



CITY OF HILSHIRE VILLAGE POLICY INVESTMENTS AND STRATEGIES FOR PUBLIC FUNDS

Approved by Council on 3/21/2023

- I. **SCOPE:** The purpose of this investment policy is to set regulations and other policies concerning the investment of City of Hilshire Village public funds. See Texas Government Code Chapters 2256 and 2257.
- II. **OBJECTIVE:** The primary objectives, in priority order, of investment activities shall be:
 1. **Safety:** 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 risk and interest rate risk.
 - A. **Credit Risk:** Credit risk is a loss due to the failure of the security issuer or backer. Credit risk shall be mitigated by:
 - Limiting investments to U.S. Government and U.S. Government Agency securities insured by FSCIC or FDIC.
 - The entire portfolio should be so diversified so that potential losses on individual securities will be minimized.
 - B. **Interest Rate Risk:** Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. Interest rate risk should be mitigated by:
 - The investment portfolio should be secured so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
 - Investments also should be primarily in shorter-term securities not to exceed two years in term.
 2. **Liquidity:** 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 securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist of securities with active markets.

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- 3. Yield:** 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 the investment is of least importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Securities shall not be sold prior to maturity with the following exceptions:

- 1) a security swap would improve the yield, or target duration in the portfolio; or
- 2) liquidity needs of the portfolio require that the security be sold.

III. INVESTMENT OFFICERS; STANDARDS OF CARE

- 1. Prudence:** The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with City ordinances and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investments, considering the probable safety of their capital as well as probable income to be derived.

- 2. Ethics and Conflicts of Interest:** Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions in which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Hilshire Village.
- 3. Delegation of Authority:** Authority to manage the investment program is granted to the City Treasurer and any other person designated as an investment officer by City Council Resolution, who shall set and carry out established written procedures and internal controls for the operation of the investment program consistent with the investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire

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transfer agreements, collateral/depository agreements and banking service contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established. The City Treasurer and other investment officers shall be responsible for all transactions undertaken and shall establish a system of controls to regulate and monitor the investments, and should report to the City Council and Mayor as requested.

4. **Training.** The investment officers of the City shall attend at least ten (10) hours training session relative to the investment officer's responsibilities within twelve months of taking office or assuming duties as an investment officer, and attend and receive not less than ten (10) hours of instruction in every two-year period that begins on the first day of the City's fiscal year after that date.
5. **Certifications from Sellers of Investments.** The investment officer shall present this policy to any business organization offering an investment transaction with the City and obtain from such business organization a policy certificate in form acceptable to the City; provided, however, that no certificate is required from a business organization that the City has not employed to use discretionary investment authority. Provided, further, an investment pool used by the City shall provide to the City the pool's policy regarding holding deposits in cash.

IV. SAFEKEEPING AND CUSTODY:

1. **Authorized Financial Dealer and Institution:** Financial institutions authorized to provide investment services must be approved by the City Council and have a minimum capital requirement of \$10,000,000 and at least five years of operation and must be registered with the Securities and Exchange Commission and be insured by the Security Investors Protection Corporation.

All financial institutions and brokers/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- audited financial statements.
- proof of National Association of Securities Dealers (NASD) certification
- proof of state registration.
- completed broker/dealer questionnaire.
- certification of having read the City of Hilshire Villages' Investment policy.

An annual review of the financial condition and registration of qualified bidders will be conducted by the City Treasurer.

2. **Internal Controls:** The City Treasurer and other investment officers are responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Hilshire Village 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

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recognizes that (1) the cost of the control should not exceed the benefits likely to be derived; and (2) the valuation of the cost and benefits require estimates and judgments by management.

Accordingly, the City Treasurer shall establish a process for annual independent review by an external auditor in conjunction with the City's year-end audit to assure compliance with policies and procedures. The internal controls should address the following points:

- A. Control of Collusion:** Collusion is a situation where two employees are working in conjunction to defraud their employer.
 - B. 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.
 - C. 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.
 - D. Written confirmation or telephone transactions for investments and wire transfers:** Due to the potential for error and improprieties arising from telephone transactions, all telephone transaction should be supported by written communications and approved by the City Treasurer and/or appointee. Written communications may be via fax if on letterhead and the safekeeping institution has a list of authorized signatures. The City Treasurer should receive a copy of all confirms and statements.
 - E. 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.
3. **Delivery vs. Payment:** All trades where applicable will be executed by Delivery vs. Payment (DVP). This ensures that securities are deposited in the eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

V. SUITABLE AND AUTHORIZED INVESTMENTS

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1. **Investment Types:** The following investments will be permitted by this policy and are those defined by State Law where applicable:
 - A. U.S. Government obligations, U.S. Government Agency obligations and U.S. Government instrumentality obligations.
 - B. Repurchase agreements.
 - C. Certificates of Deposit (backed by full FDIC).
 - D. Savings and loan association deposits (backed by FSLIC).
 - E. Money market mutual funds regulated by Securities and Exchange Commission and whose portfolios consist only of Government securities.
 - F. Statewide investment pools.

The use of Derivatives is prohibited.

2. **Collateralization:** Full collateralization will be required on two types of investments: certificates and repurchase agreements.
3. **Solicitation of Bids for Certificates of Deposit.** Bids for certificates of deposit may be solicited orally, in writing, electronically, or in any combination of these methods.

VI. INVESTMENT PARAMETERS

1. **Diversification:** The investments will be diversified by security type and institution.
2. **Maximum Maturities:** All maturities should be limited to maturities of two years unless specific authority is given to exceed.

VII. REPORTING

1. **Methods:** The City Treasurer shall prepare an investment report at least quarterly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the entity to ascertain whether investment activities during the reporting period have conformed to investment policy.

The report should be provided to the City Council. The report shall include the following:

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- A. A listing of individual securities held at the end of the reporting period.
 - B. Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity.
 - C. Average weighted yield to maturity of portfolio on entity investments as compared to applicable benchmarks.
 - D. Listing of investment by maturity date.
 - E. The percentage of the total portfolio which each type of investment represents.
2. **Performance Standards:** The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. Portfolio performance should be compared to appropriate benchmarks on a regular basis.
3. **Marking to Market:** A statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that the minimal amount of review has been performed on the investment portfolio in terms of value and subsequent price volatility.
- VIII. **POLICY:** This policy shall be reviewed on an annual basis. Any changes must be approved by the City Council of Hilshire Village.