District's investment personnel, in compliance with the PFIA, the District shall provide periodic training in investment management for the Investment Officers through courses and seminars offered by professional organizations and associations. At a minimum, the Investment Officers shall obtain:

- a) One training session of no less than 10 hours of instruction within 12 months after taking such position, which must include education in investment controls, security risks, market risks, and compliance with the PFIA.

- b) 10 hours of relevant investment training not less than once in a two-year period that begins on the first day of the fiscal year and consists of consecutive fiscal years after that date.

8. Ethics Disclosure and Conflicts of Interest

- a) Officers and employees involved in the investment process must 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.
- b) The Investment Officer(s) must file a disclosure statement with the Texas Ethics Commission and the Board if:
 - The officer has a personal business relationship with a business organization offering to engage in an investment transaction with the District (as defined in 2256.005 (i)), or
 - The officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the entity. PFIA 2256.005 (i).

9. Standard of Care

Investment decisions 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.

The standard of care to be used by investment officials shall be the "**prudent person**" standard and shall be applied in the context of managing an overall portfolio. Investment Officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility of an individual security's credit risk or market price changes, provided deviations from expectation are reported in a timely fashion and appropriate action is taken to control adverse developments.

10. Authorized Brokers / Dealers and Associated Parameters

a) Authorized Brokers / Dealers

It is anticipated that the District will use brokers / dealers for some of its investments. As such, the Investment Officer will create a list of qualified broker / dealers authorized to engage in investment transactions with the District. This list, will be reviewed, revised and adopted at least annually by the Board. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1.

Although not a legal requirement, but in conformance with best practice, the Investment Officer shall attempt to receive the following from all financial institutions and brokers / dealers who desire to become a qualified bidder for investment transactions:

- An "Acknowledgement of Receipt of Investment Policy" signed by a qualified representative confirming that they have read the District's Investment Policy. At a

minimum, the Investment Officer shall always present a written copy of the Investment Policy to such business organization whether a receipt is obtained or not;

- An acknowledgement that the organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the District's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

b) Delivery vs. Payment

All security transactions entered into by the District shall be conducted on a delivery-versus-payment basis, except transactions with Texas Local Government Constant Dollar Investment Pools and Government Money Market Mutual Funds.

c) Competitive Bidding

When feasible, and in conformance with best practice, the Investment Officer shall strive to receive at least three competitive offers or bids for all individual security purchases and sales conducted with authorized brokers / dealers. Excluded from this requirement are transactions with Texas Local Government Constant Dollar Investment Pools, Government Money Market Mutual Funds, and offers for new issue securities which are issued at par value and as such are deemed to be issued at prevailing market rates. Also excluded from this requirement are secondary offerings and/or street offerings conducted through a broker-dealer with which the District has a contractual relationship and where the bid-offer spread of the transaction is transparently disclosed and reported through the use of the Trade Reporting and Compliance Engine ("TRACE") as developed by the Financial Industry Regulatory Authority ("FINRA").

11. Independent Third-Part Safekeeping

When feasible, and in conformance with best practice, the Investment Officer shall attempt to ensure that securities and collateral be held by a third party custodian designated by the District, and held in the District's name as evidenced by clearly marked forms of safekeeping receipts issued by such custodian. Examples of such receipts include book entry and trust receipt.

12. Investment Reporting and Control

Not less than quarterly, the Investment Officer shall prepare and submit to the Board an investment portfolio report. The report must meet all criteria of Section 2256.023 of the PFIA. Specifically, but not limited to, the report must:

- a) Describe the investment position of the District as of the end date of the report.
- b) Be prepared jointly and signed by all Investment Officers of the District.
- c) Include a summary statement listing the following:
 - Beginning market value for the reporting period

- Ending market value for the reporting period
- Fully accrued interest for the period

Reported market values will be vetted by the Investment Officer using independent sources such as the Wall Street Journal or other online securities pricing services.

- d) State the maturity date of each separately invested asset.
- e) State how the District has complied with the investment strategy expressed in this Policy and the relevant provisions of the PFIA.
- f) State the ratings of District investments that have a minimum required rating using at least one nationally recognized rating service. If any security falls below the minimum rating required by this Policy, the Investment Officer shall immediately advise the Board of the loss of rating. The Board and the Investment Officer will determine if selling the security is in the best interest of the District; however, per Section 2256.017 of the PFIA, the District is not required to liquidate any investments that were authorized at the time of the purchase.
- g) At least annually, be formally reviewed by an independent auditor and reported to the Board.

13. Compliance Audit

In conjunction with the District's annual financial audit, a compliance audit of management controls on investments and adherence to this Investment Policy shall be performed by an independent auditor with a report of the results made to the Board.

14. Changes to the Public Funds Investment Act

The Investment Officer shall present a report to the Board on changes to the Public Funds Investment Act within six months after the end of each regular legislative session.

15. Investment Policy Adoption

This Investment Policy shall be adopted by resolution of the Board of Commissioners of the Smith County Emergency Services District 2. The Policy shall be reviewed and adopted by a board resolution annually. Any future changes made to the current policy should be listed in the resolution. Even if no changes are made to the Policy, the Board must still adopt a resolution on an annual basis. In the event state law changes and the District cannot invest in the investments described in this Policy, this Policy shall automatically be amended to conform to existing law.

Authorized Texas Local Government Investment Pools

TexPOOL Investment Pool

(866) 839-7665

Houston, TX

TexasCLASS Government Investment Pool

(800) 707-6242

Denver, CO

TexasDAILY Investment Pool

(866)839-8376

Southlake, TX

TexasTERM Investment Pool

(866)839-8376

Southlake, TX

Authorized Brokers / Dealers

UBS Financial Services, Inc.