



TOWN OF PROSPER, TEXAS

INVESTMENT POLICY

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PREFACE

It is the policy of the Town of Prosper (“PROSPER”) that the administration of its funds and the investment of those funds shall be handled as its highest public trust. The Town of Prosper adheres to its own governing documents and the Public Funds Investment Act (Texas Government Code Chapter 2256, the “ACT”) to safely and effectively manage the funds under its control. To achieve those requirements, the Town Council annually reviews and adopts this Investment Policy.

The receipt of yield will be secondary to the requirements for safety and liquidity. The earnings from investments will be used in a manner that best serves the interests of the Town.

It is the policy of PROSPER that, giving due regard to the safety and risk of investments, all available funds shall be invested in conformance with the Town Charter and Ordinances, State and Federal Regulations, Bond Resolution requirements, and the adopted Investment Policy and Investment Strategy. The purpose of this Policy is to set specific Town investment policy and strategy guidelines within the investment parameters for the investment of public funds in Texas found in the ACT. The Public Funds Collateral Act (Chapter 2257, Texas Government Code) specifies collateral requirements for all public Texas depository funds and is incorporated herein.

Effective cash management is recognized as essential to good fiscal management. Cash management is the process of managing funds to ensure necessary cash availability and provide reasonable yield on investments. PROSPER shall strive for a complete cash management program which includes timely collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of assets.

I. INVESTMENT POLICY

A. Formal Adoption

This Investment Policy shall be reviewed and adopted annually by the Town Council in accordance with the ACT.

B. Scope

This Investment Policy applies to all of the investment activities of PROSPER. These funds are accounted for in the Town's Annual Comprehensive Financial Report (ACFR) and include:

- General Fund
- Debt Service Funds
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Internal Service Funds, and
- Any new fund created by PROSPER

This Policy establishes guidelines for:

1. Who can invest PROSPER funds,
2. How PROSPER funds will be invested, and
3. When and how a periodic review of investments will be made.

In addition to this Policy, bond funds (as defined by the Internal Revenue Service) shall be managed in accordance with their issuing documentation and all applicable State and Federal Law.

C. Policy Review and Amendment

This Policy shall be reviewed and adopted by resolution annually by the Town Council. The resolution shall record any changes made to the Policy.

D. Investment Strategy

In conjunction with the annual Policy review, the Town Council shall annually review and adopt a separate written Investment Strategy for each of PROSPER's fund types. PROSPER may consolidate cash balances from multiple funds for investment purposes to maximize investment earnings while recognizing the unique characteristics of these funds. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

The Investment Strategy, found in Section IX of this Policy, describes the investment objectives for each particular fund type according to the following priorities:

1. Investment suitability,
2. Preservation and safety of principal,
3. Liquidity,
4. Marketability prior to maturity of each investment,
5. Diversification, and
6. Yield.

II. INVESTMENT OBJECTIVES

It is the policy of PROSPER that all funds shall be managed and invested with four primary objectives, listed in order of their priority: safety, liquidity, diversification, and yield. Investments are to be chosen in a manner which promotes diversity to spread risks. The maximum weighted average maturity (WAM) of the overall portfolio may not exceed two years.

All participants in the investment process will seek to act responsibly as custodians of the public trust. Investment officials will avoid any transactions that might impair public confidence in the Town's ability to govern effectively. The Town Council recognizes that in a diversified portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that the adequate diversification has been implemented and the terms of this policy have been followed.

A. Safety of Principal

The primary objective of all investment activity is the preservation of capital and the safety of principal. Each investment transaction shall seek to ensure first that capital losses are avoided, whether they are from security defaults, safekeeping or erosion of the market value. Investment in high credit quality securities and decisions based on anticipated cash flow needs are the primary factors in providing safety.

PROSPER shall seek to control the risk of loss due to default of a security issuer by investing only in the highest credit quality securities; by collateralization as required by law and policy; and portfolio diversification.

B. Liquidity

The investment portfolio will remain sufficiently liquid to meet the cash flow requirements that might be reasonably anticipated. Liquidity shall be achieved by matching investment maturities with forecasted cash flow requirements; investing in securities with active secondary markets, and maintaining appropriate portfolio diversification.

C. Diversification

The portfolio shall be diversified by institution, market sector and maturity within cash flow needs to spread risk.

D. Yield

The investment portfolio shall be designed with the objective of attaining a reasonable market yield throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Yield is of secondary importance compared to safety and liquidity objectives. All investments are limited to high credit quality, low risk securities in anticipation of earning a fair return relative to the risk being assumed.

The benchmark for the consolidated portfolio shall be the one-year US Treasury Bill for the comparable period designated for its comparability to the expected investments, liquidity needs, and average cash flow patterns.

III. AUTHORIZED INVESTMENTS

Assets of PROSPER may be invested only in the following investment types as further defined by the ACT.

1. Obligations of the US Government, its agencies and instrumentalities, excluding mortgage-backed securities, with a stated maximum maturity of three years.
2. General debt obligations of any US state or political subdivision rated A+ or better with a stated maximum maturity of three years.
3. Fully insured or collateralized certificates of deposit from banks in Texas with a maximum maturity of three years, insured by the Federal Deposit Insurance Corporation (FDIC), or its successor, or collateralized in accordance with this Policy to include spread products within these banks.
4. Share certificates from credit unions in Texas insured by the National Credit Union Share Insurance Fund with a maximum stated maturity of two years.
5. Fully insured or collateralized demand deposits in any bank in Texas insured by the FDIC or its successor or collateralized in accordance with this Policy to include spread products within these banks.
6. FDIC insured brokered certificate of deposit securities from a bank in any US state, delivered versus payment to the Town's safekeeping/custody account and not to exceed one year to stated final maturity.

7. AAA-rated, SEC registered, money market mutual funds striving to maintain a \$1 net asset value (NAV).
8. AAA-rated Texas local government investment pools which strive to maintain a \$1 net asset value (NAV) operated in accordance with the ACT and authorized by resolution of the Town Council.
9. A1/P1 commercial paper with a maximum stated maturity of 270 days.
10. Fully collateralized repurchase agreements as defined by the ACT with a defined termination date, executed with a primary dealer under an industry standard master repurchase agreement, and collateralized in accordance with this Policy.

IV. COLLATERALIZATION

A. Time and Demand Deposits – Pledged Collateral

All bank time and demand deposits shall be collateralized above FDIC coverage by secured, pledged collateral. To anticipate market changes and provide the required level of security for all funds, collateral will be maintained and monitored by the pledging depository at a market value of 102% of the total principal and accrued interest on deposit. The institution shall monitor and maintain the margins on a daily basis.

Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository. The collateral agreement with the depository shall be approved by resolution of the Bank Board or Bank Loan Committee for compliance with FIRREA. The custodian or bank shall provide a monthly report of collateral directly to the City.

Substitution rights may be granted but new collateral must be pledged before existing collateral is released. All collateral shall be subject to inspection and audit by the City or its independent auditors.

B. Collateral Owned Under a Repurchase Agreement

Collateral securing a repurchase agreement is *owned* by the Town. It shall be held by an independent third-party financial institution approved by PROSPER under the terms of an executed Bond Market Master Agreement. Collateral with a market value of 102% of principal and interest is required at all times and is the responsibility of the counter-party.

C. Authorized Collateral

Only the following securities are authorized as collateral for time and demand deposits:

1. FDIC insurance coverage.

2. Obligations of the United States, its agencies or instrumentalities, or evidence of indebtedness of the United States guaranteed as to principal and interest including MBS and CMO which pass the bank test.
3. Obligations of any US state or of a county, City or other political subdivision of any US state having been rated as investment grade (investment rating no less than “A” or its equivalent) by two nationally recognized rating agencies.
4. Irrevocable letter of credit from a FHLB regional bank.

Collateral for repurchase agreements may also include cash. Preference will be given to pledged collateral securities.

V. INTERNAL CONTROLS

The Investment Officer(s) are responsible for establishing and maintaining internal controls to reasonably assure that assets are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefit likely to be derived.

Internal controls shall address the following at a minimum:

- Control of collusion,
- Separation of transaction authority from accounting and record keeping,
- Safekeeping/custody of owned and pledged collateral.
- Clear delegation of authority,
- Written confirmation and recording of all transactions, and
- Review, maintenance and monitoring of security procedures both manual and automated.

Annually the Investment Officer(s) shall perform an internal compliance audit to assure compliance with requirements of this policy and the ACT. Annually the Town’s auditor shall review the quarterly investment reports.

1. **Delivery versus Payment.** The purchase of individual securities shall be executed solely on a “Delivery versus Payment” (DVP) basis and cleared into PROSPER’s designated safekeeping/custody account. Funds shall not be released until PROSPER has received, through its agent, the securities purchased.
2. **Competitive Quotes.** All security transactions require at least three competitive quotes (bid or offer) to assure competitive market value. Securities purchased “at issue price” must be compared to other similar offerings to determine competitive value. Investment bids/offers may be solicited orally, in writing, electronically, or any combination of these methods.
3. **Monitoring of Credit Ratings.** On no less than a monthly basis, the credit rating on all investments which require a credit rating shall be verified by the Investment Officer(s). If the security falls below the minimum rating required by Policy the Investment Officer shall notify the Finance Director of the loss of rating, conditions affecting the rating and possible loss of principal including liquidation options available. PROSPER will monitor changes

in the credit ratings including rating agencies, broker/dealers, or financial publications. PROSPER shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

4. **Monitoring of Authorized Investments.** Should an investment become unauthorized in the ACT or by this policy, the existing investment need not be liquidated, at maturity or sale however the funds must be reinvested in then authorized investments.
5. **Monitoring FDIC Status.** On no less than a weekly basis the FDIC status and bank status of all brokered certificates of deposit must be verified. If any bank has been acquired or merged with another bank from which brokered certificates of deposit are held in the portfolio, all affected brokered certificates of deposit shall be immediately liquidated to retain the required FDIC insurance level.
6. **Prior Held Investments.** All investments made with PROSPER funds prior to the adoption of this Investment Policy may be held or liquidated in accordance with the ACT and in the best interest of PROSPER's financial position.
7. **Diversification by Investment Type.** Diversification by investment type shall be maintained ensuring multiple active and efficient secondary markets in the portfolio thereby controlling the market and credit risks associated with an overconcentration in one specific investment type or issuer.

Bond proceeds may be invested in a single security or investment if PROSPER determines that such an investment is necessary to comply with Federal arbitrage restrictions or to facilitate arbitrage record keeping and calculation.

8. **Diversification by Investment Maturity.** In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Generally, PROSPER will not directly invest in securities maturing more than three years from the date of purchase.
9. **Ensuring Liquidity.** Liquidity shall be achieved by anticipating cash flow requirements, by investing in securities with active secondary markets and by investing in eligible financial institution deposit accounts, money market mutual funds, and local government investment pools.

A security may be liquidated to meet unanticipated cash requirements, to redeploy cash into other investments expected to outperform current holdings, or otherwise to adjust the portfolio.

10. **Cash Flow Forecasting.** Cash flow analysis is designed to protect and sustain the cash flow requirements of the Town. The Investment Officer(s) will analyze needs and maintain a cash flow plan to monitor and forecast high-level cash positions for investment purposes.

VI. COUNTER-PARTIES

1. Broker/Dealers

The Town Council shall, at least annually, review and adopt a list of broker/dealers authorized to engage in investment transactions with PROSPER. Transactions may be executed only with authorized broker/dealers. In order to be considered, firms that desire to transact business will be required to provide information regarding their creditworthiness, experience, market sector involvement, and reputation.

Authorized firms may include primary and regional dealers and brokers and qualified depositories as established by Chapter 105 of the Local Government Code.

A list of no less than five broker/dealers shall be maintained. Before investments are made all broker/dealers must supply the following at a minimum:

- Current year and annual financial statements
- Financial Industry Regulatory Association (FINRA) certification and the FINRA Central Depository Registration number (CRD)
- Proof of Texas States Securities registration
- Completion of a brief questionnaire detailing contacts

A written copy of the current Investment Policy shall be provided to all authorized broker/dealers and pools. Local government investment pools shall certify to a review of the policy in accordance with the ACT.

2. Depositories

Consistent with the requirements of State Law, PROSPER requires all bank deposits to be federally FDIC insured or collateralized in accordance with this policy. At least every five years PROSPER will designate one banking institution through a competitive process, as its central banking services provider. Additional banks may be used for time and demand deposits under the same conditions.

Any financial institution providing depository services which require collateral shall sign a depository agreement under the terms of FIRREA (Financial Institutions Resource, Recovery and Enforcement Act). The conditions of such an agreement shall define PROSPER's rights in case of default, bankruptcy, or closing to establish a perfected security interest. FIRREA conditions require that:

- a. The Agreement must be in writing;
- b. The Agreement must be approved by the Board of Directors or its Bank Loan Committee with a copy of the resolution delivered to PROSPER;
- c. The Agreement must be part of the Depository's "official record" continuously since its execution.

- d. The Agreement must be executed by the Depository and PROSPER contemporaneously with the acquisition of the asset without listing the collateral securities.

3. Safekeeping Agent/Custodian

PROSPER shall contract with a independent bank or banks for the safekeeping/custody of securities owned by PROSPER. All securities (pledged or owned) shall be delivered delivery versus payment. The safekeeping agent/custodian shall be independent from the trade.

4. Investment Advisers

Any investment adviser contracted by the Town will act on a non-discretionary basis so that all final transaction decisions are made by the Town Investment Officer(s). Non-discretionary investment advisers under contract to the Town shall adhere to the spirit, philosophy and specific terms of this Policy.

The selection of Investment Advisers will be performed by the Investment Officers. The Investment Officers will establish criteria to evaluate Investment Advisers including:

- Adherence to PROSPER's policies and strategies,
- Investment performance within accepted risk constraints,
- Responsiveness to PROSPER's request for services,
- Availability of information and open communication,
- Understanding of the inherent fiduciary responsibility of public funds, and
- Similarity in philosophy and strategy with PROSPER's objectives.

Selected Investment Advisers must be registered under the Investment Advisers Act of 1940. An initial contract with an Investment Adviser may not be for a term longer than two years and any contract, renewal or extension must be approved by Town Council.

VII. DELIGATION OF RESPONSIBILITY

1. Investment Officer(s)

The Town Manager or designee, Deputy Town Manager, Finance Director, and Assistant Finance Director will be designated as "Investment Officers" of the Town of Prosper by resolution of the Town Council. The Investment Officers are responsible for investment decisions and investment activities, reporting, and creating/maintaining the portfolio(s) in accordance with this Policy. Officers are authorized to deposit, withdraw, invest, transfer, execute documentation, and otherwise manage PROSPER's funds according to this Policy.

The Investment Officers may utilize finance staff to deposit, withdraw or transfer funds out of or into an investment pool or money market mutual fund in order to meet daily operating needs of PROSPER in compliance with established controls and procedures.

All Officers shall attend at least ten (10) hours of investment training, from sources approved

by the Town Council by resolution, within twelve (12) months of designation as an Investment Officer and shall attend eight (8) hours of investment training every two successive fiscal years. Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with PFIA.

The designated Investment Officers shall act as custodians of the public trust avoiding any transactions which might involve a conflict of interest, the appearance of a conflict of interest, or any activity which might otherwise discourage public confidence. Investment Officers shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Additionally, in accordance with the ACT under certain conditions, Investment Officers shall file with the Texas Ethics Commission and the Town Council a statement disclosing any personal business relationship with a business organization seeking to sell investments to PROSPER with which they maintain a relationship within the second degree by affinity or consanguinity to an individual/firm seeking to sell investments to PROSPER. Disclosure to the Ethics Commission is required only if the Investment Officer has a personal business relationship with business organization in which:

- The Investment Officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- Funds received by the Investment Officer from the business organization exceed 10 percent of the Investment Officer's gross income for the previous year; or
- The Investment Officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the Investment Officer.

2. Town Council Responsibilities

The Town Council holds the ultimate fiduciary responsibility for the portfolio under the ACT. It will designate investment officer(s), receive and review quarterly investment reports, approve and provide for investment officer training, annually approve broker/dealers, and annually review and adopt the Investment Policy and Investment Strategy.

3. Prudence and Standard of Care

The designated Investment Officer(s) shall perform their duties in accordance with the Investment Policy and internal procedures. In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the investment of all funds over which the Investment Officer(s) had responsibility, rather than the prudence of a single investment shall be considered.

Investment Officers acting in good faith and in accordance with these policies and procedures shall be relieved of personal liability.

The standard of care used by PROSPER shall be that as defined by the ACT stating: “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.”

VIII. REPORTING

The Investment Officer(s) shall prepare and submit a signed quarterly investment report to the Town Council in accordance with the ACT providing detail information on each investment and bank position and summary information to permit an informed outside reader to evaluate the performance and risk in the portfolio. Every designated Investment Officer shall sign the report.

This investment report shall include:

- a.** A full description of each individual security and bank/pool position held at the end of the reporting period including amortized book and market values at the beginning and end of the period,
- b.** Summary information prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the:
 1. beginning book and market value for the reporting period;
 2. ending book and market value for the reporting period; and
 3. fully accrued interest and amortized earnings for the reporting period;
- c.** Classification of each separately invested asset by the type of asset (market sector);
- d.** The maturity date (and call date, if applicable) of each separately invested asset that has a maturity or call date;
- e.** The account or fund or pooled group fund for which each individual investment was acquired;
- f.** The weighted average yield and weighted average maturity of the total portfolio; and
- g.** A compliance statement that the report is prepared in compliance with PROSPER’s Investment Policy, Strategy, and the ACT.

Market values shall be calculated from market values obtained from independent sources.

Consideration will be given to GASB Statement No. 31 and reporting for GASB 31, 40 and 72 shall be completed on a timely basis.

In conjunction with its annual financial audit, the Investment Officer(s) shall perform a compliance audit to the Policy and the ACT. The quarterly investment reports shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the Town Council by that auditor.

IX. INVESTMENT STRATEGY STATEMENT

The investment portfolio shall be designed with the objective of attaining a reasonable market yield at all times, taking into account the investment risk constraints and liquidity needs of the Town. Yield is of lesser importance compared to the Town's safety and liquidity objectives. The Town shall pursue a pro-active but conservative portfolio management strategy. This may be accomplished by creating a ladder maturity structure with some maturity extension for yield enhancement.

PROSPER may maintain one commingled portfolio for investment purposes which incorporates the specific uses and unique characteristics of the funds in the portfolio.

The maximum maturity of any investment shall be three (3) years and the maximum weighted average maturity of the total portfolio will not exceed two (2) years calculated using the stated final maturity of each security.

To minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the fund. Basic investment guidelines by fund-type are as follows:

A. General, Enterprise, or Operating Funds

Operating funds shall have as their primary objective assurance that anticipated cash outflows are matched with the adequate investment liquidity. These funds require the greatest short-term liquidity and ladder strategy of all fund types. The secondary objective is to create a portfolio structure that will experience minimal volatility during changing economic cycles. Investments will be of high credit quality for safety, available liquidity and marketability. Managing the weighted average maturity of the portfolio to less than two years and restricting the maximum allowable maturity to three years will minimize the price volatility of the portfolio.

Financial institution deposit accounts, short-term investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

B. Capital Project Funds and Special Purpose Funds

Capital project funds and special purpose funds shall have as their primary objective assurance that anticipated cash outflows are matched with investment liquidity. The portfolios shall be invested based on cash flow estimates. Most capital projects programs have reasonably predictable draw down schedules. Therefore, investment maturities should generally follow the anticipated planned cash flow requirements.

All investments will be of high credit quality to limit default risk. Market price fluctuations will occur. However, by managing Capital Projects Funds to not exceed the anticipated expenditure schedule, the market risk of the overall portfolio will be minimized. No stated final investment maturity shall exceed the shorter of the anticipated expenditure schedule.

Funds invested for capital projects may be from bond proceeds that are subject to arbitrage rebate regulations.

C. Debt Service Funds

Debt service funds shall have as their primary objective the assurance of investment liquidity adequate to cover each debt service obligation on the required payment date. Investments purchased shall not have a stated final maturity date which exceeds the debt service payment date and successive debt service dates will be fully funded before any extensions are made. By managing Debt Service Funds to not exceed the debt service payment schedule the market risk of the overall portfolio will be minimized.

X. POLICY ADOPTION

The Town's Investment Policy shall be reviewed and adopted by resolution of the Town Council no less than annually. Any changes made to the Policy must be noted in the adopting resolution.

Appendix “A”

Glossary of Cash Management Terms

Accretion –The book value of securities purchased at a discount are written up on a straight-line basis toward maturity to the par value (100). The accretion reflects earnings to the portfolio.

Accrued Interest – Interest earned, but not yet paid, on an investment based on the interest percentage. Accrued interest must be purchased from prior owners of a security if applicable.

Active Management/Investing- A portfolio management strategy in which investments are made on the basis of market timing and market conditions and designed to increase yield, This method depends partially on projected cash flows and actively monitored market conditions for advantageous risk/return options.

Agency –See Federal Agency. An agency supported by the US Government.

Amortization –Investment accounting entry in which the book value of securities purchased at a premium are written down on a straight-line basis to equal par at maturity. The amortization represents an expense to the portfolio.

Arbitrage – Dealing simultaneously in two markets to take advantage of temporary price distortions at minimal risk. Also related to IRS regulations governing tax-exempt debt proceeds.

Basis Point – A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield; e.g., “1/4” of 1 percent is equal to 25 basis points.

Benchmark – An index used to compare risk and performance to a managed portfolio.

Bid – The indicated price at which a buyer is willing to purchase a security or commodity. The Town selling the security would ask for a bid.

Book Value – The original acquisition cost of an investment plus or minus the accrued accretion or amortization over time.

Broker – In institutional markets, a financial firm that brings securities buyers and sellers together . All trades in the institutional markets are priced as a net yield and do not include single transaction fees.

Callable Bond – A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Cash Settlement – A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Collateralization – Process by which a borrower pledges securities, property, or other obligations for the purpose of securing the repayment of a loan, deposit and/or security.

Collateralized Mortgage Obligation (CMO) – A derivative mortgage-backed security (MBS) created from pools of home mortgage loans. A single pass-through MBS is divided into multiple classes, each class containing unique risk profiles and security characteristics. A number of CMO classes are expressly prohibited by Texas State law.

Commercial Paper – An unsecured short-term promissory note issued by corporations, with maturities ranging from 1 to 270 days. Commercial paper must carry a minimum rating of A1/P1 in order to be eligible under the Texas Public Funds Investment Act. Commercial paper with maturities from 271 to 365 are ‘private placement’ and need not be backed by any credit or commodity.

Constant Maturity Treasury (CMT) – A calculated average released by the Federal Reserve of all Treasury yields along a specific maturity point. This calculation is frequently used as a benchmark for conservative government portfolios.

Coupon Rate – The annual rate of accrued interest received by an investor on certain types of fixed-income securities. Also known as the “interest rate.”

Credit Risk – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Derivative – Financial instruments whose value is derived from the movement of an underlying index or security. Any security which is derived from a ‘bullet’ security without conditions. A derivative security is created from, or whose value depends upon, one or more underlying assets or indices of asset values.

Dealer – A dealer, as opposed to a broker, may act as a principal in all securities transactions, buying and selling for their own account. The dealer may also act as a broker only matching a buyer and seller.

Delivery Versus Payment (DVP) – A type of securities transaction in which payment for a security is not made until delivery to the independent safekeeping agent or custodian.

Discount – The amount by which the par value of a security exceeds the price paid for the security.

Diversification – A process of investing assets among a range of investment types by sector, maturity, and quality rating to spread risk.

Dollar Weighted Average Maturity (WAM) – The average maturity of all the investments that comprise a portfolio weighted by the book value of each investment.

Fair Market Rate – A documented and verifiable rate of interest which approximates the average rate which could have been earned on similar investments at the time of the transaction.

Federal Agency – A sub-division of the Federal Government with implicit credit from the US.

Federal Deposit Insurance Corporation (FDIC) – A federal agency that insures bank deposits, currently up to \$250,000 per account. Texas Public Funds deposits that exceed this amount must be properly collateralized.

Financial Industry Regulatory Authority (FINRA) – A self-regulatory private corporation that focuses on regulatory oversight of all securities firms; professional training, testing and licensing of registered persons; arbitration and mediation; market regulation by contract for the New York Stock Exchange, the NASDAQ Stock Market, Inc., the American Stock Exchange LLC, and the International Securities Exchange.

FIRREA – The Financial Institution Resource, Recovery and Enforcement Act used by the FDIC to determine asset ownership in the event of an institution’s default.

Interest Rate – See “Coupon Rate.”

Internal Controls – An internal structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met.

Interlocal Cooperation Act – State law permitting joint participation by local governments providing one or more government functions within the State. This law [Section 891.001 et seq. of the Texas Government Code] has allowed for the creation of investment pools in Texas.

Investment Advisers Act of 1940 – Law which requires all Investment Advisers to be registered with the SEC in order to protect the public from fraud. Specific requirements must be met.

Investment Policy – A concise and clear statement of the objectives and parameters formulated by an investor for a specific portfolio of investment securities. The Texas Public Funds Investment Act requires that public entities have a written and annually approved investment policy.

Liquidity – An investment that can be easily and quickly converted to cash. Investment pools, financial institution deposits and money market funds, which allow for same day withdrawal of cash, are considered extremely liquid.

Local Government Investment Pool – An entity created under the Interlocal Cooperation Act to invest public funds jointly on behalf of the entities that participate in the pool. An investment by local governments in which their money is pooled as a method for managing local funds.

Market Risk – The risk that the value of an investment will rise or decline as a result of changes in market conditions.

Market Value – An investment’s par amount multiplied by its market price.

Maturity – The date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a debt and pay the face value to the debtholder.

Money Market Mutual Fund – Mutual funds that invest in accordance with SEC regulations and guidelines requiring a net asset value of \$1 to protect that liquidity.

Mortgage-Backed Security (MBS) – Security backed by a pool of mortgages.

Net Asset Value (NAV) – The value of a mutual fund or investment pool at the end of the business day. NAV is calculated by adding the market value of all investments in a fund or pool, deducting expenses, and dividing by the number of shares in the fund or pool.

Offer – An indicated price at which market participants are willing to sell a security. Also referred to as the “Ask Price.” The Town would ask for offers to buy securities.

Par Value – Face value or principal value of a bond. A security’s par value is multiplied by its coupon rate to determine coupon payment amount.

Passive Management – Management of a portfolio which involves building a ladder of securities to meet expected liabilities. Often based on a specific index, the goal is stability not yield enhancement.

Premium – The amount by which the price paid for a security exceeds the security’s par value.

Primary Government Securities Dealer (Primary Dealer) – Designated government securities dealers regulated by the SEC who are required to submit daily reports of market activity and monthly financial statements to the New York Federal Reserve Bank. Primary Dealers are required to continually “make a market” in Treasury securities, buying or selling when asked, thereby creating a liquid secondary market for US debt obligations.

Principal – The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given investment.

Prudent Person Rule – An investment principle emphasizing the fiduciary responsibilities of investor as an investor and not a speculator. The Standard of Care set by the ACT.

Repurchase Agreement (repo or RP) – An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

Reverse Repurchase Agreement (Reverse Repo) – An agreement of one party to purchase securities at a specified price from a second party and a simultaneous agreement by the first party to resell the securities at a specified price to the second party on demand or at a specified date.

Safekeeping/Custody – Holding of assets (e.g., securities) by a financial institution on behalf of a client. Custody involves a higher level of fiduciary responsibility.

Total Return – The sum of all investment income plus changes in the market value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain

time period: $(\text{Price Appreciation}) + (\text{Dividends Paid}) + (\text{Capital Gains}) = (\text{Total Return})$.

Treasury Bills – Short term U.S. government non-interest bearing, debt securities with maturities of one year or shorter which carry the full faith and credit of the US. T-Bills are always sold at a discount and pay at maturity. The accretion (earnings) is equal to the face value minus the book value over time.

Treasury Notes – Intermediate U.S. government debt securities with maturities of one to 30 years. Treasury notes, or T-notes, are generally issued in terms of 2, 3, 5, 7, 10 and 30 years. The longest currently being issued is called the “T-Bond.” They have a fixed coupon rate and pay interest every six months until they mature.

Volatility – A degree of fluctuation in the price or valuation of securities. A key measure of risk.

Yield – The current rate of return on an investment generally expressed as an annual percentage.

Yield-to-Call (YTC) – The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield Curve – A graphic representation that depicts the yields on the current Treasury issues in the market at a given point in time. A normal yield curve may be alternatively referred to as an upwardly sloping yield curve.

Yield-to-Maturity – The yield generated by an investment held to maturity when both interest payments and the investor’s purchase price discount or premium are included in the calculation of return.

Appendix “B”

Town of Prosper Authorized Broker/Dealer List

Adopted 05/14/24

FHN Financial
Great Pacific Securities
Multi-Bank Securities, Inc.
RBC Capital Markets
SAMCO Capital Markets
Stifel Nicolas & Co.
Wells Fargo Securities

Appendix “C”

Texas Government Code Chapter 2256. Public Funds Investment Act, the “ACT”

The most up to date version of the Public Funds Investment Act may be found online at:

<https://statutes.capitol.texas.gov/Docs/GV/htm/GV.2256.htm>