



**New Braunfels Utilities**

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# **Investment Policy**

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Approved by Board of Trustees  
on March 30, 2023

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**NEW BRAUNFELS UTILITIES  
INVESTMENT POLICY  
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## **I. INVESTMENT AUTHORITY AND SCOPE OF POLICY**

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### **Policy Statement**

This policy is designed to serve as a guideline for the investment of all New Braunfels Utilities' (NBU) funds by the individuals designated by the Chief Executive Officer (CEO) and the Board of Trustees as having the authority and responsibility for making such investments. This policy reflects the concept that NBU, by law, manages funds defined as public funds. NBU is a public trust for those assets acquired pursuant to City Charter and Statutes.

This policy serves to satisfy the statutory requirements of Texas Government Code Chapter 2256 (The Public Funds Investment Act, as amended, "PFIA") to define and adopt a formal investment policy. *See Attachment A: Certification of Board Action to Approve Investment Policy.* This policy will be reviewed and approved by the Board of Trustees at least annually according to Section 2256.005(e).

NBU's excess funds shall be kept invested until required for payment of operating and maintenance expenses, debt service, construction costs, claims not covered by insurance, or any other debt or amount rightfully due and owed by NBU. NBU shall maintain a comprehensive cash management program which includes collection of accounts receivable, vendor payment in accordance with invoice terms, and prudent investment of its available cash.

Provisions and restrictions set forth in State and Federal Laws, in Bond Ordinances for each of the separate funds and in other ordinances (including subsequently adopted Bond Ordinances or State or Federal laws enacted), shall govern administration and investment of NBU funds. If there should ever be conflicts between this policy and other laws and ordinances, such other laws and ordinances will control.

Investments shall be made with the primary objectives of:

- Safety and preservation of principal
- Maintenance of sufficient liquidity to meet operating needs
- Maximization of yield on the portfolio
- Public trust from prudent investment activities

When determining the term of an investment, market trends and economic conditions shall be recognized factors within the parameters of projected cash requirements. Arbitrage regulations shall be strictly observed.

Portfolio composition and eligible investments shall be set forth in this policy. Tax-exempt securities within the portfolio shall be utilized primarily for compliance with arbitrage regulations. Arbitrage, as referred to in this policy, concerns the investment of bond proceeds (construction funds), interest and sinking funds, and reserve funds.

It shall be recognized that speculation is inappropriate, and that volatile instruments are to be avoided under any circumstances.

## **Funds Included**

This investment policy applies to all financial assets of all funds of NBU at the present time and any funds to be created in the future.

## **Investment Officers**

In accordance with Chapter 2256, Sec. 2256.005(f), the Board shall designate Investment Officers of NBU as stated in *Attachment B: Certification of Board Action to Designate Authorized Investment Officers*. Each of the employees designated to serve as Investment Officers shall be covered by a Public Employee Dishonesty Policy at a level of not less than \$1,000,000, and will serve under the direction and authority of the Board.

If an Investment Officer 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 NBU, the Investment Officer must file a statement disclosing that personal business interest -- or relationship - - with the Texas Ethics Commission and the Board of Trustees in accordance with Government Code 2256.005(i).

Investment Officers shall refrain from personal business activity that could conflict with proper execution of the investment programs, or which could impair their ability to make impartial investment decisions. Investment Officers shall disclose to the Board any material financial interests in financial institutions that conduct business with NBU, and shall further disclose any large personal financial or investment positions that could be related to the performance of NBU's portfolio. Investment Officers shall subordinate their personal investment transactions to those of NBU, particularly with regard to the timing of purchases and sales.

The Investment Officers, pursuant to the delegation and authority of the Board, shall direct the investment program of NBU. No person may engage in an investment transaction except as provided under the terms of this policy. The designated Investment Officers, through the authority granted by the CEO and by the Board of Trustees, shall be responsible for all investment transactions undertaken and shall establish a system of controls to regulate the activities of subordinate employees.

The Investment Officers have the authority to purchase or sell, or contract to purchase or sell, any approved securities without limitation as to dollar amount, subject to the exceptions noted under Portfolio Management in this policy. Investment Procedures to supplement investment administration and to provide additional guidance on investments shall be prepared by the Investment Officers but are subject to revision without Board action. The Investment Procedures shall be available for review as requested by the Board.

## II. INVESTMENT OBJECTIVES

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### **General Statement**

NBU funds will be invested in accordance with federal and state laws, this investment policy and applicable written administrative procedures. NBU will invest according to the investment strategy statements for each fund as approved by the Board of Trustees in accordance with Sec. 2256.005(d). *See Attachment C: Certification of Board Action to Approve Fund Investment Strategies.*

### **Safety and Maintenance of Adequate Liquidity**

NBU's paramount objective in any investment transaction is the return of principal; therefore, safety of principal overrides other considerations in any investment transaction. NBU's investment portfolio must be structured in conformance with an investment management plan which provides for liquidity necessary to pay obligations as they become due. A portion of the portfolio will be placed in money market mutual funds or local government investment pools which offer same day liquidity for short term funds.

### **Diversification**

The Investment Portfolio shall be diversified to minimize the risk of loss resulting from overconcentration of assets in a specific maturity, or a specific issuer, or a specific class or type of investment. Investments shall be selected that provide for stability of income and reasonable liquidity with active secondary or resale markets. NBU recognizes that investment risk can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Risk is managed through portfolio diversification which shall be achieved by the following general guidelines:

- limiting investments to avoid concentration in securities from a specific issuer or business sector (excluding U.S. Treasury Securities),
- investing in securities with varying maturities,
- limiting investment in securities that have higher credit risks,
- continuously investing a portion of the portfolio in readily available funds such as a local government investment pool, or money market funds, to ensure that appropriate liquidity is maintained to meet ongoing obligations.

The NBU Board will establish for the NBU investment portfolio the maximum limits for each instrument as a percentage of total invested funds. These maximum limits are set forth in *Attachment C: Certification of Board Action to Approve Fund Investment Strategies.*

### **Yield**

NBU's objective is to earn a market rate of return on its investments within the constraints imposed by its safety and liquidity objectives, investment strategies for each fund, arbitrage regulations, and state and federal law governing investment of public funds. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

### **Maturity**

Portfolio maturities will be structured to meet NBU financial obligations first, and then, to achieve a market return of interest. When making investment decisions, maturity restraints will be determined based upon the investment strategy for each fund. The maximum allowable stated maturity of any

individual investment owned by NBU is five (5) years. However, NBU may invest funds up to ten (10) years for the Community Assistance Fund.

### **Disposition of Securities**

NBU's Investment Portfolio should pursue a "buy and hold" portfolio strategy. Maturity dates of investments are selected based on cash flow requirements and investments are purchased with the intent to be held until maturity. However, securities may be sold before they mature if market conditions present an opportunity for NBU to benefit from the trade. Securities may be sold for the following reasons:

- A security with declining credit may be sold early to minimize loss of principal
- A security swap would improve the quality, yield, or target duration in the portfolio
- A security may be called by the issuer per the terms of its original issuance
- Liquidity needs of the portfolio require that the security be sold.

Prior to selling a security before its scheduled maturity date, approval of two Investment Officers or one Investment Officer and the CEO, is required.

### **Quality and Capability of Investment Management**

Investment training is required pursuant to Sec. 2256.008(a) and (a-1) of the Public Funds Investment Act for the Board's Treasurer, the Chief Financial Officer (if the treasurer is not the CFO), and each Investment Officer through courses and seminars offered by qualified individuals, professional organizations and associations in order to insure the quality and capability of these individuals in making sound investment decisions and/or appropriately monitoring financial developments. Initial training of at least 10 hours of instruction must be completed within 12 months after taking office or assuming duties; and an additional minimum of 8 hours of additional investment training shall be completed not less than every two consecutive years, such period beginning on the first day of NBU's fiscal year. The training must be provided by an independent source approved by the Board of Trustees or the Investment Committee. *See Attachment H: Certification of Board Action to Approve Independent Sources to Provide Investment Training.*

### **Investment Strategy Statements By Fund**

#### ***Bond Reserve Funds***

NBU Bond Reserve Funds (as specified in *Attachment I: Certification of Board Action to Approve Investment Funds*) shall include investments appropriate to provide reserves to meet any shortfalls in NBU debt service funds. As Bond Reserve Funds are not anticipated to be utilized except in the case of extreme situations, maturities in these funds are generally expected to be invested for longer terms (one-three years) not to exceed five years. However, in no instance should an investment maturity exceed the latest established debt service requirement/payment date relating to the respective bond issuance. All Bond Reserve Fund investment instruments must meet credit and safety criteria as required by the Public Funds Investment Act and NBU Investment Policy. The nature of the Bond Reserve Funds is such that involuntary investment liquidations are unlikely, however should they become necessary, the comparatively longer-term nature of the instruments could result in material losses, depending on the financial and economic conditions existing at the time. Bond Reserve Fund investments will be structured to achieve the most competitive yields attainable, given appropriate diversification, maturity, arbitrage and safety requirements.

### ***Bond Debt Service Funds (Interest and Principal Funds)***

NBU Debt Service Funds (as specified in *Attachment I: Certification of Board Action to Approve Investment Funds*) shall include investments appropriate to meet periodic payments required by bond amortization schedules. As such, investment maturities are limited by pertinent debt service requirements and by related tax law addressing maximum funding levels for such funds' arbitrage considerations. All Debt Service Fund investment instruments must meet credit and safety criteria as required by the Public Funds Investment Act and NBU Investment Policy. Due to their specific purpose and short-term nature, involuntary investment liquidations are unlikely in these funds, however should they become necessary, their short-term nature would make material losses highly unlikely. Investments will be structured to achieve the most competitive yields attainable, given the pertinent liquidity requirements. Appropriately competitive and reasonable investment instruments will be compared prior to making an investment.

### ***Revenue Funds***

The Revenue Funds (as specified in *Attachment I: Certification of Board Action to Approve Investment Funds*) shall include investments suitable for a fund requiring a high degree of liquidity. All investment instruments must meet credit and safety criteria as required by the Public Funds Investment Act and NBU Investment Policy. Additionally, Revenue Funds' investments shall be diversified among a variety of investment instruments. Due to their short-term nature, involuntary investment liquidations are unlikely for the Revenue Funds; however, should they become necessary, the short-term nature of the instruments would make material losses highly unlikely. Each of the Revenue Funds' investments will be structured to achieve the most competitive yields attainable, given the pertinent liquidity requirements. Appropriately competitive and reasonable investment instruments will be compared prior to making an investment.

### ***System Contingency Fund***

The System Contingency Fund (as specified in *Attachment I: Certification of Board Action to Approve Investment Funds*) shall include investments appropriate to meet any funding shortfalls encountered by NBU as in the case of a disaster or catastrophe. As the System Contingency Fund is not anticipated to be utilized except in the case of extreme situations, maturities in these funds are generally expected to range from short-term to five years. All System Contingency Fund investment instruments must meet credit and safety criteria as required by the Public Funds Investment Act, the NBU Investment Policy, and the System Contingency Fund Policy as adopted in Appendix A of NBU Financial Policy. The nature of the System Contingency Fund is such that involuntary investment liquidations are unlikely, however should they become necessary, any longer-term investment instruments could result in material losses depending on the financial and economic conditions existing at the time. System Contingency Fund investments will be structured to achieve the most competitive yields attainable, given appropriate diversification, maturity, arbitrage and safety requirements. Appropriately competitive and reasonable investment instruments will be compared prior to making an investment.

### ***Construction Funds***

NBU Construction Funds (as specified in *Attachment I: Certification of Board Action to Approve Investment Funds*) shall include investments appropriate to meet construction expenditure requirements for which the funds were acquired. Maturities are also limited by related tax law

addressing required spending terms. Construction Funds' investment instruments must meet credit and safety criteria as required by the Public Funds Investment Act and NBU Investment Policy. Because investments are made in accordance with specific fund and expenditure requirements, involuntary investment liquidations are unlikely. Investments will be structured to achieve the most competitive yields attainable, given the pertinent liquidity requirements. Appropriately competitive and reasonable investment instruments will be compared prior to making an investment.

***Other Miscellaneous NBU Funds***

Other NBU funds (as specified in *Attachment I: Certification of Board Action to Approve Investment Funds*) shall include investments suitable for their particular purposes, including their unique liquidity requirements. Similarly, the average maturity of investments will be tailored to the individual fund's purposes and requirements. All investment instruments must meet credit and safety criteria as required by the Public Funds Investment Act and NBU Investment Policy. Because investments are made in accordance with specific fund and expenditure requirements, involuntary investment liquidations are unlikely. Investments will be structured to achieve the most competitive yields attainable, given the pertinent liquidity requirements. Appropriately competitive and reasonable investment instruments will be compared prior to making an investment.



### III. AUTHORIZED AND PROHIBITED INVESTMENTS

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#### Authorized Investments

NBU Investment Officers shall use any or all of the following authorized investment instruments consistent with governing law (Government Code 2256):

- A. Except as provided by Government Code 2256.009(b), the following are authorized investments:
1. obligations, including letters of credit, of the United States or its agencies and instrumentalities;
  2. direct obligations of the State of Texas or its agencies and instrumentalities, rated as to investment quality by a nationally recognized investment rating firm not less than AA 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;
  4. direct obligations of the following United States agencies and instrumentalities: Federal National Mortgage Association, Federal Farm Credit Bank, Federal Home Loan Bank, and the Federal Home Loan Mortgage Corporation.
- B. Certificate of Deposit or Share Certificate if the Certificate is issued by a depository institution that has its main office or branch office in the State of Texas and is:
1. guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, or
  2. secured by eligible collateral as listed in Section VI, *provided that*:
    1. the funds are invested through a depository institution that has its main office or a branch office in Texas,
    2. the depository institution arranges for the deposit of funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of NBU,
    3. 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,
    4. the depository institution acts as custodian for NBU with respect to the certificates of deposit issued for the account of NBU, and
    5. at the same time that the funds are deposited and the certificates of deposit are issued for the account of NBU, the depository institution receives an amount of deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the amount of the funds invested by NBU through the depository institution selected under B(2)(1) above.

C. No load Money Market Mutual Funds as specified by Board approval (*see Attachment D: Certification of Board Action to Approve Authorized Money Market Mutual Funds*), provided the mutual fund:

1. must be registered and regulated by the Securities and Exchange Commission;
2. provides NBU with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940; and
3. complies with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.).

As provided under section 2256.014(b) of the PFIA, investment in a no-load Money Market Mutual Fund is also authorized if the fund:

1. is registered and regulated by the Securities and Exchange Commission;
2. has an average weighted maturity of less than two years; and
3. either:
  - (A) has a duration of one year or more and is invested exclusively in obligations approved by the PFIA and this policy; or
  - (B) has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

However, NBU may not (a) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, or invest any portion of bond proceeds, reserves and funds held for debt service, in Mutual Funds described in section 2256.014(b); or (c) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one Mutual Fund in an amount that exceeds ten (10) percent of the total assets of the Mutual Fund.

D. Eligible specified investment pools (as permitted in the Public Funds Investment Act, Sec. 2256.016-2256.019) and as authorized by the Board. An investment pool shall invest the funds it receives from entities in authorized investments permitted by the Public Funds Investment Act. *See Attachment E: Certification of Board Action to Approve Authorized Investment Pools.* In order to be eligible, an investment pool must meet the following conditions:

1. must be continuously rated no lower than AAA, AAA-m, or an equivalent rating by a national recognized rating agency with a weighted average maturity no greater than 90 days;
2. a Public Fund Investment Pool created to function as a Money Market Mutual Fund must mark its portfolio to market daily, and to the extent reasonably possible, stabilize at a \$1.00 net asset value; the ratio of the market value to book value of the fund must be maintained between 0.995 and 1.005; and
3. the Pool must establish an advisory board composed of qualified members representing participants and non-participants pursuant to Sec.2256.016.

4. a. To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the Investment Officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

- (1) the types of investments in which money is allowed to be invested;
- (2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
- (3) the maximum stated maturity date any investment security within the portfolio has;
- (4) the objectives of the pool;
- (5) the size of the pool;
- (6) the names of the members of the advisory board of the pool and the dates their terms expire;
- (7) the custodian bank that will safekeep the pool's assets;
- (8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
- (9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
- (10) the name and address of the independent auditor of the pool;
- (11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and
- (12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

b. To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the Investment Officer or other authorized representative of the entity:

- (1) investment transaction confirmations; and
- (2) a monthly report that contains, at a minimum, the following information:
  - (a) the types and percentage breakdown of securities in which the pool is invested;
  - (b) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
  - (c) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
  - (d) the book value versus the market value of the pool's portfolio, using amortized cost valuation;
  - (e) the size of the pool;
  - (f) the number of participants in the pool;

- (g) the custodian bank that is safekeeping the assets of the pool;
- (h) a listing of daily transaction activity of the entity participating in the pool;
- (i) the yield and expense ratio of the pool;
- (j) the portfolio managers of the pool; and
- (k) any changes or addenda to the offering circular.

c. Yield shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the Federal Securities and Exchange Commission.

### **Prohibited Investments**

NBU Investment Officers have no authority to use any of the following investment instruments which are strictly prohibited by the Public Funds Investment Act, Section 2256.009(b). These include:

- A. obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- B. obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- C. collateralized mortgage obligations that have a stated final maturity date of greater than ten (10) years; and
- D. collateralized mortgage obligations whose interest rate is determined by an index that adjusts opposite to the changes in a market index.

## **IV. INVESTMENT RESPONSIBILITY AND CONTROL**

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### **Institutions Defined**

Investment Officers shall invest NBU funds with any or all of the following institutions or groups consistent with federal and state law and the current Depository Bank Contract:

- A. depository institution that has its main office or branch office in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor, or the National Credit Union Share Insurance Fund, or its successor, and
- B. any government securities brokers and dealers who are licensed under the Texas Securities Act and authorized by the Board of Trustees or the Investment Committee to engage in investment transactions with NBU. *See Attachment F: Certification of Board Action to Approve Eligible Institutions for Investments.*

### **Depository Restrictions and Security of Funds**

Other than for paying agent purposes, NBU shall utilize as depositories only federally or state financial institutions described above in sub-paragraph A of the preceding section and as approved by the Board of Trustees. Said depositories shall be subject to all restrictions set forth in NBU Bond Resolutions and in this policy for all types of investments.

NBU's staff will solicit proposals from qualified financial institutions for bank depository services in accordance with NBU's Purchasing Policy. NBU's staff will evaluate the respondents, submit a recommendation for award to the Investment Committee, and subsequently submit the recommendation for award to the Board of Trustees for approval.

### **Collateral or Insurance**

NBU Investment Officers shall insure that all funds are fully collateralized or insured consistent with federal and state law and the current Bank Depository Contract in one or more of the following manners:

- A. FDIC or NCUSIF Coverage.
- B. Certificates of Deposit issued by institutions that have a main office or branch office in the State of Texas to the extent same are insured by the FDIC or NCUSIF.
- C. Obligations, including letters of credit, of the United States or its agencies and instrumentalities
- D. Obligations of the State of Texas or its agencies and instrumentalities rated as to investment quality by a nationally recognized investment rating firm not less than "AA" or its equivalent.
- E. 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.
- F. Direct obligations of the following United States agencies and instrumentalities: Federal National Mortgage Association, Federal Farm Credit Bank, Federal Home Loan Bank, and the Federal Home Loan Mortgage Corporation.

To the extent not covered by the FDIC or NCUSIF, funds held at a financial institution shall be collateralized at all times. Investment securities pledged as collateral shall at all times be at least equivalent to 102% in aggregate market value, excluding accrued interest, of the amount of funds on deposit plus interest accrued and to accrue thereon, to the extent not covered by the FDIC or NCUSIF. On a monthly basis, NBU will review investment securities pledged as collateral to ensure that sufficient collateral has been posted for the benefit of NBU.

### **Safekeeping**

All purchased securities including Certificates of Deposit shall be held in safekeeping by NBU, or an NBU account in a third party non-affiliated financial institution, or with the Federal Reserve Bank. All pledged securities by the Depository Bank shall be held in safekeeping by NBU or an NBU account in a third party non-affiliated financial institution, or with the Federal Reserve Bank. For approved custodial safekeeping accounts, please see *Attachment G: Certification of Board Action to Approve Safekeeping Accounts*.

Safekeeping receipts must be issued to NBU in a timely manner and must provide the following information:

- A. Effective date of the safekeeping receipt
- B. Description of pledged security
- C. Amount pledged (par value)
- D. Maturity date and rate of interest
- E. Coupon date
- F. Nationally recognized investment firm rating

Securities are to remain pledged to NBU until written notification to release the securities from an NBU Investment Officer is received by the safekeeping financial institution. Securities may be released by an Investment Officer if the safekeeping financial institution provides written confirmation that there remains adequate pledged collateral to NBU as described above.

Securities owned by NBU and collateral securities pledged to NBU must be maintained in safekeeping at a third-party financial institution which is not owned or controlled by, or affiliated with, the same financial institution or holding company from which the security is purchased or from which the collateral is pledged.

### **Requirements for Investing**

In accordance with 2256.005(k), a written copy of this investment policy shall be presented to any person seeking to sell NBU an authorized investment. The NBU Board of Trustees will adopt and annually review a list of qualified brokers authorized to engage in investment transactions with NBU (Attachment F). 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:

- A. had a qualified representative receive and thoroughly review NBU's Investment Policy; and
- B. 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 NBU and the organization. The responsibility of the broker is limited to reviewing the investments to determine whether they are authorized by the policy.

An Investment Officer may not buy any securities from a person who has not delivered to NBU an instrument in substantially the form provided above according to Section 2256.005(I).

NBU Board Members, Investment Officers and Consultants will evaluate the banking institution or broker/dealer's financial condition to the extent the Board considers necessary prior to establishing any accounts with the broker/dealer or financial institution. Investigation may include a review of appropriate public documents, rating agency reports, and call reports sent to the comptroller of the currency or other appropriate regulator. A banking institution or broker/dealer must be added to the approved list in Attachment F before any business can be transacted.

Certificate of Deposit or share certificate investments may be made with any financial institution so long as it is in full compliance with the requirements set forth in PFIA and this Policy, including, but not limited to, the provisions specified in *Section III – Suitable and Authorized Investments Policy – Investments, Paragraph B*. Any nominal funds incidental or necessary to the establishment of an account with the respective financial institution for purposes of investing in such Certificate of Deposit or share certificate may also be made.

NBU will conduct an ongoing review of publicly available financial records, reports, rating service information and any other data relevant to the financial soundness of any financial institution or broker/dealer with whom NBU is doing business.

### **Standards of Operation**

**Bidding Procedure:** Investment of NBU funds may be made only after competitive bids are solicited from at least three qualified financial institutions (qualified and approved as set out above) and as provided by State Statute. The bids may be solicited orally. If a financial institution has notified NBU that it is unable or unwilling to bid for investments, it may be presumed that the financial institution is unable or unwilling to bid for the investments until the financial institution notifies NBU otherwise in writing.

All investment decisions shall be internally documented and approved by an Investment Officer. All investments and fund transfers require two signatures from Investment Officers and/or authorized Investment Signatories with at least one being an Investment Officer before execution. Investment Officers may order investments orally, but shall follow up the investment order with a written confirmation to the financial institution or broker/dealer. Written investment instructions shall contain information relative to the name and account number of the fund from which the investment was placed, disposition of interest to be earned, term, invested amount, rate of interest, yield, purchase date, and maturity date of the investment.

### **Delivery vs. Payment**

All investment transactions, except investment pool funds and money market mutual funds, will be settled on "delivery versus payment" basis. That is, NBU shall authorize the release of funds only after it has received notification from the safekeeping bank that purchased the security has been received in NBU's safekeeping account. This notification may be oral, but the safekeeping bank must follow up with an original safekeeping receipt to NBU within 24 hours.

NBU must also have confirmation from a third-party safekeeping bank that adequate collateral has been pledged to NBU before releasing funds for the investment. This confirmation may be oral, but must be confirmed in writing within 24 hours with the original safekeeping receipt if additional pledging was required.

### **Audit Control**

NBU will have an annual financial audit of all funds by an independent auditing firm, which will include an annual compliance audit of management controls on investments and adherence to the entity's established investment policies in accordance with Gov. Code 2256.005(m). As part of the annual financial audit, the auditing firm will review the quarterly investment reports and report the results to the Board of Trustees.

### **Standard of Care**

In accordance with Government Code 2256.006, 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 as described in the Investment Objectives. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal; liquidity; and yield.

In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- A. the investment of all funds, or funds under NBU's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
- B. whether the investment decision was consistent with the written investment policy of NBU.

The Board of Trustees, Investment Officers, and other Accounting Division personnel shall be personally indemnified in the event of investment loss, provided the Investment Policies of the Board of Trustees have been followed.



## **V. INVESTMENT REPORTING AND PERFORMANCE EVALUATION**

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### **Quarterly Report**

In accordance with Government Code 2256.023, not less than quarterly, the Investment Officers shall prepare and submit to the Board 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:

- A. describe in detail the investment position of NBU on the date of the report;
- B. be prepared jointly by all Investment Officers;
- C. be signed by each Investment Officer;
- D. contain a summary statement of each pooled fund group that states the:
  1. beginning market value for the reporting period;
  2. additions and changes to the market value during the period;
  3. ending market value for the period; and
  4. fully accrued interest for the reporting period
- E. 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;
- F. state the maturity date of each separately invested asset that has a maturity date;
- G. state the account or fund or pooled group fund for which each individual investment was acquired; and
- H. state the compliance of the investment portfolio as it relates to:
  1. the investment strategy expressed in NBU's investment strategy document; and
  2. relevant provisions of the Public Funds Investment Act.
- I. the reports prepared by the Investment Officers shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Board by the independent auditor.

### **Market Valuation of Investments**

The method used to monitor the market price of acquired investments shall be as follows:

- Pools - net asset value as reported by the investment pool on the last day of each month;
- All other investments - as reported in the Wall Street Journal edition issued on the last day of the month or valuations acquired through approved brokers, dealers, financial institutions and/or third-party financial reporting service organizations.

### **Investment Policy and Strategy Revisions**

This Investment Policy may only be amended by a resolution of the NBU Board of Trustees. An Investment Committee consisting of two (2) Board Members, the CEO, NBU Investment Officers, and the Financial Advisor will meet as needed and will review the Investment Policy and strategies annually. Recommended modifications to the policy will be submitted to the Board of Trustees for

review and approval. The Board will document this review by formal action through a resolution, including a record of any changes made.

**Attachment A:**  
**Certification of Board Action to Approve Investment Policy**

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At the regular meeting of the Board of Trustees on March 30, 2023, the Board, reviewed and approved the revised New Braunfels Utilities Investment Policy.

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Judith Dykes-Hoffmann  
NBU Board President

**Attachment B:**  
**Certification of Board Action to Designate Authorized Investment Officers**

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At the regular meeting of the Board of Trustees on March 30, 2023, the Board approved that the following employees serving in the positions listed below are the designated Investment Officers of NBU:

Chief Financial Officer  
Director of Finance  
Finance Manager

As per Section I, subsection “Investment Officers” of this policy, “the CEO is authorized to serve as an investment signatory on demand and investment accounts, including the opening and closing of such accounts, as designated by action of the Board of Trustees.”

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Judith Dykes-Hoffmann  
NBU Board President

**Attachment C:**  
**Certification of Board Action to Approve Fund Investment Strategies**

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At the regular meeting of the Board of Trustees on February 27, 2020, the Board approved the following investment strategies in accordance with the investment objectives as stated in the New Braunfels Utilities Investment Policy- *Section II. Investment Objectives*:

The **allowable** range of permitted investments by security types are as follows:

1.	U.S. Treasury Securities	0 to 70%
2.	U.S Government Agencies and Instrumentalities	0 to 70%
3.	Certificates of Deposit	0 to 40%
4.	Money Market Mutual Funds and Authorized Pools (aggregate)	0 to 100%
5.	Obligations of the State of Texas or its agencies and instrumentalities	0 to 15%
6.	Federally Insured Cash Account (FICA)	0 to 50%

The NBU Investment Portfolio shall incorporate a:

- maximum Weighted Average Maturity to Call Date (WAMC) of 300 days or less calculated on the basis of each security's earlier of (i) maturity date or (ii) first call date (from date of measurement), if applicable.
- maximum Weighted Average Maturity (WAM) of 450 days or less.
- minimum amount equal to at least thirty (30) days of total operating expenses in investments which can be converted into next day liquid funds into cash or cash-equivalents without loss of principal. For purposes of this section, the thirty days of total operating expenses shall refer to the annual budgeted amounts for the current fiscal year divided by twelve (12).



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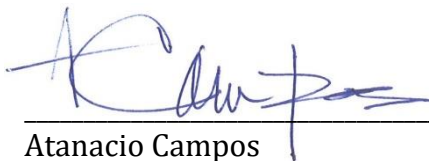
John A. Harrell  
NBU Board President

**Attachment D:**  
**Certification of Board Action to Approve Authorized Money Market Mutual Funds**

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At the regular meeting of the Board of Trustees on January 26, 2017, the Board approved the following list of authorized Money Market Mutual Funds:

- Federated Government Obligation Money Market Mutual Fund (Ticker: GOTXX)
- DWS Government Cash Institutional Money Market Mutual Fund (Ticker: DBBXX)
- Vanguard Admiral Treasury Money Market Mutual Fund (Ticker: VUSXX)
- Federally Insured Cash Account



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Atanacio Campos  
NBU Board President

**Attachment E:**  
**Certification of Board Action to Approve Authorized Investment Pools**

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At the regular meeting of the Board of Trustees on March 30, 2023, the Board approved the following list of authorized Investment Pools:

- Texas Local Government Investment Pool (TexPool)
- Texas Short Term Asset Reserve (TexSTAR)
- TexasDAILY (a portfolio established by Texas Range)
- Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS)

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Judith Dykes-Hoffmann  
NBU Board President

**Attachment F:**  
**Certification of Board Action to Approve Eligible Institutions for Investments**

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At the regular meeting of the Board of Trustees on March 30, 2023, the Board approved the following list of authorized eligible Institutions for Investments:

Banking Institutions

- Frost Bank
- J.P. Morgan Chase Bank, New Braunfels
- Wells Fargo, New Braunfels
- Prosperity Bank, New Braunfels

Government Securities Brokers/ Dealers

- Merrill Lynch
- J.P. Morgan Securities Inc.
- Frost Bank
- Wells Fargo Bank N.A.
- FHN Financial
- Mischler Financial Group

Other Investments Broker/ Dealer

- Hilltop Securities Inc.
- StoneCastle Cash Management, LLC
- US Bank Corporate Trust

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Judith Dykes-Hoffmann  
NBU Board President



**Attachment G:**  
**Certification of Board Action to Approve Safekeeping Accounts**

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At the regular meeting of the Board of Trustees on February 27, 2020, the Board approved the following custodial safekeeping accounts:

- Wells Fargo Bank Texas
- JPMorgan Chase Bank
- Frost Bank
- FHN Financial
- Hilltop Securities Inc.
- StoneCastle Cash Management, LLC
- US Bank Corporate Trust
- The Bank of New York Mellon Trust Company, N.A.




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John A. Harrell  
NBU Board President

**Attachment H:**  
**Certification of Board Action to Approve Independent Sources to Provide Investment Training**

At the regular meeting of the Board of Trustees on February 24, 2011, the Board approved as part of the Investment Policy the following list of independent sources approved by the Investment Committee to provide investment training for Investment Officers in accordance with the requirements of the Public Funds Investment Act:

- University of North Texas – Center for Public Management
- Government Treasurers of Texas (GTOT)
- Government Finance Officers Association (GFOA)
- Government Finance Officers Association of Texas (GFOAT)
- American Institute of Certified Public Accountants (AICPA)
- Texas Society of Certified Public Accountants (TSCPA)
- Texas Municipal League (TML)
- Texas State University



Guadalupe Castillo  
NBU Board President

**Attachment I:  
Certification of Board Action to Approve Investment Funds**

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At the regular meeting of the Board of Trustees on October 31, 2019, the Board approved the following list of investment funds as indicated for their respective purposes:

***Bond Reserve***

- Reserve

***Bond Debt Service Funds (Interest and Principal Funds) of Bonds approved for issuance by the Board of Trustees.***

***Revenue Funds***

- Temporary Cash

***System Contingency Fund***

- System Contingency Fund

***Construction Funds***

- Commercial Paper Proceeds
- Bond Proceeds
- Capital Recovery –Pro Rata
- Capital Recovery –Central Facilities
- Impact Fees –Water
- Impact Fees –Sewer
- Water Resource Development Fund

***Other Miscellaneous NBU Funds***

- Rate and Debt Flexibility
- Consumer Deposits
- Community Assistance Fund
- Power Supply Fund
- Power Stabilization Fund



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John A. Harrell  
NBU Board President