

## Investment Policy

Revised and ~~approved 8/20/2024~~ will be presented for approval 9/9/2025

### **1. Scope:**

This investment policy governs the management and investment of public funds for the City of Hilshire Village, in compliance with Texas Government Code Chapters 2256 and 2257. It applies to all financial assets of the City, excluding employee retirement funds.

### **Objective:**

~~The investment program's primary objectives, in order of priority, are:~~

#### ~~1. Safety~~

- ~~○ Principal Preservation: Ensure the preservation of capital by mitigating credit and interest rate risks.~~

~~1. Credit Risk: Minimize by investing in U.S. Government and Agency securities, and diversifying the portfolio.~~

~~2. Interest Rate Risk: Avoid significant fluctuations by aligning securities' maturities with cash flow needs and focusing on short-term investments (up to two years).~~

#### ~~2. Liquidity~~

- ~~○ Maintain sufficient liquidity to meet all anticipated operating requirements. Structure the portfolio to ensure that securities mature as needed and include investments with active markets.~~

#### ~~3. Yield~~

- ~~○ Achieve a market rate of return, balancing risk and liquidity. The focus is on safety and liquidity, with returns being a secondary concern.~~
- ~~○ Sale of Securities: Securities may only be sold prior to maturity under two conditions:~~
  - ~~1. To improve yield or portfolio duration.~~
  - ~~2. To meet liquidity needs.~~

The primary objectives of the City's investment program are safety, liquidity, and yield, listed in order of priority. Safety is achieved through the preservation of capital, mitigating credit and interest rate risks. Credit risk is minimized by investing in U.S.

government and agency securities and maintaining a diversified portfolio. Interest rate risk is managed by aligning security maturities with anticipated cash flow needs and focusing on short-term investments with maturities of up to two years. Liquidity is maintained by structuring the portfolio so that securities mature in accordance with operating requirements, and by investing in instruments with active secondary markets. Yield is pursued as a secondary objective, aiming to achieve a market rate of return while maintaining safety and liquidity as primary considerations. Securities may only be sold prior to maturity to improve yield or portfolio duration, or to meet liquidity needs.

## **2. Investment Officers and Standards of Care:**

### **1. Prudence**

- ~~Investment decisions must adhere to the "prudent person" standard, managing the portfolio with care and diligence. Officers are not held personally responsible for market price changes if deviations are reported timely and adherence to policy is maintained.~~

### **2. Ethics and Conflicts of Interest**

- ~~Investment officials must avoid personal conflicts of interest and disclose any material financial interests related to the investment process. Personal transactions with City business contacts are prohibited.~~

### **3. Delegation of Authority**

- ~~Authority is granted to the City Treasurer and designated investment officers, who must follow established procedures for safekeeping, investment accounting, and other related activities. They are responsible for all transactions and must report to the City Council and Mayor as needed.~~

### **4. Training**

- ~~Investment officers must complete a minimum of 10 hours of training on investment responsibilities within 12 months of assuming office and 10 hours every two years thereafter.~~

### **5. Certifications from Sellers**

- ~~Investment officers must present the investment policy to all potential investment sellers and obtain certifications confirming their adherence to the policy.~~

Investment decisions shall be made according to the "prudent person" standard, exercising care, skill, and diligence appropriate to the circumstances. Officers are not held personally responsible for market fluctuations if policy compliance and timely

reporting are maintained. All investment officers must avoid conflicts of interest and disclose any material financial relationships related to the investment process. Personal transactions with City business contacts are prohibited. Authority to invest funds is delegated to the City Treasurer and other designated investment officers, who must follow established procedures for safekeeping, accounting, and reporting. Investment officers are required to complete a minimum of ten hours of training on investment responsibilities within 12 months of assuming office and ten hours every two years thereafter. Potential investment sellers must be presented with the City's investment policy and provide certifications confirming adherence.

### **3. Safekeeping and Custody:**

#### ~~1. Authorized Financial Dealers and Institutions~~

- ~~○ Institutions must be approved by the City Council, with a minimum capital requirement of ten million (\$10,000,000), and be registered with the SEC and insured by SIPC.~~
- ~~○ Qualified bidders must provide audited financial statements, NASD certification, state registration, a completed questionnaire, and acknowledgment of the City's investment policy. Annual reviews will be conducted.~~

#### ~~2. Internal Controls~~

- ~~○ The City Treasurer will establish controls to safeguard assets, ensuring protection against loss, theft, or misuse. Controls will include:~~
  - ~~▪ Control of Collusion: Prevent fraudulent collusion among employees.~~
  - ~~▪ Custodial Safekeeping: Use independent third parties for safekeeping.~~
  - ~~▪ Avoidance of Physical Delivery: Prefer book entry securities to minimize fraud and loss risks.~~
  - ~~▪ Transaction Confirmations: Obtain written confirmations for telephone transactions.~~
  - ~~▪ Wire Transfer Agreements: Develop agreements outlining controls and responsibilities.~~

#### ~~3. Delivery vs. Payment~~

- ~~○ All transactions will be executed by Delivery vs. Payment (DVP) to ensure securities are deposited before funds are released.~~

All investment transactions must be conducted with financial institutions approved by the City Council, which must have a minimum capital of ten million dollars, be registered with the SEC, and insured by SIPC. Approved institutions are required to provide audited financial statements, FINRA registration or certification, state registration, a completed questionnaire, and acknowledgment of the City's investment policy, with annual reviews performed. Internal controls established by the City Treasurer shall safeguard assets against loss, theft, or misuse. These controls include preventing collusion, using independent third-party custodians, preferring book-entry securities, obtaining written confirmations for telephone transactions, and establishing wire transfer agreements outlining controls and responsibilities. All securities transactions shall be executed on a Delivery versus Payment (DVP) basis to ensure that securities are deposited before funds are released.

#### **4. Suitable and Authorized Investments**

##### ~~1. Investment Types~~

- ~~○ Permitted investments include:~~
  - ~~▪ U.S. Government and Agency securities.~~
  - ~~▪ Repurchase agreements.~~
  - ~~▪ FDIC-insured Certificates of Deposit.~~
  - ~~▪ FSLIC-insured savings and loan deposits.~~
  - ~~▪ SEC-regulated money market mutual funds.~~
  - ~~▪ Statewide investment pools.~~
- ~~○ Derivatives are prohibited.~~

##### ~~2. Collateralization~~

- ~~○ Full collateralization is required for certificates and repurchase agreements.~~

##### ~~3. Bid Solicitation for Certificates of Deposit~~

- ~~○ Bids can be solicited orally, in writing, or electronically.~~

-Permitted investments include U.S. government and agency securities, repurchase agreements, FDIC-insured certificates of deposit, FSLIC-insured savings and loan deposits, SEC-regulated money market mutual funds, and statewide investment pools. Derivatives are prohibited. Certificates of deposit and repurchase agreements must be fully collateralized, and bids may be solicited orally, in writing, or electronically.

#### **5. Investment Parameters:**

#### ~~1. Diversification~~

- ~~○ Diversify investments by type and institution.~~

#### ~~2. Maximum Maturities~~

- ~~○ Limit maturities to two years, unless otherwise authorized.~~

○

Investments shall be diversified by type and institution to reduce risk. Security maturities shall be limited to two years unless otherwise authorized by the City Council.

### **6. Reporting**

#### ~~1. Methods~~

- ~~○ The City Treasurer will prepare a quarterly investment report including:~~
  - ~~▪ A summary of portfolio status and transactions.~~
  - ~~▪ A listing of securities and their market values.~~
  - ~~▪ Unrealized gains/losses and yield comparisons.~~
  - ~~▪ Maturity schedules and portfolio composition percentages.~~
  - ~~▪ Earnings performance history relative to other investment alternatives.~~

#### ~~2. Performance Standards~~

- ~~○ The portfolio should achieve a market average return, and performance will be compared to appropriate benchmarks.~~

#### ~~3. Marking to Market~~

- ~~○ A quarterly statement of the portfolio's market value will be issued.~~

The City Treasurer shall prepare a quarterly investment report that summarizes portfolio status and transactions, lists securities and their market values, details unrealized gains and losses, provides yield comparisons, outlines maturity schedules and portfolio composition, and evaluates earnings performance relative to other investment alternatives. Portfolio performance shall be compared to appropriate benchmarks, and a quarterly statement reflecting market values shall be issued.

### **7. Policy Review**

~~This policy shall be reviewed annually as part of the annual budget preparation. Any amendments must be approved by the City Council of Hilshire Village.~~

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