

INVESTMENT POLICY

I. PURPOSE

A. Formal Adoption

The Investment Policy and Investment Strategy Statements are authorized by the Aldine Independent School District in accordance with Chapter 2256, Texas Government Code, and the Public Funds Investment Act.

B. Scope

This Investment Policy applies to all of the investment activities of the District, excluding the District's Employees' Retirement fund Trust. This Policy establishes guidelines for:

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

In addition to this Policy, their governing resolution and all applicable State and Federal Law (as defined by the Internal Revenue Service) shall manage bond funds.

C. Review and Amendment

The Board of Trustees shall review this Policy and the accompanying Investment Strategy Statements annually. Amendments must be approved and adopted by the Board of Trustees.

D. Investment Strategy

In conjunction with the annual Policy review, the Board of Trustees shall review the written investment strategy for each of the District's funds. The investment strategy must describe the investment objectives for each particular fund 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

A. Safety of Principal

The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. Each investment transaction shall seek to ensure first that capital losses are avoided, whether they are from securities defaults or erosion of market values.

B. Maintenance of Adequate 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.

III. INVESTMENT POLICIES

D. Authorized Investments

Chapter 2256, Texas Government Code as eligible securities for the District, authorizes investments described below. The purchase of specific issues may at times be restricted or prohibited by the Board of Trustees. District funds governed by this Policy may be invested in:

1. Obligations of the United States or its agencies and instrumentalities, excluding principal-only and interest-only mortgage backed securities, and collateralized mortgage obligations and real estate mortgage investment conduits with stated final maturities greater than five year's and collateralized mortgage obligations and real estate mortgage investment conduits the interest rate of which is determined by an index that adjusts opposite to changes in a market index.
2. Other obligations, the principal and interest on 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, excluding principal-only and interest-only mortgage backed securities, and collateralized mortgage obligations and real estate mortgage investment conduits with stated final maturities greater than five year's and collateralized mortgage obligations and real estate mortgage investment conduits the interest rate of which is determined by an index that adjusts opposite to changes in a market index.
3. Certificates of deposit issued by state and national banks and savings and loan associations, and share certificates issued by a state or federal credit union domiciled in Texas that are:

- a. guaranteed or insured by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund or their successors; or, secured by obligations that are described by 1-4 above, which are intended to include all direct Federal agency or instrumentality issued mortgage backed securities, but excluding those mortgage backed securities of the nature described in Section 2256.009(b) of the Texas Government Code, that have a market value of not less than the principal amount of the certificates or in any other manner and amount provided by law for deposits of the District;
 - b. Governed by Depository Contract, as described in B.4. of this section, that complies with Federal and State regulation to properly secure a pledged security interest; and,
 - c. Solicited for bid orally, in writing, electronically, or any combination of those methods.
4. Money market mutual funds regulated by the Securities & Exchange Commission, with a dollar weighted average portfolio maturity of 90 days or less; that fully invest dollar-for-dollar all District funds without sales commissions or loads; and, whose investment objectives include seeking to maintain a stable net asset value of \$1 per share. The District may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund or exceeds 80% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service in money market mutual funds.
5. Eligible Investment Pools as defined in Section 2256.016 of the Texas Government Code provided that
- a. Investment in the particular pool has been authorized by the District of Directors;
 - b. The pool shall have furnished the Investment Officers or other authorized representatives of the District an offering circular containing the information required by Section 2256.106(b) of the Government Code;
 - c. The pool shall furnish to the Investment Officers or other authorized representatives of the District investment transaction confirmations with respect to all investments made with it;

- d. The pool shall furnish to the Investment Officers or other authorized representatives of the District, monthly reports that contain the information required by Section 2256.016(c) of the Government Code;
 - e. The pool's assets shall consist exclusively of the obligations that are described by 1-9 above;
 - f. Moreover, whose investment philosophy and strategy are consistent with this Policy and the District's ongoing investment strategy.
6. Fully collateralized repurchase agreements having a defined termination date, placed through a primary government security dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas, and secured by obligations, which are eligible investments under the Public Funds Investment Act, held in the entity's name, pledged with a third party selected or approved by the Board at the time of investment, and having a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes direct security repurchase agreements and reverse repurchase agreements structured in compliance with Texas Government Code. A signed master Repurchase Agreement will govern all Board repurchase agreement transactions. Each counter party to a repurchase transaction will have a Thompson Bank Watch rating of 1, or an A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies. If not rated, a minimum Standard & Poor's Broker/Dealer rating of three is necessary. The term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received under the terms of a reverse repurchase agreement will be used to acquire additional authorized investments, but the term of those investments must mature not later than the expiration date stated in the reverse security repurchase agreement.
7. Commercial paper, an unsecured promissory note, which has a stated maturity of 270 days or fewer from the date of its issuance; and is rated not less than A-1 or P-1.
8. Corporate bonds, a long term debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm.

B. Protection of Principal

The District shall seek to control the risk of loss due to the failure of a security issuer or grantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the policy; by collateralization as required by law; and through portfolio diversification by maturity and type.

The purchase of individual securities shall be executed “delivery versus payment” (DVP) through the District’s Safekeeping Agent. By so doing, District funds are not released until the District has received, through the Safekeeping Agent, the securities purchases.

1. Diversification by Investment Type

Diversification by investment type shall be maintained by ensuring an active and efficient secondary market in portfolio investments and by controlling the market and opportunity risks associated with specific investment types.

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

2. 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. Maturity guidelines by fund are as follows:

a. Operating Pool

The maximum allowable maturity for any shall be five years, with overall maturities and/or cash flows structured to provide single investment for anticipated operating needs.

b. Construction Bond Proceeds

The investment maturity of bond proceeds (excluding reserve and debt service funds) shall generally be limited to the anticipated cash flow requirement or the “temporary period,” as defined by Federal tax law. During the temporary period, bond proceeds may be invested at an unrestricted yield. After the expiration of the temporary period, bond proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds and market conditions to achieve compliance with the applicable regulations.

- c. Interest and Sinking Service Funds
Interest and Sinking Funds shall be invested to ensure adequate funding for each consecutive debt service payment. The Investment Officers shall invest in such a manner as not to exceed an “unfunded” debt service date with the maturity of any investment. An unfunded debt service date is defined as a coupon or principal payment date that does not have cash or investment securities available to satisfy said payment.

District funds that are considered “bond proceeds” for arbitrage purposes will be invested using a more conservative approach than the standard investment strategy when arbitrage rebate rules require refunding excess earnings. All excess earnings received will be segregated to allow a proper determination of interest income to be used in the rates, fees, and charge calculation. The District may temporarily modify the diversification objectives based on economic, market and District conditions.

3. Ensuring Liquidity

Liquidity shall be achieved by anticipating cash flow requirements, by investing in securities with active secondary markets and by investing in eligible money market mutual funds and local government investment pools.

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

4. Collateralization

Consistent with the requirements of State law, the District requires all bank and savings and loan association deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as District Depositories will be required to sign a Depository Agreement with the District and the District’s safekeeping agent. The safekeeping portion of the Agreement shall define the District’s rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- the Agreement must be in writing;
- the Agreement has to be executed by the Depository and the District contemporaneously with the acquisition of the asset;
- the Agreement must be approved by the Board of Directors or the loan committee of the Depository and a copy of the meeting minutes must be delivered to the District;
- the Agreement must be part of the Depository’s “official record” continuously since its execution.

- a. Allowable Collateral
 - (1) Certificates of Deposit
Eligible securities for collateralization of deposits are defined by the Public Funds Collateral Act, as amended and meet the constraints of this Policy.

- b. Collateral Levels
 - (1) Certificates of Deposit
The market value of the principal portion of collateral pledged for certificates of deposit must at all times be equal to or greater than the par value of the certificate of deposit plus accrued interest, less the applicable level of FDIC insurance.

 - (2) Repurchase Agreements
A repurchase agreement's security value will be the par value and accrued interest, and the security's market value must be maintained at board-approved levels.

- c. Monitoring Collateral Adequacy
 - (1) Certificates of Deposit
The District shall require monthly reports with market values of pledged securities from all financial institutions with which the District has certificates of deposit. The Investment Officers will monitor adequacy of collateralization levels to verify market values and total collateral positions.

- d. Additional Collateral and Securities
 - (1) Certificates of Deposit
If the collateral pledged for a certificate of deposit falls below the par value of the deposit, plus accrued interest less FDIC insurance, the institution issuing the C.D.'s will be notified by the Investment Officers and will be required to pledge additional securities no later than the end of the next succeeding business day.

- e. **Collateral Substitution**
Collateralized certificates of deposit and repurchase agreements often require substitution of collateral. Any broker, dealer or financial institution requesting substitution must contact the Investment Officers for approval and settlement. The substituted security's value will be calculated and substitution approved if its value is equal to or greater than the required security level. The Investment Officers, or a designee, must provide written notification of the decision to the bank or the safekeeping agent holding the security prior to any security release. Substitution is allowable for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense. The Investment Officers may limit substitution and assess appropriate fees if substitution becomes excessive or abusive.

5. **Safekeeping**

- a. **Safekeeping Agreement**
The District shall contract with a bank or banks for the safekeeping of securities either owned by the District as a part of its investment portfolio or as part of its depository and repurchase agreements.
- b. **Safekeeping of Certificate of Deposit Collateral**
All collateral securing bank, savings, and loan deposits must be held by a third-party banking institution acceptable to and under contract with the District, or by the Federal Reserve Bank.

6. **Loss of Credit Rating**

An investment that requires a minimum credit rating does not qualify as an Authorized Investment during the period the investment does not have the minimum credit rating even if the investment had the appropriate rating at the time of purchase. The Investment Officers shall take all prudent measures that are consistent with this Policy to liquidate an investment that does not have the minimum rating.

D. **Investment Advisors and Broker/Dealers**

Investment selection for all funds shall be based on legality, appropriateness, liquidity, and risk/return considerations. All District investment portfolios shall be actively managed to enhance overall interest income. Investment Advisors shall adhere to the spirit, philosophy and specific term of this Policy and shall invest within the same "Standard of Care." Investment Broker/Dealers shall adhere to the spirit, philosophy and specific term of this Policy and shall avoid recommending or suggesting transactions outside that "Standard of Care."

Selection of Investment Advisors and Broker/dealers will be recommended by the Superintendent and approved by the Board of Trustees. The Investment Officers will establish criteria to evaluate Investment Advisors and Broker/Dealers, including:

- a. Adherence to the District's policies and strategies
- b. Investment performance and transaction pricing within accepted risk constraints
- c. Responsiveness to the District's request for services, information and open communication
- d. Understanding of the inherent fiduciary responsibility of investing public funds
- e. Similarity in philosophy and strategy with the District's objectives

Selected Investment Advisors and Broker/Dealers shall provide timely transaction confirmations and monthly portfolio reports.

Investment Advisors shall additionally:

- 1) Assist in the analysis of the District's cash flow requirements,
- 2) Develop appropriate investment strategies for approval by the Board of Trustees,
- 3) Implement approved strategies, including: soliciting competitive prices, executing transactions, verifying settlement figures, and effectuating proper security delivery, and
- 4) Prepare on a quarterly basis a comprehensive performance report that includes, at least, the following information:
 - Current Portfolio Status
 - Transactions and activity for the period
 - Bond Maturity Schedule
 - Security-type allocation
 - Annual income earned
 - Yield analysis (including benchmarks)
 - Book value vs. market value comparison

In order to invoke the services of an Investment Advisor, the Investment Officer shall enter into a formal contractual agreement between the District and the Advisor. This agreement shall specifically address the services required by this Policy, any additional services requested by the Investment Officer, the terms and conditions of the agreement, and the specific form and calculation of fees. All fees and transaction-related revenues received by the Investment Advisor must be reported to the Investment Officer.

Broker/Dealers eligible to transact investment business with the District shall be presented a written copy of this Investment Policy. Additionally the registered principal of the business organization seeking to transact investment business shall execute a written instrument substantially to the effect that the registered principal has:

- 1) received and thoroughly reviewed this Investment Policy, and
- 2) acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities with the District.

The District shall not enter into an investment transaction with a Broker/Dealer prior to receiving the written instrument described above.

All investment transactions governed by this policy shall adhere to the Competitive Bid Policy of the District, whether the transaction execution is by an Investment Officer of the District or by a contracted Investment Advisor.

Authorized Investment Institutions and Representatives:

1. First Southwest Company
C/O Amy Schmidt
700 Milam St. #Ste. 500
Houston, TX 77002
713.645.8615
Amy.schmidt@firstsw.com
2. TexPool Participant Services
Federated Investors, Inc.
C/O Dianne Parker
1001 Texas Ave. Ste. 1400
Houston, TX 77002
866.839.7665
texpoolhouston@federatedinv.com
3. Coastal Securities
C/O John Saragusa
401 RR 620 South Ste. 225
Austin, TX 78734
800.267.2663
jbs@coastalsecurities.com
4. TexStar Participant Services
First Southwest Asset Management, Inc.
C/O Brenda Roznowski
325 North St. Paul Ste.800
Dallas, TX 75201-3852
800-839-7827
Brenda.roznowski@firstsw.com

5. First Public
12007 Research Blvd.
Austin, TX 78759
800.558.8875
Customer.service@firstpublic.com

6. Southwest Securities, Inc.
C/O Don Borrows, Jr.
2600 South Shore Blvd, Ste 300
League City, TX. 77573
281-668-9187

7. Wells Fargo Securities, LLC
C/O Ken Guillory
MACT0002-061
1000 Louisiana Street, Suite 600
Houston, TX. 77002
713-319-1138
Kenneth.f.guillory@wellsfargo.com

E. Responsibility and Controls

1. The Board of Trustees
The Board of Trustees shall establish the District’s investment policies and strategies.

2. Authority to Invest
Anne-Marie Hazzan, Tamika Alford-Stephens, Timothy Momanyi, and Laginia Jones are the “Investment Officers” of the District. As Investment Officers, they are authorized to deposit, withdraw, invest, transfer, execute documentation, and otherwise manage District funds according to this Policy.

Anne-Marie Hazzan, Tamika Alford-Stephens, Timothy Momanyi, and Laginia Jones and other persons designated as Investment Officers shall meet the training requirements of The Public Funds Investment Act (PFIA). The PFIA requires that investment officers receive 10 hours of training within the first 12 months after assuming duties and subsequently 10 hours every two years beginning on the first day of the districts fiscal year.

3. Prudent Investment Management
The designated Investment Officers shall perform their duties in accordance with the adopted Investment Policy and internal procedures. Investment Officers acting in good faith and in accordance with these policies and procedures shall be relieved of personal liability.

4. Standard of Care

The standard of care used by the District shall be the “prudent investor rule” and shall be applied in the context of managing the overall portfolio within the applicable legal constraints. The Public Funds Investment Act states:

“Investments shall be made with judgment and care, under circumstances then prevailing, 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.”

Investment Officers, acting in accordance with written procedures and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided that this Policy and the District’s procedures were followed. In determining whether an Investment Officer has exercised due diligence, all investments over which the individual had responsibility will be considered rather than a single investment.

5. Standards of Ethics

The designated Investment Officers shall adhere to Aldine Independent School District “Code of Conduct.” Additionally, all Investment Officers shall file with the Texas Ethics Commission and the District a statement disclosing any personal business relationship with an entity seeking to sell investments to the District or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to the District.

6. Establishment of Internal Controls

The District will oversee the Investment Officers in the maintenance of a system of internal controls over the investment activities of the District.

7. Reporting

Investment performance will be monitored and evaluated by the Investment Officers. The Investment Officers will provide a quarterly comprehensive report signed by all Investment Officers to the District’s Board of Trustees. This investment report shall:

- a. Describe in detail the investment position of the District,
- b. State the reporting period beginning book and market values, additions or changes to the book and market values during the period and ending book and market values for the period of each pooled fund group,
- c. State the reporting period beginning book and market values and ending book and market values for each investment security by asset type and fund type,

- d. State the maturity date of each investment security,
- e. State the fund for which each investment security was purchased, and
- f. State the compliance of the investment portfolio with the District's Investment Policy, strategy, and the Public Funds Investment Act.

The District, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the District's Investment Policy and strategies.

Source: Local
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