



City of Palestine Texas
Investment Policy

Adopted by City Council
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I. PURPOSE

The purpose of this Policy is to provide policy and strategy guidelines for the prudent investment of funds of the City of Palestine, Texas, in order to achieve the goals of safety, liquidity, yield, and diversification for all investment activity. It is the policy of the City of Palestine that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, adopted Investment Policy and adopted investment Strategy.

II GOVERNING AUTHORITY

Public Funds Investment Act. All investments shall be managed in a manner responsive to the public trust, consistent with state and local law, including Texas Government Code Chapter §2256, the Public Funds Investment Act (PFIA or "the Act").

Local Governance. The City Council retains ultimate fiduciary responsibility for the city portfolio. The Assistant City Manager / CFO, is designated by City Council as the Investment Officer of the City and a Finance Director, Assistant Finance Director or Other Investment Officers may be additionally designated to provide adequate redundancy at all times by properly trained and informed staff. The City may engage the services of one or more external investment managers to assist in the management of the entity's investment portfolio in a manner consistent with the entity's objectives (PFIA §2256.005 (f)). Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy and held to the Prudent Investor standard of care. No person may engage in an investment transaction except as provided under the terms of this Policy.

Trained Staff. All investment officers shall attend at least one training session provided by an independent source, in accordance with the Act, within 12 months after assuming investment duties and shall attend ten hours of training every two successive fiscal years beginning at the first day of the fiscal year. (PFIA §2256.008)

III. SCOPE

Included Funds. This investment policy applies to all funds and investment activities of the City of Palestine. Investments of City funds may be made on a pooled basis, funds being defined and reported in the City's Comprehensive Annual Financial Report (CAFR) and include any new funds created unless specifically excluded by City Council.

Excluded Funds. This policy specifically excludes separately managed retirement or deferred compensation funds and the proceeds of certain financing programs subject to provisions of specific bond issuance requirements.

Pooled Cash. The City of Palestine maintains one commingled portfolio for investment purposes which incorporates the specific investment strategy considerations and the unique characteristics of the fund groups represented in the portfolio. Although different funds have differing cash flow and liquidity requirements, the current practice of the city is to pool invested cash, taking into consideration the current-year budgeted debt Service and Capital Improvement expenditures (may be either kept in liquid investments or matched with maturities).

IV. OBJECTIVES

The City of Palestine shall manage and invest its cash and assets with major objectives, listed in order of priority

- A. Suitability of the investment to the financial requirements of the city;
- B. Safety - preservation and safety of principal. A primary objective of the City's investment activity is the preservation of capital. Each investment transaction shall be conducted in a manner to avoid capital losses arising from security default, institution default, broker-dealer default, safekeeping fraud, or avoidable loss on sale of an investment.
- C. Liquidity. The City's investment portfolio shall be structured to meet all expected obligations in a timely manner, achieved by comparing investment maturities with forecasted cash flow liabilities and maintaining sufficient liquidity for contingencies across all funds.
- D. Marketability. Marketability of the investment prioritizes guarding against investment principal loss should the need arises to liquidate the investment before maturity;
- E. Diversification. The City's portfolio shall be diversified with appropriate attention given to market sector, issuers and maturity dates.
- F. Yield. Having first satisfied the preceding priorities, the investment program shall seek to exercise prudent stewardship by achieving reasonable returns consistent with risk limitations and prudent investment practices.

V Standards of Care

Prudence. The standard of prudence 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 this investment policy and exercising due diligence shall be relieved of personal liability for an individual security's credit 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 "prudent person" standard states that, "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 probable income to be derived."

Ethics and Conflicts of Interest. Officers and employees involved in the investment process shall refrain from or disclose personal activity that could conflict with the 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, to the governing body, any material financial interest in financial institutions with which they conduct business and any large personal financial / investment positions that could be related to the performance of the City's portfolio. Employees and officers shall refrain from or disclose any personal investment transactions with the same agents with whom business is conducted on behalf of the City and shall avoid or disclose transactions that might impair public confidence.

An investment officer has a personal relationship (to city council and/or the Texas Ethics Commission) with an entity that the city has an investment interest in if 1) they are related

within the second degree of consanguinity to a counter party to an investment transaction; or 2) they own 10 percent or more of the voting stock or shares of the entity, or owns \$5,000 or more of the fair market value of the entity, or 3) they received funds personally from the entity exceed 10 percent of their gross income for the preceding 12 months, or 4) they personally acquired investments from the entity during the preceding 12 months with a market value of \$2,500 or more, or 5) they or a family member has received gifts with an aggregate value of \$100 in the preceding 12 months. (Local Government Code §176.003(a)(2)(A) and (B))

VI Authorized Financial Institutions, Depositories and Broker/Dealers

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by conducting a process of due diligence. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

A. The investment officer shall determine which financial institutions are authorized to provide investment services to the City. Institutions eligible to transact investment business with the City include Primary government dealers as designated by the Federal Reserve Bank; nationally- or state-chartered banks; the Federal Reserve Bank; and, direct issuers of securities eligible for purchase.

B. Selection of financial institutions and broker/dealers authorized to engage in transactions with the city shall be at the sole discretion of the city.

C. All financial institutions who desire to become depositories must supply the following: audited financial statements demonstrating compliance with state and federal capital adequacy guidelines, proof of state registration, compliance with §2257 collateralization requirements, acknowledgement of this policy and evidence of adequate insurance coverage.

D. A periodic review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

E. The City may contract with an investment management agent registered under the Investment Advisors Act of 1940 (15 U.S.C. §80b-a et seq.) and with the State Securities Board to execute discretionary investment transactions and provide management of the investment portfolio within the guidelines of this policy. The advisory contract may not be for a term of more than two years. A renewal or extension of the contract must be made by resolution of City Council. At no time shall the advisor take possession of securities or funds but will be required to have securities delivered to a third party custodian. Monthly reports on the portfolio activity and holdings are to be provided by the investment advisor to the City investment officer and quarterly reports to City Council. Investment advisors are to be selected according to standard municipal practice requirements that include: proof of FINRA certification, state registration, completed broker/dealer questionnaire (BDQ), certification of having read and understood and agreeing to comply with this investment policy, and evidence of adequate insurance coverage. Consideration in ranking applicants will consider fees, references from other Texas municipalities, services offered, responsiveness and quality of reporting.

VII COMPETITIVE TRANSACTIONS

A. Competitive bid information will be required on all purchases of investment instruments purchased on the secondary market (new issues are excepted). A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.

B. If the Entity is offered a security for which there is no readily available competitive offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price.

C. If the Entity hires an investment adviser to provide investment management services, the adviser must provide documentation of competitive pricing execution on each transaction. The investment adviser will retain documentation and provide upon request.

VIII SAFEKEEPING AND CUSTODY

A. **Delivery vs. Payment.** All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.

B. **Third-Party Safekeeping.** Securities will be held by an independent third-party safekeeping institution selected by the City. All securities will be evidenced by safekeeping receipts in the City's name. The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011.)

IX Internal Controls

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the city are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- Preventions of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Dual authorizations of wire transfers
- Staff training and

- Review, maintenance and monitoring of security procedures both manual and automated.

The external independent auditor shall provide an annual independent review to assure compliance with state law, policies and procedures.

X AUTHORIZED AND SUITABLE INVESTMENTS

Investments described below are authorized by the Public Funds Investment Act as eligible securities for the City, subject to the following limitations by City Council:

A. PERMITTED INVESTMENTS:

- Obligations of the United States or its agencies and instrumentalities (PFIA §2256.009).
Example: U.S. Treasury bills, notes and bonds
- Direct obligations of State of Texas or its agencies and instrumentalities (PFIA §2256.009)
Example: State of Texas bonds or issues of other Texas cities and agencies
- Other obligations, the principal and interest on which are unconditionally guaranteed, or insured by, the full faith and credit of the State of Texas or the United States or their respective instrumentalities. (PFIA §2256.009)
Example: Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB)
- Certificates of deposit (CDs) and share certificates issued by a depository institution that has its main office or a branch office in Texas guaranteed or insured as required by PFIA §2256.010. A certificate of deposit or share certificate is authorized if the certificate is issued by a depository institution that has its main office or a branch office in Texas and is (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 have a market value of not less than the principal amount of the certificates; or (3) secured in any other manner and amount provided by law for deposits of the investing entity.
- Repurchase Agreements that (1) have a defined termination date; (2) are secured by a combination of cash and obligations described by PFIA Section 2256.009.a.1; and (3) require the securities being purchased by the entity or cash held by the entity to be pledged to the entity, held in the entity's name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the entity; and (4) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas. (PFIA §2256.011)
- Bankers Acceptances, if the instrument (1) has a stated maturity of 270 days or fewer from the date of its issuance; (2) will be, in accordance with its terms, liquidated in full at maturity; (3) is eligible for collateral for borrowing from a Federal Reserve Bank; and (4) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally-recognized credit rating agency. (PFIA §2256.012)
- Commercial Paper, if the commercial paper (1) has a stated maturity of 270 days or fewer from the date of its issuance; and (2) is rated not less than A-1 or P-1 or an equivalent

rating by at least: (A) two nationally recognized credit rating agencies; or (B) 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. (PFIA §2256.0130)

- Government Investment Pools are specifically authorized if the city council (“by rule, order, ordinance, or resolution, as appropriate”), authorizes investment in the particular pool. The City of Palestine specifically authorizes investments in TexPool and TexSTAR. (PFIA §2256.016)

TexPool is a Texas Local Government Investment Pool administered by the Texas Comptroller of Public Accounts as public funds investment pool authorized to receive, transfer, and disburse money and securities as provided by statute or belonging to the state, agencies, and local political subdivisions and other organizations created on behalf of the state or agency or political subdivision of the state. TexPool invests in U.S. Treasury and government agency securities, repurchase agreements, and certain mutual funds.

TexSTAR is a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives administered by First Southwest and J.P. Investment Management Inc. The fund is rated AAAM by Standard and Poor’s and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas PFIA for local government investment pools.

- Collateralized Money Market, Savings or Demand Deposits (Checking accounts) are to be held by institutions domiciled in Texas, governed by a depository contract that complies with this policy and State and Federal regulations for municipal funds, and are to be guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or secured by obligations conforming to this policy and the collateralization requirements of the Texas Public Funds Collateral Act. The total value of eligible security to secure a deposit of public funds must be in an amount not less than the amount of the deposit of public funds: (1) increased by the amount of any accrued interest; and (2) reduced to the extent that the United States or an instrumentality of the United States insures the deposit. (Public Funds Collateral Act. §2257.022)
- If additional types of securities are approved for investment by public funds by state statute, they will not be eligible for investment by the city until this Policy has been amended and the amended version adopted by the governing body.

B. PROHIBITED INVESTMENTS:

- Collateralized mortgage obligations
- Inverse Floaters
- Money market mutual funds
- Principle-only or Interest-only mortgage-backed securities
- Any investment not permitted by City Council in this policy

XI DIVERSIFICATION

At the time of purchase:

The maximum allowable portion of the City's total portfolio invested in

- Obligations of the United States or its agencies and instrumentalities shall be 80% or less.
- State and local government securities shall be 50% or less.
- The maximum allowable exposure to any one issuer shall be 10% or less of the total portfolio, across all city portfolio holdings.
- Bankers Acceptances shall be 20% or less.
- Commercial Paper shall be 20% or less.
- Repurchase Agreements shall be 20% or less.
- Certificate of Deposit (CDs) shall be 40% or less.
- Government Investment Pools may be up to 100%.
- Collateralized Money Market, Savings or Demand Deposits may be up to 100%.

Bond proceeds may be invested in a single security, subject to Federal arbitrage restrictions.

Staggered maturities are to be a component of the investment strategy employed to minimize reinvestment risk due to rate fluctuations. A laddered strategy is to be employed for that portion of the City's portfolio that represents fund balance held in compliance with city reserve policy plus reasonable reserves above reserve policy.

XII MAXIMUM MATURITIES

The weighted average days to maturity for the investment portfolio in total shall not exceed 2½ years. The maximum maturity of any one investment shall not exceed five years.

XIII COLLATERAL

Consistent with State law requirements, the City requires all bank deposits to be federally-insured or collateralized with eligible securities. Financial institutions serving as City depositories will execute a Depository Agreement. The safekeeping portion of the Agreement shall define the City's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations.

Time and Demand Pledged Collateral. All City time and demand deposits shall be secured above FDIC coverage by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, collateral will be maintained and monitored by the depository at 102% of market value of principal and accrued interest on the deposits. The bank shall review collateral at least weekly to assure that the market value of the pledged securities is maintained at 102% or more.

Repurchase Agreements' purchased security value shall include accrued interest applicable to the security. The security's market value must be maintained at a minimum level of 102% of

the principal value. Market value of repurchase agreement securities are to be required monthly.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository in accordance with a safekeeping agreement signed by authorized representatives of the City, the Depository, and the custodian (with the exception of the Federal Reserve as Custodian).

The City shall require monthly reports from institutions that hold deposits for the City, demonstrating compliance of pledged securities. All collateral shall be subject to inspection and audit by the City or the City's independent auditors.

XIV PERFORMANCE STANDARDS

A. **Benchmark.** The City's cash management portfolio shall be managed using a comparison object of the yield of TexPool, the Texas governmental pool which is typically the next investment choice for cash deemed to be available over and above foreseeable city checking account needs.

B. **Downgraded Securities.** The city may, from time to time, be invested in a security whose rating is downgraded. In the event a rating drops below the minimum allowed by this policy, the investment officer will review and recommend an appropriate plan of action to the City Manager and City Council, no less frequently than quarterly. If the city has an Investment Advisor, that Investment Advisor shall notify the city and recommend a plan of action. The city may continue to hold a downgraded investment to maturity if a probable outcome is the eventual realization of full value, rather than a realized loss if divested prior to maturity.

XV REPORTING AND DISCLOSURE

A. **Quarterly Reports.** The investment officer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter. This management summary will be prepared in a manner which will allow the city council to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the city manager and the city council. The report should include, at a minimum, the following:

1. An asset listing showing par value, cost and accurate and complete market value of each security (including marking to market), type of investment, issuer, and interest rate;
2. Average maturity of the portfolio;
3. Maturity distribution of the portfolio;
4. Credit quality of portfolio holdings; and,
5. Average weighted yield to maturity of portfolio on investments and comparison to applicable benchmark
6. Distribution by type of investment.

B. **Annual reports.** The investment policy shall be reviewed at least annually within 120 days of the end of the fiscal year to ensure its consistency with the overall objectives of preservation

of principal, liquidity and return, and its relevance to current law and financial and economic trends.

C. Annual audit. Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls. Such audit will include tests deemed appropriate by the auditor according to current audit standards.

XVI INVESTMENT STRATEGY

A. Buy and Hold. As a strategy, the City of Palestine's investments will not be actively traded, meaning that no attempt to "buy low and sell high" or "time the market" will be made. Investments purchased with the intent of providing investment income shall be intended to be held to maturity, relying on following a prudent course of action for income rather than predicting market direction. Securities may be sold before they mature if market conditions present an opportunity for the City to capture a benefit or to avoid a risk but the strategy will be primarily buy-and-hold.

B. Portfolio Segmenting. In keeping with the priorities of Safety, Liquidity then Yield, the first considerations of investing will be the immediate operational needs and scheduled disbursements of capital expenditures and debt service payments. This constitutes the Liquidity Segment of the portfolio and will be maintained sufficiently available to assure availability when needed. The portion of the city's cash reserves which, upon historical analysis, long-term budgetary planning or council-approved reserve policy, will not be subject to spending can be invested comfortably in a longer-term program. This constitutes the Investment Income segment of the portfolio. This portion can be laddered, a common municipal strategy, dividing up into smaller staggered maturities, safely invested for longer periods of time.

XVII REVIEW, APPROVAL AND ADOPTION

The City Council of the City of Palestine shall review its investment strategies and policy no less than annually.

XVIII GLOSSARY

Accrued Interest – Interest earned but not yet received.

Active Investment Management – the active trading of securities in an effort to earn above-average returns on a portfolio by the continual monitoring of financial markets, spreads and pricing opportunities of individual securities. (see also Passive Investment Management)

Amortization – a mathematical calculation that pays off a balance evenly while at the same time adding the interest earned every period that is due.

Arbitrage – The simultaneous buying and selling of similar assets and the profit from the price difference. The term is commonly used by municipal debt issuers (the City is a debt issuer) for investing bond proceeds.

Bankers Acceptance – (also known as a Bill of Exchange) a commercial bank draft requiring the bank to pay the holder of the instrument a specified amount on a specified date, which is typically 90 days from the date of issue, but can range from 1 to 180 days..

Bond proceeds - the proceeds from the sale of bonds, notes, and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.

Book entry – the recording or receiving of security ownership electronically, as opposed to receiving a paper certificate.

Book value - the original acquisition cost of an investment plus or minus the accrued amortization or accretion.

Broker – someone who brings buyers and sellers together, compensated for this service.

Callable Bond – a bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer.

Capital Expenditures – is an amount spent to acquire or improve a long-term asset such as equipment or buildings, typically large projects, typically spent in large payments often across multiple years.

Certificate of Deposit (CD) – a deposit of funds for a specified period of time that earns interest at a specific interest rate.

Collateral – The underlying securities that are pledged to secure deposits, a requirement of municipal funds. Also used in conjunction with repurchase agreements to protect the investor from default by the counter party.

Commercial Paper – Short-term negotiable unsecured promissory notes of corporations.

Counter Party – A counterparty is the other party that participates in a financial transaction. Every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

Coupon – the annual rate of interest that a bond's issuer pays the bondholder.

Custody– (also known as Safekeeping) The service, usually by a financial institution (the custodian), of holding and reporting a customer's holdings. This is a fraud prevention best practice, guarding against dishonest practices of reporting assets that don't exist.

Debt Service – the payments consisting of the principal and interest due on the amortization schedule of debt, usually referring to the paydown of city debt, normally included in the current year's budget.

Deliver vs. Payment (DVP) – A settlement procedure whereby (electronic) payment for a purchase or a sale is made simultaneously with the (electronic) transfer of the investment to or from the custodian.

Demand Deposit – funds on deposit available at any time, "on demand," such as a checking account.

Discount– The amount that an investment sells for which is less than its face value, for example to equalize the interest rate of the issue with prevailing rates in the market. . A discounted price will be paid for a bond that pays 2% coupons in a market that is now paying 5% returns.

DK – (don't know) a trade that cannot be settled by a clearing house because data is missing or the counterparties have contradictory or otherwise inconsistent information on the trade.

Diversification – Dividing investments among a variety of securities, issuers, maturities and depositories to reduce the risk to the investor of any one failure. Think "putting eggs in more than one basket" in various ways.

Duration – a measure of the timing of the cash flows to be received from an investment, an indicator of its price volatility for given interest rate changes. The calculation is based on three variables: term to maturity, coupon rate and yield to maturity.

Fannie Mae – The trade name for the Federal National Mortgage Association (FNMA), a U.S. sponsored corporation.

Federal Deposit Insurance Corporation (FDIC) – Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit per account.

Federal Reserve System – the central bank of the U.S. which consists of a seven-member Board of Governors, 12 regional banks and commercial member banks.

Financial Industry Regulatory Authority, Inc. (FINRA) - a private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD) and the member regulation, enforcement and arbitration operations of the New York Stock Exchange.

Freddie Mac – The Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a U.S. sponsored corporation.

Funds – 1) cash in the custody of a state agency or local government that: (A) are not required by law to be deposited in the state treasury; and (B) the investing entity has authority to invest; 2) a completely separate set of books established to account for activities of the city for which accountability is required separately. The city's General Fund accounts for all activities for which separate accounting is not required separately.

GASB - Government Accounting Standards Board. The governing and standard-setting authority that prescribes the set of rules the City and all municipalities are subject to.

Ginnie Mae – the trade name for the Government National Mortgage Association (GNMA), a Government sponsored entity whose debt obligations bear the full faith and credit of the U.S. Government.

Government Securities – An obligation of the government, backed by the full faith and credit of that government. U.S. Treasury Bills, Notes and Bonds are regarded as the highest quality of investment securities in the U.S. securities market.

Interest Rate – the price at which a present value is compensated for a future value, expressed as a percentage.

Interest Rate Risk – the risk associated with declines or rises in interest rate that cause an investment in a fixed-income security to increase or decrease in market value.

Investment pool - an entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are: (A) preservation and safety of principal; (B) liquidity; and (C) yield.

Leverage - Increasing the output compared to the input. In investments, a negative application would be multiplying the yield on investable funds by investing using borrowed funds in addition to cash on hand; the risk is that when a loss is experienced, the borrowed funds must be repaid in full, multiplying the loss to the investor.

Liquidity – An asset that can easily and rapidly be converted into cash (without loss of value).

Mark-to-Market- the requirement of reporting the value of an investment at its market value, rather than its cost (book value) or its future value.

Market Risk – the risk that the value of a security will rise or decline as a result of changes in market conditions, typically interest rates.

Market value - the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

Maturity – the date upon which the principal of an investment is due and paid.

Medium term – (also known as Mid-Term) maturities of one to two years.

National Association of Securities Dealers (NASD) - A self-regulatory organization (SRO) of brokers and dealers in the over-the-counter securities business. Its regulatory mandate includes authority over firms that distribute mutual fund shares as well as other securities.

Par Value – (face value) the amount of principal that must be paid at maturity.

Passive Investment Management- investing with the intention of holding them to maturity rather than seeking to make gains through market price fluctuations.

Pooled fund group - an internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

Premium – The amount by which the price paid for an investment exceeds its face value. A premium price will be paid for a bond that pays 5% coupons in a market that is now paying 2% returns.

Principal – The initial investment paid. The cost associated with an expected return.

Qualified representative - a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following: (A) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers; (B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution; (C) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or (D) for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

Repurchase Agreement – (also known as a Repo) A transaction in which a holder of securities sells those securities to an investor with an agreement to repurchase (buy) them back for a fixed price at a certain date. A Master Repurchase Agreement is a written contract governing all future transactions between the parties.

Reverse Repurchase Agreement – The opposite of a Repurchase Agreement. The investor owns the securities or collateral and a bank or dealer temporarily exchanges cash for the collateral, for a specific period of time at a certain interest rate.

Risk – the degree of uncertainty of return of principal and/or interest.

Separately invested asset - an account or fund of a state agency or local government that is not invested in a pooled fund group.

State agency - an office, department, commission, board, or other agency that is part of any branch of state government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities.

Total Return – interest income plus the gain (or loss) on an investment. Note that the gain or loss may be unrealized, as in the case where the investment is required to be reported at the market price even though the City plans to hold it to maturity and receive full face value.

Treasury Bills - (T-Bills) short term direct obligations of the U.S. Government, issued with original maturities of 13, 26 and 52 weeks (3-, 6-month and 1-year).

Treasury Bonds - (T-bonds) long term direct obligations of the U.S. Government, issued with original maturities greater than 10 years.

Underwriter – a dealer who purchases a new issue of municipal securities for resale.

Yield – (return) the income received through from interest received. A dollar today is worth more than a dollar tomorrow, therefore an investor expects compensation for giving up a dollar today. The return includes factoring in risk that interest rates will change, that an investment can become worth less or worthless, and that reinvestment rates will be lower when the dollar is returned.

GOVERNMENT CODE, TITLE 10. GENERAL GOVERNMENT, SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT, CHAPTER 2256. PUBLIC FUNDS INVESTMENT, SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES

Can be found at: <http://www.statutes.legis.state.tx.us/Docs/GV/htm/GV.2256.htm>

GOVERNMENT CODE, TITLE 10. GENERAL GOVERNMENT, SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT, CHAPTER 2257. COLLATERAL FOR PUBLIC FUNDS

Can be found at: <http://www.statutes.legis.state.tx.us/Docs/GV/htm/GV.2257.htm>