

*CITY OF COPPERAS COVE, TEXAS
INVESTMENT POLICY*



City of Copperas Cove

Revised
August 18th, 2020

**City of Copperas Cove, TX
Investment Policy**

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I. INVESTMENT AUTHORITY AND SCOPE OF POLICY

The investment policy applies to the investment activities of the Government of the City of Copperas Cove. It is the policy of the City of Copperas Cove to invest public funds in a manner, which will provide the highest investment return with the maximum security. This policy serves to satisfy the statutory requirements of Local Government Code 116.112 and Government Code Chapter 2256 to define and adopt a formal investment policy. This policy will be reviewed and adopted by resolution at least annually according to Section 2256.005(e).

Funds Included. All financial assets of all funds, of the City of Copperas Cove, including the General Fund, Water and Sewer Fund, Solid Waste Fund, the Capital Projects Funds, the Special Revenue Funds, the Debt Service Funds, and all other funds that may be created from time to time, and any funds held in custody by the Director of Financial Services, unless expressly prohibited by law or unless it is in contravention of any depository contract between the City of Copperas Cove and any depository bank.

Funds Excluded. This policy according to Section 2256.004 shall not govern funds which are managed under separate investment programs. Such funds include the following:

- Funds established by the City for deferred employee compensation plans
- City's participation in the Texas Municipal Retirement System
- Defeased bonds held in trust escrow accounts

II. INVESTMENT OBJECTIVES

The primary objectives, in priority order, of the City of Copperas Cove's investment activities shall be according to section 2256.006:

Safety. Safety of principal is the foremost objective of the City of Copperas Cove. Investments of the City of Copperas Cove 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 in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity. The City of Copperas Cove's investment portfolio will remain sufficiently liquid to enable the City of Copperas Cove to meet all operating requirements, which might be reasonably anticipated. Portfolio maturities will be structured to meet the obligations of the City first, and then to achieve the highest return of interest consistent with the objectives of this policy. When the City has funds that will not be needed to meet current-year obligations, maturity restraints will be imposed based upon the investment strategy for each fund. The City of Copperas Cove shall invest in

instruments with scheduled maturity or duration not to exceed two (2) years at the time of purchase. In the event coupon security maturity exceeds the specified limit with a calculated duration of two (2) years, the instrument will satisfy this policy requirement. For pooled funds, the weighted maximum average dollar maturity shall be limited to a maximum of ninety (90) days, with the maximum maturity for any individual security in the portfolio not exceeding thirteen (13) months.

Yield. It will be the objective of the City to earn the maximum rate of return allowed on its investments within the policies imposed by its safety and liquidity objectives, investment strategies for each fund, and state and federal law governing investment of public funds.

III. INVESTMENT COMMITTEE

Members. The City of Copperas Cove Investment Committee will consist of the City Manager, Budget Director, Director of Financial Services, and Staff Accountant III. The Investment Committee shall receive quarterly reports, as outlined in this policy, and monitor the results and performance of the investment portfolio. The Investment Committee shall ratify all investments made by the Director of Financial Services. The Investment Committee shall select qualified independent accountants to perform an annual compliance audit of management controls on investments and adherence to the City's established investment policies in accordance with Gov. Code 2256.005(m). The results of such audit shall be presented to the Investment Committee in conjunction with the City's annual audit.

Scope. The Investment Committee shall include in its deliberations such topics: investment strategy, return on investments, market risk, economic outlook, portfolio diversification, maturity structure, potential risk to the City's fund, and authorized broker dealers.

IV. RESPONSIBILITY AND CONTROL

Delegation. Authority to manage the City of Copperas Cove's investment program is derived from the City of Copperas Cove's Code of Ordinances, City Charter, and Article VIII. Finance Administration, Sec. 8.01 (c) (7). Management responsibility for the investment program is hereby delegated to the Director of Financial Services. This person is responsible for all investment decisions and activities and shall be the City's investment officer. The Director of Financial Services may designate deputies to assist with the management of the investment portfolio. The Director of Financial Services shall be responsible for all transactions and compliance with the internal control, insure the safekeeping, custodial, and collateral duties, consistent with this investment policy.

Management and Internal Controls. GC Section 2256.005 the Director of Financial Services shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the independent auditor. The controls shall be designed to reasonably prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City of Copperas Cove. Dual control of all investment activities will consistently be maintained by the Director of Financial Services.

Transaction Authority. Certain signatory responsibilities are required to transact investments. Positions authorized as depository signatories shall be the City Manager, and the Director of Financial Services.

The persons holding these positions are also designated as authorized to transact wire transfers, buy/sell, and trade investments in accord with the goals and objectives of the City's investment strategy.

Bonding of all those individuals authorized to place, purchase, or sell investment instruments shall be required.

Prudence. In accordance with Government Code 2256.006, investments shall be made with the exercise of due care, 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 own capital as well as the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal; liquidity; and yield. This investment principle shall be applied in the context of managing the overall investment portfolio.

The Director of Financial Services when acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price dangers, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. In determining whether the Director of Financial Services has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration: (1) the investment of all funds, or funds under the control of the City, over which the Director of Financial Services had responsibility rather than a consideration as to the prudence of a single investment; and (2) whether the investment decision was consistent with the written investment policy of the City.

Training, Quality and Capability of Investment Management. It is the City's policy to provide training as required by the Public Funds Act, Sec. 2256.008 and periodic training in investments for the Director of Financial Services and designated investment officers. Authorized officers will be required to complete 10 hours of training within 12 months of assuming duties. Training shall be provided through courses and seminars offered by independent sources to ensure the quality, capability and competency of the Director of Financial Services and Investment Officers in making investment decisions. At a minimum, the Director of Financial Services and

Investment Officers must attend a training session once every two years and receive 8 hours of training.

Monitoring of Investments. The City of Copperas Cove's investment strategy is active. Given this strategy, the basis used by the Director of Financial Services to determine whether market yields are being achieved shall be the six-month U.S. Treasury Bill and the Average Fed Funds Rate. These rates may be obtained from the Wall Street Journal or other similar investment periodicals or journals.

V. ETHICS

Conflicts of Interest. Officers and employees directly involved in the investment process, and those authorized as depository signatories, shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Disclosure. Such employees shall disclose to the City Manager any material financial interests they have in financial institutions that conduct business with the City of Copperas Cove, and shall further disclose any large personal financial or investment positions that could be related to the performance of the City's portfolio. Such employees shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

If the Director of Financial Services has a personal business relationship with an entity--or is related within the second degree by affinity or consanguinity to an individual--seeking to sell an investment to the City, the Director of Financial Services must file a statement disclosing that personal business interest--or relationship with the Texas Ethics Commission in accordance with Government Code 2256.005 (i).

VI. REPORTING INVESTMENT EARNING EVALUATION

Quarterly Reports. In accordance with Government Code 2256.023, not less than quarterly, the investment officer shall prepare and submit to the City Council a written report of investment transactions for all funds for the preceding reporting period within a reasonable time after the end of the period. The report must:

- (1) describe in detail the investment position of the City on the date of the report;
- (2) be prepared jointly by all investment officer(s);
- (3) be signed by each investment officer of the entity;
- (4) contain a summary statement of each pooled fund group that states the:
 - A. beginning market value for the reporting period;
 - B. additions and changes to the market value during the period; and
 - C. ending market value for the period;
 - D. fully accrued interest for the period

- (5) state the 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; market value shall be determined by reference to published prices in the Wall Street Journal or by reference to other commonly recognized source of market information.
- (6) state the maturity date of each separately invested asset that has a maturity date;
- (7) state the account or fund or pooled group fund in the city for which each individual investment was acquired; and
- (8) 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; and relevant provisions of the Public Funds Investment Act.
- (9) state the total rate of return on the investment portfolio
- (10) the quarterly investment reports shall be reviewed by the City's independent auditors, as part of the City's annual audit and the result of this review shall be reported to the City Council.

Annual Report. Within 120 days of the end of the fiscal year, the Director of Financial Services shall present an annual report on the investment program activity. The annual report shall include 12-month performance information, and shall suggest improvements that might be made in the investment program.

Notification of Investment Changes. It shall be the duty of the Director of Financial Services to notify the City Council of any significant changes in current investment methods and procedures prior to their implementation, regardless of whether they are authorized by this policy or not.

VII. INVESTMENT TYPES

Active Portfolio Management. The City intends to pursue an active vs. a passive portfolio management philosophy. That are securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade.

Eligible Investments. Financial assets of the government of the City of Copperas Cove may be invested in:

- A. Obligations of the United States or its agencies and instrumentalities, which have a stated maturity on the date of purchase of two years or less.
- B. Direct obligations of the State of Texas or its agencies and instrumentalities;
- C. Certificates of deposit if issued by a state or national bank domiciled in the State of Texas or a savings and loan association domiciled in the State of Texas and:
 - (1) is guaranteed or insured by the Federal Deposit Insurance Corporation or its successor;
 - (2) secured by obligations that are described by Section 2256.009(a) Public Funds Investment Act, but excluding those mortgages backed securities of the nature described by Section 2256.009(b) of the Public Funds Investment Act; or

- (3) secured in any other manner and amount provided by law for deposits of the City.
- D. Other obligations, the principal and interest of 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, which have a stated maturity on the date of purchase of two years or less.
- E. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm of not less than A or its equivalent, which have a stated maturity on the date of purchase of two years or less.
- F. A fully collateralized repurchase agreement, as defined in the Public Funds Investment Act, if it:
- (1) has a defined termination date;
 - (2) is secured by obligations described by Section 2256.009 (a) (1) of the Public Funds Investment Act; and
 - (3) requires the securities being purchased by the City to be 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,
 - (4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this State. Notwithstanding any law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received by the City under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.
- G. Eligible investment pools (as discussed in the Public Funds Investment Act, Sec.2256.016-2256.019) if the City Council by resolution authorizes investment in the particular pool. An investment pool shall invest the funds it receives from the City in authorized investments permitted by the Public Funds Investment Act.
- H. Any other securities which may be added by the State of Texas as permissible investments for municipal governments which are following the Public Funds Investment Act. Section 2256.019 Investment pools must be continuously rate triple-AAA or AAA-m by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized service with weighted average maturity not greater than 90 days. Market mutual funds must be registered with and regulated by the Securities Exchange Commission and must provide the City with a prospectus and other information required by federal law. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

Length of Investments. The City of Copperas Cove shall invest in instruments with scheduled maturity or duration not to exceed two (2) years at the time of purchase. In the event a coupon security maturity exceeds the specified limit with a calculated duration of two (2) years, the instrument will satisfy this policy requirement.

Diversification. It shall be the policy of the City of Copperas Cove to diversify the investment portfolio. Diversification strategies shall determine and revised periodically by the Director of Financial Services. In establishing specific diversification strategies, the following general constraints shall apply:

- A. Portfolio maturities shall be staggered to avoid concentration of assets in a specific maturity sector.
- B. Portfolio investment instruments shall be diversified by type.
- C. Competitive bidding of all investments must accompany diversification among security dealers.

Prohibited Investments. As outlined under GC Section 2256.009 the Director of Financial Services has no authority to use any of the following investment instruments, which are strictly prohibited:

- (1) Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays 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;
- (4) Any investment instrument which has a scheduled maturity or duration in excess of 2 years at the time of purchase;
- (5) The City of Copperas Cove investment portfolio will not invest in derivatives. For the purposes of this Investment Policy, the definition of derivatives includes instruments which have embedded features that alter their character or income stream or allow holders to hedge or speculate on a market or spreads between markets that are external to the issuer, or are not correlated on a one-to-one basis to the associated index or market.

Prohibited derivatives include the following:

- (1) Arrangements in which an investor has swapped the natural cash flows or some portion of the natural cash flows of an instrument for a different set of cash flows. (I.e. Interest Rate Swaps).
- (2) Over-the-Counter/Exchange traded options or futures. (I.e. Option Contracts, Futures Contracts).
- (3) Instruments explicitly specified as follows: Collateralized Mortgage Obligations, Inverse Floating Rate Notes, Range Index Notes, Non-Money Market Index based Notes, Dual Index Notes, Index Amortizing Notes, Inverse Multi-index Bonds, Stepped Inverse Index Bonds, Inverse Index Bonds.

Allowable instruments which are not considered derivatives by the preceding definition are authorized investments listed as follows:

Treasury Bills, Treasury Notes, Treasury Bonds, Treasury Strips, Repurchase Agreements, Reverse Repurchase Agreements, Agency Notes with a defined maturity and fixed upon rate, Money Market Index variable rate Notes (i.e. floating rate notes tied to money market indices defined as Treasury Bills, London Interbank Offering Rate (LIBOR), Fed Funds, and Cost of Funds Index), Step-up notes, and Certificates of Deposit.

VIII. SELECTION OF BANKS AND DEALERS

Bidding Process. Depositories shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP) issued every five (5) years in accordance with Local Government Code Chapter 105 section 105.017. In selecting depositories, the credit worthiness of institutions shall be considered, and the Director of Financial Services shall conduct a comprehensive review of prospective depository's credit characteristics and financial history.

Insurability. Banks seeking to establish eligibility for the City's depository contract shall submit financial statements, evidence of Federal insurance and other information as required by the Director of Financial Services.

Primary Dealers and Approved List. In accordance with 2256.005(k), a written copy of this investment policy shall be presented to any person seeking to sell to the City an authorized investment. The registered principal of the business organization seeking to sell an authorized investment shall execute a written instrument substantially to the effect that the registered principal has:

- (1) Received and thoroughly reviewed the investment policy of the City; and
- (2) Acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization. The Director of Financial Services may not buy any securities from a person who has not delivered to the City an instrument in substantially the form provided above according to Section 2256.005(1).

All dealers and brokers who desire to become qualified bidders for investment transactions with the City of Copperas Cove, must be recommended by the Director of Financial Services and approved by the City Manager. Applications will be reviewed on a periodic basis and submitted for approval. The Director of Financial Services will maintain a list of primary dealers and brokers authorized to provide investment services to the City. The authorized list of primary dealers and brokers will be reviewed on an annual basis, and any broker/dealers who fail to meet the standards of this policy shall be removed from the list. All dealers and brokers who desire to become qualified bidders for investment transactions must supply the following:

- (1) Completed broker dealer questionnaire.
- (2) Proof of registration with the Texas State Securities Board.
- (3) Proof of National Association of Securities Dealers (NASD) certification.
- (4) Audited financial statements.
- (5) Written acknowledgment that the entity has read the City of Copperas Cove Investment Policy and has reasonable procedures and controls to preclude imprudent investment activities arising out of investment transactions conducted between the entity and the City of Copperas Cove (Securities Broker Dealer Acknowledgment Form - Section XV).

brokers and dealers who desire to transact business with the City of Copperas Cove must be approved, in advance of any business transactions, by the City Manager. For brokers and dealers of government securities, the City Manager shall select only those dealers reporting to the Market Reports Division of New York, also known as the "primary government securities dealers," unless a broker/dealer comprehensive questionnaire and certification reveals that other firms are adequately financed to conduct public business. The Director of Financial Services will annually review the financial condition and registration of qualified dealers and brokers. The Director of Financial Services shall not conduct business with any firm, which has been removed from the approved list by the City Manager.

Competitive Bidding of Investments. All trades, purchases and sales done for the City of Copperas Cove will be done through a documented competitive bidding process. Competitive quotes must be taken from at least three qualifying institutions for any investment transaction. The broker/dealers used for the City of Copperas Cove will be those approved by and in compliance with the rules of this investment policy.

Broker/dealers are neither required nor encouraged to contact the City on current securities that the broker/dealers believe are items that require City attention.

IX. SAFEKEEPING AND CUSTODY

Insurance or Collateral. All deposits and investments of City funds with commercial banks shall be secured by pledged collateral with a market value equal to no less than 100% of the deposits or investments. If the maturity date of the pledged collateral exceeds two years, 102% of market value shall be maintained by the Director of Financial Services or a third-party financial institution. Repurchase agreements shall be documented by a specific agreement noting the collateral pledged in each agreement. Collateral shall be reviewed monthly to assure the market value of the securities pledged equals or exceeds the related bank balances.

Pledged Collateral Safekeeping Agreement. All safekeeping arrangements shall be in accordance with a Safekeeping Agreement approved by the Director of Financial Services which clearly defines the procedural steps for gaining access to the collateral should the City of Copperas Cove determine that the City's funds are in jeopardy. The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or an institution not a branch of the firm pledging the collateral. The safekeeping agreement shall include the signatures of the City of Copperas Cove, the firm pledging the collateral, and the Trustees.

Collateral Defined. The City of Copperas Cove shall accept only the following securities as collateral:

- A. U.S. Treasury securities maturing in less than two (2) years;
- B. Short-term obligations of U.S.-Government Agencies which are guaranteed by the full faith and credit of the United States of America as to principal and interest;
- C. Federal Deposit Insurance (FDIC) coverage of principal invested;
- D. Direct or unconditionally guaranteed obligations of the State of Texas except that the city will not accept Industrial Revenue Bonds or Private Activity Bonds as pledged securities.
- E. Bonds of States, government agencies, counties, cities, or political subdivisions nationally rated "A" or above.

Subject to Audit. All collateral shall be subject to inspection and audit by the Director of Financial Services or the City's independent auditors.

Delivery vs. Payments. GC Section 2256.005(b) (4) (e) Treasury Bills, Notes, and Bonds and Government Agencies or other securities shall be purchased using the delivery vs. payment basis method. That is, funds shall not be wired or paid until verification has been made that the collateral was received by the City Agent or the Trustee. The collateral shall be held in the name of the City. The Trustee's or Agent's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

Standards of Operation. The Director of Financial Services shall develop and maintain written administrative procedures for the operation of the investment-program, consistent with this investment policy.

X. INTERNAL CONTROLS

Internal Controls. The Director of Financial Services is 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 according to section 2256.005(m). The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Accordingly, the Director of Financial Services shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- (1) Control of collusion -Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
- (2) Separation of transaction authority from accounting and record keeping -By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
- (3) Custodial safekeeping -Securities purchased from any bank or dealer including appropriate collateral (as defined by State Law) shall be placed with an independent third party for custodial safekeeping.
- (4) Avoidance of physical delivery securities -Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
- (5) Clear delegation of authority to subordinate staff members -Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- (6) Written confirmation or telephone transactions for investments and wire transfers -Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures.
- (7) Development of a wire transfer agreement with the lead bank or third-party custodian -This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.
- (8) Documentation of transactions and strategies -By recording this necessary information, certification of investment procedures processing is accomplished.

- (9) Any security requiring a credit rating by the Act and this policy will not be authorized during the time that the security does not hold that rating. The Investment Officer will monitor, on at least a monthly basis the credit rating and should the rating fall below accepted levels, the Officer will immediately advise the City Manager of the loss of rating, the possible loss of principal. The City Manager and Investment Officer will decide on the prudent liquidation of the security.

XI. INVESTMENT STRATEGIES

Investment Strategies. In accordance with the Public Funds Investment Act, Section 2256.005(d), a separate written investment strategy will be developed for each of the funds under the City's control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities of importance:

- (1) Understanding of the suitability of the investment to the financial requirements of the entity;
- (2) Preservation and safety of principal;
- (3) Liquidity;
- (4) Marketability of the investment if the need arises to liquidate the investment before maturity;
- (5) Diversification of the investment portfolio;
- (6) Yield; and
- (7) Maturity restrictions.

The investment strategies to be employed by the City of Copperas Cove are:

- (1) The Roll-Over Approach. This strategy shall be referred to as Strategy A. This approach means that, despite the excess funds available early in the tax collection season and the requirements of the remaining months, you choose to place the excess funds outside a theoretical short-term period. Instead the excess funds are held in daily liquidity fund such as a bank money market account, a short-term liquidity interlocal pool, or in an eligible SEC registered mutual money market fund (90-day maximum maturity) \$1.00 stable net asset value. The funds continue to roll-over or remain accessible on a daily basis for the entire cycle and the funds are disbursed as liabilities occur.
- (2) The Matching Approach. This strategy shall be referred to as Strategy B. This approach uses excess funds to fill future shortfalls or to match maturing investments with liabilities, matching relies on accurate forecasting of liabilities matched with maturity investments. The Matching Approach generally requires holding investments to maturity.

- (3) The Extension Approach. This strategy shall be referred to as Strategy C. This is an aggressive approach because it is a one-sided bet on the market and disregards liability requirements. The expectation is that long-term investments can be liquidated at cost or a profit to cover short-term needs. The Extension Method is risky and makes an aggressive statement about the direction of interest rates. Use of this method can reduce liquidity and create losses. Section XIV includes investment strategies for all funds. In accordance with the Public Funds Investment Act, Section 2256.005(e), investment strategies will be reviewed and adopted by resolution at least annually.

XII. INVESTMENT STRATEGY BY POOLED FUND GROUP

Operating Pooled Fund Group: The objective of the Operating Pooled Fund Group is to maximize earnings on short term idle cash (needed to meet obligations in less than one year) while preserving the safety of the principal invested.

Liquidity must be maintained to ensure adequate access to meet operating requirements. Investments of this Pooled Fund Group shall not exceed a maturity of greater than one (1) year and must maintain a weighted average maturity of not more than 90 days. This Group shall invest in the types of investments authorized under this Investment Policy to maximize earnings with emphasis on safety of

Principal and liquidity. Any City fund may participate in the Short-Term Pooled Fund Group.

Non-Operating Pooled Fund Group: The objective of the Non-Operating Pooled Fund Group is to maximize earnings on idle cash not needed for operating activities within one year while maintaining the safety of the principal invested. The maturity of any investment by the Non-Operating Pooled Fund Group may not exceed five (5) years. Investment transactions will be conducted in a manner to create a laddering of maturities to prevent maturity bubbles and reduce the risks of changing markets. This Group shall invest in the types of investments authorized under this Investment Policy to maximize earnings with emphasis on safety of principal. Only City funds with idle cash not required to meet obligations within one year may participate in this fund group

Capital Project Fund Group: The objective of the Capital Project Fund Group is to maximize earnings on idle cash that is not needed in the short term to meet obligations to fund capital project fund activities while maintaining the safety of the principal. The maturity of any investment by the Capital Project Fund Group may not exceed three years, but any investment over one year must be scrutinized to ensure liquidity of funds to meet all obligations for payments of capital projects. This Group shall invest in the types of investments authorized under this Investment Policy to maximize earnings with emphasis on safety of principal and timing of liquidity. Only capital project funds which are primarily funded with debt proceeds may participate in this fund group.

XIII. POLICY

Exemption. Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

Amendment. This policy shall be reviewed on an annual basis. Any changes must be approved by the City Manager.

Glossary. The Glossary is provided in section XV of this policy.

XIV. CITY OF COPPERAS COVE INVESTMENT STRATEGY

OPERATING FUNDS	INVESTMENT STRATEGY
GENERAL FUND	A, B
WATER AND SEWER FUND	A, B
SOLID WASTE FUND	A, B
GOLF COURSE FUND	A, B
DEBT SERVICE FUNDS	
TAX I&S FUND	A, B
SPECIAL REVENUE FUNDS	
DRAINAGE UTILITY FUND	A, B
MUNICIPAL COURT EFFICIENCY FUND	A, B
MUNICIPAL COURT TECHNOLOGY FUND	A, B
MUNICIPAL COURT SECURITY FUND	A, B
CAPITAL PROJECTS FUNDS	
2012 GENERAL OBLIGATION BONDS	A, B
2014 CERTIFICATE OF OBLIGATION	A, B
2015 CERTIFICATE OF OBLIGATION	A, B
2016 CERTIFICATE OF OBLIGATION	A, B
2017 CERTIFICATE OF OBLIGATION	A, B
2018 CERTIFICATE OF OBLIGATION	A, B
2019 CERTIFICATE OF OBLIGATION	A, B
2020 CERTIFICATE OF OBLIGATION	A, B

XV. GLOSSARY

AGENCIES: Federal agency securities.

ASKED: The price at which securities are offered.

BANKER'S ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The official annual report for the City of Copperas Cove. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE: A bond secured only with the general credit of the issuer.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g. U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals. E.g. S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A deferral agency that insures bank deposits, currently up to \$250,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-à-vis member commercial banks.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA like GNMA was chartered under the Federal National mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mac, as the corporation is called, is the private stockholder- owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans. In addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA OR Ginnie Mae):

Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FMHM mortgages. The term "pass through" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LCIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and **reinvestment**.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase--reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary

Dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities by the custody state-the-so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person in discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: when the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities and sale of outstanding issues following the initial distribution.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

TREASURY BILLS: A non-interest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: A non-interest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitment to purchases securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes Cash and assets easily converted into cash.

YIELD: The rate of annual income returns of an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD TO MATURITY** is current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

XVI.

**CITY OF COPPERAS COVE, TEXAS
SECURITIES BROKER/DEALER ACKNOWLEDGEMENT**

In compliance with the Texas Government Code (Public Funds Investment Act) Section 2256.005 (k)-(1), acknowledges that the registered principal and all sales personnel conducting investment transactions with the City of Copperas Cove have received and have thoroughly reviewed the Investment Policy of the City of Copperas Cove. Broker acknowledges that Broker has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and Broker. Transactions between this firm and the City of Copperas Cove will be directed toward protecting the City of Copperas Cove from credit and market risk. This firm pledge due diligence in informing the City of Copperas Cove of foreseeable risks with financial transactions connected with this firm.

Primary Representative, Title Date