

**TOWN OF TROPHY CLUB
RESOLUTION NO. 2018-26**

A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF TROPHY CLUB, TEXAS REPEALING RESOLUTION NO. 2017-37 AND APPROVING A NEW RESOLUTION ADOPTING AN INVESTMENT POLICY FOR FUNDS FOR THE TOWN OF TROPHY CLUB, A COPY OF WHICH IS ATTACHED HERETO AND INCORPORATED HEREIN AS EXHIBIT "A"; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, on November 14, 2017 by passage of Resolution 2017-37, the Town Council adopted an Investment Policy; and

WHEREAS, by passage of this Resolution, the Town Council hereby repeals Resolution No. 2017-37 in its entirety and adopts this Resolution adopting a new Investment Policy; and

WHEREAS, the Town Council has reviewed the Investment Policy attached hereto as Exhibit "A", for compliance with the Public Funds Investment Act, Texas Government Code Chapter 2256. et seq.; and

WHEREAS, upon consideration, the Town Council finds and determines it to be in the best interests of the Town to adopt Exhibit "A" as the Town's Investment Policy.

NOW, THEREFORE, BE IT RESOLVED BY THE TOWN COUNCIL OF THE TOWN OF TROPHY CLUB:

Section 1. That Resolution No. 2017-37 is hereby repealed in its entirety.

Section 2. That the Town Council has reviewed the attached Investment Policy, which contains investment strategies and policies that the Council has determined to be beneficial to the Town and hereby adopts the attached Investment Policy set forth in Exhibit "A", a copy of which is attached hereto and incorporated herein in its entirety.

Section 3. That the Director of Administrative and Financial Services is hereby designated as the Town's primary investment officer to perform the functions required by the attached policy, and the investment officer is hereby authorized to perform the functions required under the Investment Policy and Chapter 2256 of the Texas Government Code.

Section 4. That this Resolution shall take effect immediately upon its passage and approval.

PASSED and APPROVED by the Town Council of the Town of Trophy Club, Texas
on this 9th day of October 2018.

C. Nick Sanders, Mayor
Town of Trophy Club, Texas

[SEAL]

ATTEST:

Holly Fimbres, Town Secretary
Town of Trophy Club, Texas

APPROVED TO AS FORM:

J. David Dodd III, Town Attorney
Town of Trophy Club, Texas

EXHIBIT “A”



TOWN OF TROPHY CLUB INVESTMENT POLICY

I. POLICY

It is the policy of the Town of Trophy Club that after allowing for the anticipated cash flow requirements of the Town of Trophy Club and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines, seeking to optimize interest earnings to the maximum extent possible.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a source of revenue to Trophy Club funds. Trophy Club's investment portfolio shall be designed and managed in a manner designed to maximize this revenue source, to be responsive to public trust, and to be in compliance with legal requirements and limitations.

Investments shall be made with the primary objectives of:

- * Safety and preservation of principal
- * Maintenance of sufficient liquidity to meet operating needs
- * Public trust from prudent investment activities
- * Optimization of interest earnings on the portfolio

II. PURPOSE

The purpose of this Investment Policy is to comply with Chapter 2256 of the Government Code ("Public Funds Investment Act" or "PFIA"), which requires the Town of Trophy Club to adopt a written investment policy regarding the investment of its funds and funds under its control. The Investment Policy addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal management of Trophy Club's funds.

III. SCOPE

This Investment Policy shall govern the investment of all financial assets of the Town of Trophy Club. These funds are accounted for in the Town of Trophy Club's Comprehensive Annual Financial Report (CAFR) and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Proprietary Funds
- Debt Service Funds, including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- Any new fund created by the Town of Trophy Club, unless specifically exempted from this Policy by the Town Council or by law

The Town of Trophy Club consolidates fund cash balances to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

This Investment Policy shall apply to all transactions involving the financial assets and related activity for all the foregoing funds. However, this Policy does not apply to the assets administered for the benefit of the Town of Trophy Club by outside agencies under deferred compensation programs.

IV. INVESTMENT OBJECTIVES

The Town of Trophy Club shall manage and invest its cash with four primary objectives, listed in order of priority: safety, liquidity, public trust, and yield, expressed as optimization of interest earnings. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

The Town of Trophy Club shall maintain a comprehensive cash management program, which includes collection of accounts receivable, vendor payments in accordance with the Town's purchasing policies, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to ensure maximum cash availability and maximum earnings on short-term investment of idle cash.

Safety [PFIA 2256.005(b)(2)]

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit and interest rate risk.

- ❑ Credit Risk and Concentration of Credit Risk – The Town of Trophy Club will minimize credit risk, the risk of loss due to the failure of the issuer or backer of the investment, and concentration of credit risk, the risk of loss attributed to the magnitude of investment in a single issuer, by:
 - Limiting investments to the safest types of investments.
 - Pre-qualifying the financial institutions and broker/dealers with which the Town of Trophy Club will do business.
 - Diversifying the investment portfolio so that potential losses on individual issuers will be minimized.
- ❑ Interest Rate Risk – the Town of Trophy Club will manage the risk that the interest earnings and the market value of investments in the portfolio will fall due to changes in general interest rates by limiting the maximum weighted average maturity of the investment portfolio to 365 days. The Town of Trophy Club will, in addition:
 - Structure the investment portfolio so that investments mature to meet cash requirements for ongoing operations, thereby avoiding the need to liquidate investments prior to maturity.
 - Invest operating funds primarily in financial institution deposits, shorter-term securities, money market mutual funds, or local government investment pools functioning as money market mutual funds.
 - Diversify maturities and stagger purchase dates to minimize the impact of market movements over time.

Liquidity [PFIA 2256.005(b)(2)]

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. Because all possible cash demands cannot be anticipated, a portion of the portfolio will be invested in shares of money market mutual funds, local government investment pools, or other cash equivalents that offer same-day liquidity.

Public Trust

All participants in the Town of Trophy Club's investment process shall seek to act responsibly as custodians of the public trust. The Investment Officers shall avoid any transaction that might impair public confidence in the Town of Trophy Club's ability to govern effectively.

Yield (Optimization of Interest Earnings) [PFA 2256.005(b)(3)]

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

V. INVESTMENT STRATEGY STATEMENTS

The Town of Trophy Club portfolio will be structured to benefit from anticipated market conditions and to achieve a reasonable return. Relative value among asset groups shall be analyzed and pursued as part of the investment program within the restrictions set forth by the Investment Policy.

The Town of Trophy Club maintains portfolios which utilize four specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolios.

Operating Funds

Suitability - All investments authorized in the Investment Policy are suitable for Operating Funds.

Preservation and Safety of Principal - All investments shall be of high quality with no perceived default risk.

Liquidity - Investment strategies for the Operating Funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The dollar-weighted average maturity of operating funds, based on the stated final maturity date of each investment, will be calculated and limited to one year or less. Constant \$1.0000 net asset value investment pools and money market mutual funds, and other cash equivalents shall be integral components to maintaining daily liquidity. Investments for these funds shall not exceed a 24-month period from date of purchase.

Marketability - Securities with active and efficient secondary markets will be purchased in the event of an unanticipated cash requirement.

Diversification - Maturities shall be staggered throughout the budget cycle to provide cash flows based on anticipated needs. Investment risks will be reduced through diversification among authorized investments.

Yield - The Town's objective is to attain a competitive market yield for comparable securities and portfolio constraints. The benchmark for Operating Funds shall be the rolling three-month Treasury yield.

Reserve and Deposit Funds

Suitability - All investments authorized in the Investment Policy are suitable for Reserve and Deposit Funds.

Preservation and Safety of Principal - All investments shall be of high quality with no perceived default risk.

Liquidity - Investment strategies for Reserve and Deposit Funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate reserve fund from investments with a low degree of volatility. Except as may be required by the bond ordinance specific to an individual issue, investments should be of high quality, with short-to-intermediate-term maturities. The dollar-weighted average maturity of Reserve and Deposit Funds, based on the stated final maturity date of each investment, will be calculated and limited to two years or less.

Marketability - Securities with active and efficient secondary markets will be purchased in the event of an unanticipated cash requirement.

Diversification - Maturities shall be staggered throughout the budget cycle to provide cash flows based on anticipated needs. Investment risks will be reduced through diversification among authorized investments.

Yield - The Town's objective is to attain a competitive market yield for comparable securities and portfolio constraints. The benchmark for Reserve and Deposit Funds shall be the rolling three-month Treasury yield.

Bond and Certificate Capital Project Funds and Special Purpose Funds

Suitability - All investments authorized in the Investment Policy are suitable for Bond and Certificate Capital Project Funds and Special Purpose Funds.

Preservation and Safety of Principal - All investments shall be of high quality with no perceived default risk.

Liquidity - Investment strategies for Bond and Certificate Capital Project Funds and Special Purpose Funds portfolios will have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The stated final maturity dates of investments held should not exceed the estimated project completion date or a maturity of no greater than three years. The dollar-weighted average maturity of Bond and Certificate Capital Project Funds and Special Purpose Funds, based on the stated final maturity date of each investment, will be calculated and limited to two years or less.

Marketability - Securities with active and efficient secondary markets will be purchased in the event of an unanticipated cash requirement.

Diversification - Maturities shall be staggered throughout the budget cycle to provide cash flows based on anticipated needs. Investment risks will be reduced through diversification among authorized investments.

Yield - The Town's objective is to attain a competitive market yield for comparable securities and portfolio constraints. The benchmark for Bond and Certificate Capital Project Funds and Special Purpose Funds shall be the rolling three-month Treasury yield. A secondary objective of these funds is to achieve a yield equal to or greater than the arbitrage yield of the applicable bond or certificate, when reasonable considering safety and liquidity objectives.

Debt Service Funds

Suitability - All investments authorized in the Investment Policy are suitable for Debt Service Funds.

Preservation and Safety of Principal - All investments shall be of high quality with no perceived default risk.

Liquidity - Investment strategies for Debt Service Funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Investments shall not have a stated final maturity date which exceeds the next unfunded debt service payment date. The dollar-weighted average maturity of Debt Service Funds, based on the stated

final maturity date of each investment, will be calculated and limited to one year or less.

Marketability - Securities with active and efficient secondary markets will be purchased in the event of an unanticipated cash requirement.

Diversification - Maturities shall be staggered throughout the budget cycle to provide cash flows based on anticipated needs. Investment risks will be reduced through diversification among authorized investments.

Yield - The Town's objective is to attain a competitive market yield for comparable securities and portfolio constraints. The benchmark for Debt Service Funds shall be the rolling three-month Treasury yield.

VI. RESPONSIBILITY AND CONTROL

Delegation of Authority [PFIA 2256.005(f)]

In accordance with the Town of Trophy Club and the Public Funds Investment Act, the Town Council designates the Director of Finance/CFO and the Chief Financial Analyst as the Town of Trophy Club's Investment Officers. The Director of Finance/CFO is responsible for the overall management of the Town's investment program and may direct the other Investment Officer in his/her duties. The Investment Officers are authorized to deposit, withdraw, invest, transfer, execute documentation, and otherwise manage funds on behalf of the Town of Trophy Club according to this Policy. Unless authorized by law, no other person may deposit, withdraw, transfer or manage in any other manner the Town of Trophy Club funds. The investment authority granted to the Investment Officers is effective until rescinded.

Quality and Capability of Investment Management [PFIA 2256.005(b)(3)]

The Town of Trophy Club shall provide periodic training in investments for the designated Investment Officers and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources in order to ensure the quality and capability of investment management in compliance with the Public Funds Investment Act.

Training Requirement [PFIA 2256.008 – Local Governments]

In accordance with the Town of Trophy Club and the Public Funds Investment Act, designated Investment Officers shall attend investment training no less often than once every two years and shall accumulate not less than 8 hours of instruction relating to investment responsibilities. A newly appointed Investment Officer must attend training accumulating at least 10 hours of instruction within twelve months of the date the Officer took office or assumed the Officer's duties. The investment training sessions shall be provided by independent sources approved by the Investment Committee.

Internal Controls (Best Practice)

The Investment Officers are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town of Trophy Club 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 (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 Investment Officers 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.

- Control of collusion.
- Separation of transactions authority from accounting and recordkeeping.

- Custodial safekeeping.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation for telephone (voice) transactions for investments and wire transfers.
- Development of a wire transfer agreement with the depository bank or third-party custodian.

Investment Policy Certification [PFIA 2256.005(k-n)]

A qualified representative, as defined by PFIA section 2256.002(10), of all business organizations, as defined by PFIA section 2256.005(k) as local government investment pools and discretionary investment management firms, must sign a certification acknowledging that the organization has received and reviewed the Town of Trophy Club's Investment Policy and that reasonable procedures and controls have been implemented to preclude investment transactions that are not authorized by the Town of Trophy Club's Policy. The Town shall not enter into an investment transaction with a business organization prior to receiving the signed certification.

Prudence [PFIA 2256.006]

The standard of care to be applied by the Investment Officers shall be the "prudent person" rule. This rule states that "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 and the probable income to be derived." In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- The investment of all funds, or funds under the Town of Trophy Club's control, over which the Officer had responsibility rather than a consideration as to the prudence of a single investment.
- Whether the investment decision was consistent with the written, approved Investment Policy of the Town of Trophy Club.

Indemnification

The Investment Officers, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific investment's credit risk or market price changes, provided that these deviations are reported immediately and the appropriate action is taken to control adverse developments.

Ethics and Conflicts of Interest [PFIA 2256.005(i)]

Officers and employees involved in the investment process shall refrain from personal business activity that would conflict with the proper execution and management of the investment program, or that would impair their ability to make impartial decisions. Investment Committee members shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the Town of Trophy Club.

An Investment Officer of the Town of Trophy Club who has a personal business relationship with an organization seeking to sell an investment to the Town of Trophy Club shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the Town of Trophy Club shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the Town Council.

VII. SUITABLE AND AUTHORIZED INVESTMENTS

Portfolio Management

The Town of Trophy Club currently has a "buy and hold" portfolio strategy. Maturity dates are matched

with cash flow requirements and investments are purchased with the intent to be held until maturity. However, investments may be liquidated prior to maturity for the following reasons:

- An investment with declining credit may be liquidated early to minimize loss of principal.
- Cash flow needs of the Town of Trophy Club require that the investment be liquidated.

Investments [PFIA 2256.005(b)(4)(A)]

Trophy Club funds governed by this Policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act). Investment of Town of Trophy Club funds in any instrument or security not authorized for investment under the Act is prohibited. The Town of Trophy Club will not be required to liquidate an investment that becomes unauthorized subsequent to its purchase.

I. Authorized

1. Obligations, including letters of credit, of the United States, its agencies and instrumentalities, including the Federal Home Loan Banks.
2. Direct obligations of the State of Texas, its agencies and instrumentalities or obligations of agencies, counties, cities, and other political subdivisions of this State rated as to investment quality by a nationally recognized investment rating firm of not less than "A" or its equivalent.
3. 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, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.
4. Certificates of Deposit and other forms of deposit issued by a depository institution that has its main office or a branch office in Texas. The certificate of deposit must be guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor or secured by obligations in a manner and amount as provided by law. In addition, deposits obtained through a depository institution that has its main office or a branch office in Texas and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Public Funds Investment Act are authorized investments. Additionally, funds invested by the Town through a broker that has a main office or branch office in Texas and is selected from a list approved by the Town as required by section 2656.025 of the Public Funds Investment Act or a depository institution that has a main office or branch office in Texas and is selected by the Town are authorized investments if the following conditions are met:
 - a. the broker or depository institution selected by the Town as specified above arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Town;
 - b. the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and
 - c. the Town appoints a depository bank or a clearing broker registered with the Securities and Exchange Commission Rule 15c-3 (17CFR, Section 240 15c3-3) as custodian for the Town with respect to the certificates of deposit issued for account to the Town.
5. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities. These shall be pledged to the Town of Trophy Club, held in an account in the Town of Trophy Club's name, and deposited at the time the investment is made with the Town of Trophy Club or with a third-party selected and approved by the Town of Trophy Club. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial

institution doing business in Texas. A Master Repurchase Agreement, or similar agreement, must be signed by the bank/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery versus payment basis. Securities received for repurchase agreements must have a market value greater than or equal to 102 percent at the time funds are disbursed. (This section pertains to Sweep Accounts and/or Bond Proceeds)

6. No-Load Money Market Mutual funds that: 1) are registered and regulated by the Securities and Exchange Commission and provide a prospectus and other information required by the Securities and Exchange Act of 1934 (15 U.S.C. Section 78a) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1), 2) seek to maintain a stable net asset value of \$1.0000 per share.
7. Local government investment pools, which 1) meet the requirements of Chapter 2256.016 of the Public Funds Investment Act, 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service, and 3) are authorized by resolution or ordinance by the Town Council. In addition, a local government investment pool created to function as a money market mutual fund must mark its portfolio to the market daily and, to the extent reasonably possible, stabilize at a \$1.0000 net asset value.

If an investment in the Town's portfolio becomes an unauthorized investment due to changes in the Investment Policy or the Public Funds Investment Act, or an authorized investment is rated in a way that causes it to become an unauthorized investment, the Investment Committee of the Town shall review the investment and determine whether it would be more prudent to hold the investment until its maturity, or to redeem the investment. The Investment Committee shall consider the time remaining until maturity of the investment, the quality of the investment, and the quality and amounts of any collateral which may be securing the investment in determining the appropriate steps to take. [PFIA 2256.021].

II. Not Authorized [PFIA 2256.009(b)(1-4)]

Investments including interest-only or principal-only strips of obligations with underlying mortgage-backed security collateral, collateralized mortgage obligations with an inverse floating interest rate or a maturity date of over 10 years are strictly prohibited.

VIII. INVESTMENT PARAMETERS

Maximum Maturities [PFIA 2256.005(b)(4)(B)]

The longer the maturity of investments, the greater their potential price volatility. Therefore, it is the Town of Trophy Club's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

The Town of Trophy Club attempts to match its investments with anticipated cash flow requirements. The Town of Trophy Club will not directly invest in securities maturing more than three years from the date of purchase; however, the above described obligations, certificates, or agreements may be collateralized using longer dated investments.

Because no secondary market exists for repurchase agreements, the maximum maturity shall be 120 days except in the case of a flexible repurchase agreement for bond proceeds. The maximum maturity for such an investment shall be determined in accordance with project cash flow projections and the requirements of the governing bond ordinance.

The composite portfolio will have a weighted average maturity of 365 days or less. The dollar-weighted average maturity will be calculated using the stated final maturity dates of each security. [PFIA 2256.005(b)(4)(C)].

Diversification [PFIA 2256.005(b)(3)]

The Town of Trophy Club recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is managed through portfolio diversification that shall be achieved by the following general guidelines:

- Limiting investments to avoid overconcentration in investments from a specific issuer or business sector (excluding U.S. Treasury securities and financial institution deposits that are fully insured and collateralized in accordance with state and federal law),
- Limiting investments that have higher credit risk,
- Utilizing investments with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market accounts, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

IX. SELECTION OF BANKS AND DEALERS

Depository

At least every five years a Depository shall be selected through the Town of Trophy Club's banking services procurement process, which shall include a formal request for application (RFA). The selection of a depository will be determined by competitive application and evaluation of applications will be based on the most favorable terms and conditions for the handling of Town funds.

Authorized Brokers/Dealers [PFIA 2256.025]

The Town of Trophy Club Investment Committee (see Section XIII) shall, at least annually, review, revise, and approve a list of qualified broker/dealers authorized to engage in securities transactions with the Town of Trophy Club. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule).

Competitive Bids

It is the policy of the Town of Trophy Club to provide a competitive environment for all investment activities. The Investment Officers shall develop and maintain procedures for ensuring competition in the investment of the Town of Trophy Club's funds and are authorized to solicit bids for investments orally, in writing, electronically, or in any combination of these methods.

Delivery vs. Payment [PFIA 2256.005(b)(4)(E)]

Securities shall be purchased using the delivery vs. payment method, with the exception of investment pools and mutual funds. Funds will be released after notification that the purchased security has been received.

X. CUSTODIAL CREDIT RISK MANAGEMENT

Safekeeping and Custodial Agreements

The Town of Trophy Club shall contract with a bank or banks for the safekeeping of securities either owned by the Town of Trophy Club as part of its investment portfolio or held as collateral to secure demand or time deposits. Securities owned by the Town of Trophy Club shall be held in an account in the Town of Trophy Club's name as evidenced by safekeeping receipts of the institution holding the securities. Original safekeeping receipts shall be obtained and held by the Town.

Collateral for deposits will be held by a third-party custodian designated by the Town of Trophy Club and pledged to the Town of Trophy Club as evidenced by pledge receipts of the institution with which the collateral is deposited. Collateral may be held by the depository bank's trust department, a Federal Reserve Bank or branch of a Federal Reserve Bank, a Federal Home Loan Bank, or a third-party bank

approved by the Town of Trophy Club.

Collateral Policy [PFCA 2257.023]

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the Town of Trophy Club to require full collateralization of all Town of Trophy Club funds on deposit with a financial institution and a written depository agreement acceptable to the Town. The market value of the securities collateralizing the deposit of funds shall be at least equal to 102% of the principal and accrued interest on the deposits less an amount insured by the FDIC. Collateral in the form of letters of credit issued by the Federal Home Loan Bank must be equal to 100% of the principal and accrued interest of deposits less the applicable level of FDIC insurance. At its discretion, the Town of Trophy Club may require a higher level of collateralization for certain investment securities held as collateral. Securities pledged as collateral shall be held by an independent third-party with whom the Town of Trophy Club has a current custodial agreement. The Investment Officers are responsible for entering into collateralization agreements with third-party custodians in compliance with this Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. A clearly marked evidence of pledge must be supplied to the Town of Trophy Club and retained. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities are adequate.

The custodial portion of the depository agreement shall define the Town'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, including:

- The Agreement must be in writing;
- The Agreement must be executed by the depository and the Town contemporaneously with the acquisition of the asset;
- The Agreement must be approved by the board of directors or the loan committee of the depository and a copy of the meeting minutes must be delivered to the Town; and
- The Agreement must be part of the depository's "official record" continuously since its execution.

Collateral Defined

The Town of Trophy Club shall accept only the following types of collateral:

- Obligations of the United States or its agencies and instrumentalities
- Direct obligations of the State of Texas or its agencies and instrumentalities
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized rating firm not less than A or its equivalent with a remaining maturity of ten (10) years or less
- A surety bond issued by an insurance company rated as to investment quality by a nationally recognized rating firm not less than A
- A letter of credit issued to the Town of Trophy Club by the Federal Home Loan Bank

Subject to Audit

All collateral shall be subject to inspection and audit by the Investment Officers or their designee, including the Town of Trophy Club's independent auditors.

XI. PERFORMANCE

Performance Standards

The Town of Trophy Club's investment portfolio will be managed in accordance with the parameters specified within this Policy. The portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the Town of Trophy Club.

Performance Benchmark

It is the policy of the Town of Trophy Club to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the Town of Trophy Club shall seek to optimize interest earnings utilizing allowable investments available in the market at that time. The Town of Trophy Club's portfolio shall be designed with the objective of regularly meeting or exceeding the benchmark(s) as appropriate per the investment strategy statements. Weighted Average Yield to Maturity shall be the standard for calculating portfolio rate of return.

XII. REPORTING [PFIA 2256.023]

Methods

The Investment Officers shall prepare a written investment report on a quarterly basis that summarizes investment strategies employed in the most recent quarter and describes the portfolio in terms of investment securities, maturities, and shall explain the total investment return for the quarter.

The quarterly investment report shall include a summary statement of investment activity prepared in compliance with the PFIA. This summary will be prepared in a manner that will allow the Town of Trophy Club to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the Town Council and signed by the Investment Officers. The report will include the following:

- A listing of individual securities held at the end of the reporting period.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
- Additions and changes to the market value during the period.
- Average weighted yield to maturity of portfolio as compared to applicable benchmarks.
- Listing of investments by maturity date.
- Fully accrued interest for the reporting period.
- The percentage of the total portfolio that each type of investment represents.
- Statement of compliance of the Town of Trophy Club's investment portfolio with state law and the investment strategy and policy approved by the Town Council.

An independent auditor will perform a formal annual review of the quarterly reports with the results reported to the governing body [PFIA 2256.023(d)].

Monitoring Market Value [PFIA 2256.005(b)(4)(D)]

Market value of all securities in the portfolio will be determined at least on a quarterly basis. These values will be obtained from a reputable and independent source and disclosed to the governing body quarterly in a written report.

XIII. INVESTMENT COMMITTEE

Members

An Investment Committee, consisting of the Town Manager and the Investment Officers, shall review the Town's investment strategies and monitor the results of the investment program periodically. This review can be done by reviewing the quarterly written reports and by holding committee meetings as

necessary. The committee will be authorized to invite other advisors to attend meetings as needed.

Scope

The Investment Committee shall include in its deliberations such topics as economic outlook, investment strategies, portfolio diversification, maturity structure, potential risk to the Town's funds, evaluation and authorization of broker/dealers, acceptable training sources, rate of return on the investment portfolio, and review of compliance with the Investment Policy. The Investment Committee will also advise the Town Council of any future amendments to the Investment Policy that are deemed necessary or recommended.

Procedures

The Investment Policy shall require the Investment Committee to provide minutes of investment information discussed at any meetings held. The committee shall meet at least annually to discuss the investment program and policy.

XIV. INVESTMENT POLICY ADOPTION [*PFIA 2256.005(e)*]

The Town of Trophy Club's Investment Policy shall be adopted by resolution of the Town Council. It is the Town of Trophy Club's intent to comply with state laws and regulations. The Town of Trophy Club's Investment Policy shall be subject to revisions consistent with changing laws, regulations, and needs of the Town of Trophy Club. The Town Council shall adopt a resolution stating that it has reviewed the policy and investment strategies not less than annually, approving any changes or modifications.