

APPROPRIATIONS AND REVENUE SOURCES
INVESTMENTS

CAK
(LOCAL)

**Investment
Objectives**

The primary objectives of the College District investment policy are the preservation of capital and protection of principal, safety of funds and investments, maintenance of sufficient liquidity, diversification to avoid unreasonable or avoidable risks, and yield.

The College District's portfolio shall be designed and managed in accordance with the following "prudent person" standard of care. Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs; not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived. This prudent person standard shall apply to the management of all College District funds.

To meet the investment objectives of the College District, the maturity of investments shall be targeted to coincide with the cash flow needs of the College District. The investment portfolio shall be diversified to reduce the risk of loss of investment income from over-concentration of assets in a specific issue, a specific issue size, or a specific class of securities.

Nevertheless, the College District recognizes that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment return. Also, it is intended that investments in all funds shall be managed in such a way that any market price losses resulting from interest rate volatility shall be offset by income received from the balance of the portfolio over a reasonable period of time as determined by the Board.

**Authorized
Investments**

The College District's investment authority is derived from the Public Funds Investment Act. Effective September 1, 1995, College District funds, including bond proceeds and pledged revenue to the extent allowed by law, may be invested in the following:

1. Obligations of the United States, its agencies, or instrumentalities, except the following:
 - a. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and that pays no principal;
 - b. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and that bears no interest;
 - c. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and

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- d. Collateralized mortgage obligations with an interest rate that is determined by an index that adjusts opposite to the changes in a market index.
2. Repurchase Agreements and Reverse Repurchase Agreements — College District funds may be invested in fully collateralized repurchase agreements and reverse repurchase agreements having a defined termination date and secured by any obligation of the United States, its agencies, or its instrumentalities, including certain mortgage-backed securities of the U.S. The repurchase and reverse repurchase agreement transactions are to be placed only with primary government securities dealers or state or national banks doing business in the state of Texas.
3. Certificates of Deposit — College District funds may be invested in fully collateralized certificates of deposit issued by state or national banks domiciled in the state of Texas or savings and loans domiciled in the state of Texas and guaranteed by the Federal Deposit Insurance Corporation or its successor. The certificates must be styled in the name of the College District. Collateral for the time deposits may be in the form of obligations of the United States, its agencies, or instrumentalities; direct obligations of the state of Texas, its agencies, or instrumentalities; other state and local government bonds or obligations rated not less than “A” or its equivalent; or other obligations fully guaranteed by, insured by, or backed by the full faith and credit of the state of Texas or the United States, including certain mortgage-backed securities.
4. Money Market Mutual Funds — College District funds may be invested in a no-load money market mutual fund that is regulated by the Securities and Exchange Commission. The money market fund must be rated “AAA” or its equivalent by at least one nationally recognized investment rating firm. The money market fund must also maintain a dollar-weighted average stated maturity of 90 days or fewer, and the maintenance of a stable net asset value of \$1 shall be included in its investment objectives.
5. Local Investment Pools — Local government investment pools approved by the College District’s Board, by resolution, with a continuous rating of no lower than AAA or an equivalent rating by at least one nationally recognized rating service, and striving to maintain a \$1 net asset value.
6. Commercial Paper with a maximum maturity of 365 days — College District funds may be invested in commercial paper if the commercial paper is rated:

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- Not less than A-1 or P-1; or
- An equivalent rating by at least two nationally recognized credit rating agencies or one nationally recognized credit rating agency when 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.

Maximum Maturities The College District shall normally limit final maturities on any securities to five years or less. To the extent possible, the College District shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the College District shall not directly invest in securities maturing more than five years from the date of purchase. Excluding any bond proceeds, the maximum average dollar-weighted maturity shall be three years. For bond proceeds, the average dollar-weighted maturity shall be governed by the anticipated timing of the use of the proceeds in conjunction with consideration of arbitrage issues. The College District shall strive to minimize the average dollar-weighted maturity of the bond proceeds within the confines of those two criteria.

Funds / Strategies Investments of the following fund categories shall be consistent with this policy and in accordance with the strategy defined below.

Operating Funds Investment strategies for operating funds (including any commingled pools containing operating funds) shall have as their primary objectives safety, investment liquidity, and maturity sufficient to meet anticipated cash flow requirements.

Debt Service Funds Investment strategies for debt service funds shall have as their primary objective sufficient investment liquidity to timely meet debt service payment obligations in accordance with provisions in the bond documents. Maturities longer than one year are authorized provided legal limits are not exceeded.

Debt Service Reserve Investment strategies of debt service reserve funds shall have as their primary objective the generation of a dependable revenue stream from high-quality securities in accordance with provisions in the bond documents. Maturities longer than one year shall be authorized provided legal limits are not exceeded.

Capital Project Funds Investment strategies for capital project funds shall have as their objective sufficient investment liquidity to timely meet capital project obligations. If the College District has funds from bond proceeds, the funds shall be invested in accordance with provisions in the bond documents. Maturities longer than one year shall be authorized provided legal limits are not exceeded.

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Sellers of Investments

The firm and representatives of brokers/dealers will be registered with the Texas State Securities Board and must have membership in the Securities Investor Protection Corporation (SIPC) and be in good standing with the Financial Industry Regulatory Authority (FINRA).

Authorized Financial Dealer and Institutions

The College District will maintain a list of qualified brokers/dealers authorized to engage in investment transactions. The Board will annually review, revise, and adopt this list of qualified brokers.

The College District's current investment adviser maintains the brokerage compliance files for the College District and will provide the list of brokers/dealers to the College District annually for review and adoption.

Local government pools and registered SEC investment advisers utilized by the College District will be sent a copy of the policy and must certify that they have reviewed that policy.

Conflicts of Interest

The College President, the vice president of business services, and the Board must disclose personal business and certain family relationships with any entity seeking to sell investments, and a copy of each such disclosure statement must be filed with the governing body of the investing entity and the Texas Ethics Commission.

Safekeeping and Custody

To protect against potential fraud and embezzlement, the cash and investments of the College District shall be secured through third-party custody and safekeeping procedures as designated by the College District.

Interest Rate Risk

To reduce exposure to changes in interest rates that could adversely affect the value of investments, the College District shall use final and weighted-average-maturity limits and diversification.

The College District shall monitor interest rate risk using weighted average maturity and specific identification.

Portfolio Reports

A monthly management portfolio report shall be prepared by the vice president of business services relating to investments of the College District. The report shall:

1. Describe in detail the investment position of the entity on the date of the report;
2. Be prepared jointly by all investment officers of the entity;
3. Be signed by the dean of business and finance;
4. Contain a summary statement of each pooled fund group that states the beginning market value for the reporting period, ad-

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ditions and changes to the market value during the period, and ending market value for the period;

5. State the book value and market value of each separately invested asset at the beginning and ending of the reporting period by the type of asset and fund type invested;
6. State the maturity date of each separately;
7. State the account, fund, or pooled group fund for which each individual investment was acquired; and
8. State the compliance of the investment portfolio as it relates to the investment strategy expressed in the investment policy and other relevant provisions of the investment policy.

Monitoring Rating Changes

In accordance with Government Code 2256.005(b), the investment officer shall develop a procedure to monitor changes in investment ratings and to liquidate investments that do not maintain satisfactory ratings.

Investment Training

Each member of the Board shall attend at least one investment training session or view the state-approved investment training video within 12 months after taking office or assuming duties. The investment officer shall attend at least one investment training session within 12 months of assuming duties.

The training shall include education in investment controls, security risks, strategy risks, market risks, as well as compliance with the Texas Public Funds Investment Act.

Investment Authorization

The vice president of business services shall serve as the investment officer of the College District, in consultation with the College President and the Board. No officer or employee of the Board may deposit, withdraw, invest, transfer, or otherwise manage local funds without the express written authority of the Board.

Review of Investment Policy

The Board shall review the investment policy and investment strategies not less than annually.

Amendments to the Texas Public Funds Investment Act

Authorized investment securities acquired under Chapter 2256, Government Code before the effective date of House Bill 2459, 74th Legislative Session that are no longer authorized investment securities under Chapter 2256, Government Code, as amended by House Bill 2459, shall not be required to be liquidated before the final stated maturity of the investment. However, these investment securities should be liquidated when prudent, as determined by the Board.

Investment Strategy

All College District funds shall be invested in a manner consistent with the following ranked criteria:

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1. Preservation of capital and protection of principal;
2. Safety of funds and investments;
3. Maintenance of sufficient liquidity;
4. Diversification to avoid unreasonable or avoidable risk; and
5. Yield.

**Diversification and
Suitability**

The portfolio shall be designed with the protection of principal and maintenance of sufficient liquidity as the highest priority of the investment strategy. After consideration of safety and liquidity, the College District portfolio shall be directed toward achieving a competitive rate of return. The risk return relationship shall be maintained and controlled through these investment parameters, operation requirements, and the guiding policies of the Board. Actual risks shall be minimized by adequate collateralization and delivery versus payment procedures, which shall be utilized at all times.

Market and credit risk shall be minimized by diversification. Diversification by market sector and security types, as well as maturity, shall be used to protect the College District against market and credit risk while aiding liquidity requirements. The portfolio shall be structured to benefit from anticipated market conditions and to achieve a reasonable return.