THE CITY OF FORT WORTH, TEXAS

INVESTMENT POLICY AND STRATEGY

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THE CITY OF FORT WORTH, TEXAS

INVESTMENT POLICY AND STRATEGY

I. Introduction

It is the policy of the City of Fort Worth, Texas (the "City") that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the City. The Investment Policy is to define the parameters within which funds are to be managed and implement reasonable standards for its cash management and investment operations.

The purpose of this Policy is to set specific investment policy and strategy guidelines. This Policy formalizes the framework for the City's investment activities that must be exercised to ensure effective and judicious fiscal and investment management of its funds. The guidelines are intended to be broad enough to allow the Investment Officer(s) to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

II. Governing Authority

All investment and cash management activities shall be conducted in full compliance with applicable City ordinances as well as state and federal regulations. Specific statutory regulations for the investment of public funds in Texas are found in the Public Funds Investment Act, Chapter 2256, Texas Government Code (the “Act”). All investments will be made in accordance with this statute. Collateral requirements are established in Texas by the Public Funds Collateral Act, Chapter 2257, Texas Government Code, for all public Texas funds deposits.

Subject to annual approval by the City Council and under the direction of the City Manager and Chief Financial Officer, the City Treasurer is authorized to promulgate reasonable procedures to ensure effective and judicious management of City funds.

III. Scope

Except as otherwise noted below, this Policy applies to all financial assets of the City. These funds are reported in the City's Comprehensive Annual Financial Report (CAFR).

Funds held by trustees or retirement funds are excluded from these rules; however, all funds are subject to regulations established by the State of Texas.

IV. Objectives

The City shall manage and invest its assets with four major objectives, listed in order of priority: safety, liquidity, diversification and yield. Safety of the principal is the primary objective. All investments shall be managed in a manner responsive to the public trust.

The primary objectives, in priority order, of investment activities shall be:
Safety
Safety of principal is the foremost objective of the investment program. All aspects of cash management operations shall be designed to ensure the safety and integrity of the City's financial assets. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio, mitigating credit and interest rate risk. Each investment transaction shall be conducted in a manner to minimize capital losses.

Liquidity
The investment portfolio shall be structured to meet all expected obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow liabilities and maintaining an additional liquidity buffer for unexpected liabilities.

Diversification
The portfolio shall be diversified by market sector and maturity in order to manage market risk.

Yield
The investment portfolio shall be designed with the objective of attaining a reasonable market rate of return throughout economic cycles, taking into account the investment risk constraints of safety and liquidity needs. The benchmark for the commingled portfolio shall be the one year and two year Treasury Notes, designated for their comparability to the expected average cash flow patterns. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

V. Strategy
The City may maintain a Consolidated Portfolio in which its funds are pooled for investment purposes. Operating within appropriately established administrative and procedural parameters, the City shall aggressively pursue optimum financial rewards, while simultaneously controlling its related expenditures. Cash management functions shall be conducted in the best financial and administrative interests of the City. Except for funds in certain restricted and special funds, the City commingles its funds to maximize investment earnings and to increase investment efficiencies with regard to pricing, safekeeping and administration. The strategies used are created to ensure compliance with the statutes and address suitability of the investments, preservation of principal, liquidity, marketability of securities, diversification controls and reasonable attainable yield.

The investment strategy incorporates the specific investment strategy considerations and the unique characteristics of the fund groups represented in the portfolio. The City shall pursue a proactive portfolio management strategy fully utilizing its assets in high credit quality investments. Securities lending may be used to add incremental income. The strategies will utilize competitive bidding practices and other controls as established by this Policy for all transactions.

At all times the City shall maintain a cash buffer to meet daily anticipated liquidity requirements and maintaining an approximate 10% in liquidity investments. Based on historic cash flow analysis, the City shall not exceed a weighted average maturity (WAM) of two and one-half (2.5) years for portfolio as a whole, and no security shall exceed a maximum stated maturity of five (5) years.

Investment earnings are to be allocated to the various funds based on each fund’s pro rata participation in the portfolio and in accordance with generally accepted accounting principles.

Securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade. The Investment Officer(s) and/or Investment Advisor will continuously monitor the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions.
VI. Standard of Care

The standard of prudence to be used for all City investments shall be the “prudent person” standard as established by the Act and shall be applied in the context of managing the overall portfolio. The "prudent person" standard states that,

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 their capital and the probable income to be derived.

Investment Officer(s) acting in accordance with written procedures and this Investment Policy and exercising due diligence shall be responsible for any individual security’s credit risk or market price changes but shall not be personally liable for deviations from expectations so long as deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

VII. Delegation of Authority and Responsibility

City Council
By law, the City Council retains ultimate fiduciary responsibility for the portfolio. The Council is required to receive quarterly reports and annually review and adopt the Investment Policy and Strategy. The Council is responsible for reviewing and approving authorized broker/dealers and investment training sources unless the Council delegates this responsibility to a Council-designated Investment Committee. In addition, the Council is responsible for designating one or more individuals to serve as Investment Officer(s) and providing for the required Investment Officer(s) training.

Investment Officer(s)
The City Council shall by rule, order, ordinance, or resolution designate and appoint one or more individuals to serve as Investment Officers in accordance with state law. Investment Officer(s) will be responsible for investment decisions and activities. The City may further contract with a registered Investment Advisor to advise in the management of the portfolio. The Investment Officer(s) shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this Policy and procedures adopted in accordance with the Policy.

The Investment Officer(s) and Investment Advisor are responsible for creating and maintaining the portfolio in accordance with this Policy, providing timely quarterly reporting to the City Council, and establishing procedures and controls for the process and financial counter-parties (brokers, banks, pools). The Investment Officer(s) and Investment Advisor shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy.

Training
In accordance with the Act, all Investment Officer(s) shall attend at least one training session within 12 months after assuming investment duties and shall attend eight hours of training every two years thereafter, with the first such two-year period beginning on the first day of the City fiscal year after the year in which the Investment Officer takes the initial training. Training shall be provided by professional organizations authorized in accordance with state law and designated by the Investment Committee.
Ethics Disclosure
Officer(s) and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions.

Ordinance No. 7650, adopted by the City Council (October 25, 1977), requires the City Treasurer annually to complete and file a financial disclosure statement with the City Secretary.

The Act also requires all Investment Officer(s) to file a disclosure statement with the Texas Ethics Commission and the City Council if:
1. the officer has a personal business relationship with a business organization offering to engage in an investment transaction with the City (as defined in 2256.005 (i)(1-3)); or
2. the officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the entity.

Employees and Officer(s) shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City.

Investment Committee
In adopting this Policy, the City Council authorizes creation of an Investment Committee to provide guidance to Investment Officer(s) and Investment Advisor. In accordance with the Act, the City Council hereby delegates to the Committee authority to approve the annual broker/dealer list and to authorize organizations to provide the training required under state law. No other authority is transferred to the Committee. The Committee will meet periodically to review and approve the investment portfolio, to review portfolio performance, and to discuss investment strategies. This Committee will periodically review this Investment Policy and recommend possible changes to the City Council.

The Committee will be comprised of the Chief Financial Officer/Finance Director, the City Treasurer, the Investment Advisor (as applicable) and other appropriate personnel as chosen by the Committee.

Investment Advisor
The City may engage the services of a SEC-registered Investment Advisor (registered under the Investment Advisors Act of 1940) to assist in the management of the investment portfolio in a manner consistent with the City’s objectives and policies. The Investment Advisor may not be granted total discretion in the management of funds but may be granted limited discretion to purchase and sell investment securities in accordance with this Investment Policy and cash flow considerations.

The City will establish strict guidelines regarding the Investment Advisor to ensure that all support activities are consistent with the City’s established policies, rules and regulations.

VIII. Authorized Financial Institutions, Depositories, and Broker/Dealers
A list of financial institutions and depositories authorized to provide investment services will be maintained by the Investment Officer(s). All counter-parties will be selected through a process of due diligence. Due diligence requires competitive transactions and delivery versus payment settlement.

The City will furnish counter-parties with the City’s rule, order, ordinance, or resolution authorizing Investment Officer(s) or Investment Advisor to establish and maintain accounts for the purpose of purchasing and selling securities authorized under the laws of the State and this Policy.
Certification
Section 2256.005(k) of the Act requires that any person or entity (including a bank and local government investment pool) offering to engage in an investment transaction with the City must be provided with a copy of this Investment Policy and must provide the City with a written instrument (in a form acceptable to both parties) executed by a representative of the person or entity that substantially acknowledges that the person or entity has:
   a. received and reviewed the City’s Investment Policy and strategy; and
   b. implemented reasonable procedures and controls in an effort to preclude investment transactions with the City that are not authorized by the City’s Investment Policy.

Security Broker/Dealers
The Investment Committee, serving as the Council’s designated Investment Committee, will annually review and adopt a list of broker/dealers who are authorized to engage in investment transactions with the City.

Authorized broker/dealers may include “primary” or regional dealers as well as brokers. No broker/dealer may hold City securities because all transactions must be settled delivery versus payment (DVP). In order to perfect the DVP process the City’s banking services depository that acts as safekeeper of City securities and that entity’s brokerage subsidiary may not and will not be authorized to serve as a broker/dealer.

Each broker/dealer must supply the following documents which will be maintained by the Investment Officer(s) or Investment Advisor.

- annual audited financial reports
- Financial Industry Regulatory Authority (FINRA) registration
- Central Registration Depository Number (CRD)
- proof of Texas State Securities registration
- City broker/dealer questionnaire
- Investment Policy review certification

Banks acting in a brokerage capacity must supply the following documents to be maintained by the Investment Officer(s) or Investment Advisor.

- annual audited financial reports
- proof of Texas State Securities registration
- City broker/dealer questionnaire
- Investment Policy review certification

At a minimum the Investment Officer(s) or Investment Advisor shall review the performance, financial condition and registration of all qualified financial institutions and broker/dealers annually. Results are to be provided to the Investment Committee for review.

IX. Authorized Investments

The Act lists all possible authorized investments available to public entities. The City shall invest only in those investments authorized below as such investments are further defined by the Act. If changes are made to the Act to allow for additional possible authorized investments, such investments will not be authorized by the City until this Policy is modified and adopted by the City Council. All investment transactions will be made on a competitive basis.

1. Direct obligations of the United States Treasury with a maximum stated maturity of five (5) years.
2. Obligations of United States government agencies and instrumentalities, including mortgage backed securities and collateralized mortgage obligations (CMO) which pass the Federal Reserve's bank test, with a maximum maturity of five (5) years.

3. FDIC insured and/or collateralized depository certificates of deposit from banks in Texas, with a maximum maturity of three (3) years.

4. Commercial paper rated A1/P1 or equivalent by two nationally recognized rating agencies, with a maximum maturity of ninety (90) days.

5. AAA or equivalent rated, constant dollar, Texas local government investment pools as defined by the Act.

6. AAA-rated, SEC-registered money market mutual funds.

7. FDIC insured brokered certificates of deposit securities from a bank in any US state, delivered versus payment to the City's safekeeping agent, not to exceed one year to maturity. Before purchase, the Investment Officer(s) or Investment Advisor must verify the FDIC status of the bank on www.fdic.gov to ensure that the bank is FDIC insured.

8. General debt obligations of any state or political subdivision of any US state, rated AA or better with a stated maturity not to exceed five (5) years.

9. Fully collateralized, direct repurchase agreements executed through a primary government securities dealer, with a maximum maturity of one (1) year. A Bond Market Association Master Repurchase Agreement and independent third party safekeeping are required. A flex repurchase agreement used for bond funds may exceed two years but must match the expected expenditure schedule of the bonds.

10. Banker's acceptances with a maximum maturity of 120 days accepted by a US registered bank rated not less than A1/P1 by two nationally recognized rating agencies.

11. Reverse repurchase agreements executed for investment purposes with a primary securities dealers. The proceeds may not be invested in any security with a maturity date longer than the maturity date of the reverse repurchase agreement. Reverse repurchase agreements will not have a term exceeding 90 days.

**Securities Lending**
The City may enter into a securities lending agreement under a written agreement with a primary securities dealer lending the City's investment securities with the collateralization/substitution of securities with a minimum 102% margin and safekept by an approved custodial bank in an account in the City's name. Transaction documentation and collateral reports are to be provided to the City daily.

**X. Collateralization**

**Time and Demand Pledged Collateral**
All time and demand deposits shall be secured above FDIC coverage by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, collateral will be maintained and monitored by the pledging depository at 102% of market value of principal and accrued interest on the deposits. The bank shall monitor and maintain the margins on a daily basis. All collateral shall be subject to inspection and audit by the City or its auditors.
Collateral pledged to secure deposits shall be held by an independent financial institution outside the holding company of the depository, approved by the Investment Officer(s), in accordance with a safekeeping agreement executed under the terms of the Financial Institutions Resource and Recover Enforcement Act (FIRREA).

City Owned Collateral
Each counter party to a repurchase transaction is required to execute the Bond Market Master Repurchase Agreement and to provide collateral at a 102% margin and held by an independent third party custodian approved by the City Treasurer. The Master Agreement must be fully executed before any transaction is initiated. Collateral will be evidenced by safekeeping reports/receipts clearly denoting City ownership from the safekeeping agent.

 Authorized Collateral
As authorized by the Public Funds Collateral Act and further restricted by this Policy, acceptable collateral for time and demand deposits and repurchase agreements shall include only:

- obligations of the U.S. Government, its agencies and instrumentalities, including mortgage backed securities and CMO that pass the bank test, and
- obligations of any state, city, county or authority rated at least A by two nationally recognized statistical rating organizations.

XI. Diversification

The City recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification. The strategy for diversification will be guided by the circumstances then prevailing but will generally be:

<table>
<thead>
<tr>
<th>Max. % of Portfolio</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>US Obligations</td>
<td>80 %</td>
</tr>
<tr>
<td>US Agencies/Instrumentalities</td>
<td>80 %</td>
</tr>
<tr>
<td>Any one issuer</td>
<td>35 %</td>
</tr>
<tr>
<td>Depository Certificates of Deposit</td>
<td>30 %</td>
</tr>
<tr>
<td>Any one bank</td>
<td>10 %</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>20 %</td>
</tr>
<tr>
<td>Any one issuer</td>
<td>5 %</td>
</tr>
<tr>
<td>Local Government Investment Pools</td>
<td>80 %</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>80 %</td>
</tr>
<tr>
<td>Brokered Certificate of Deposit Securities</td>
<td>10 %</td>
</tr>
<tr>
<td>Municipal Obligations</td>
<td>35 %</td>
</tr>
<tr>
<td>Any one issuer</td>
<td>15 %</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>50 %</td>
</tr>
<tr>
<td>Flex in one specific bond fund (100%)</td>
<td>100 %</td>
</tr>
<tr>
<td>Bankers Acceptances</td>
<td>15 %</td>
</tr>
</tbody>
</table>

The diversification percentage limitations are measured at the time of purchase. Fluctuations in cash flows may cause the portfolio to exceed these maximum percentages for a particular market sector subsequent to the purchase. Securities need not be liquidated to realign the portfolio.

Diversification by maturity is influenced by cash flow needs and market conditions. The following general table for laddered maturities may be used as a guiding principle in the management strategies within the maximum two (2) year weighted average maturity limitation.
<table>
<thead>
<tr>
<th>Maturity Range</th>
<th>Max. % of Total Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity</td>
<td>10 %</td>
</tr>
<tr>
<td>1 month – 1 year</td>
<td>30 %</td>
</tr>
<tr>
<td>1 year – 2 year</td>
<td>15 %</td>
</tr>
<tr>
<td>2 year – 3 year</td>
<td>15 %</td>
</tr>
<tr>
<td>3 year – 4 year</td>
<td>15 %</td>
</tr>
<tr>
<td>4 year – 5 year</td>
<td>15 %</td>
</tr>
</tbody>
</table>

XII. Internal Controls

The City Treasurer may delegate to the Investment Officer(s) the responsibility of establishing and maintaining an internal control structure designed to reasonably ensure 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 benefits likely to be derived, and the valuation of costs and benefits requires ongoing estimates and judgments by management.

The internal controls shall address the following points at a minimum:
- Control of collusion,
- Separation of transaction authority from accounting and record keeping,
- Custodial safekeeping,
- Clear delegation of authority,
- Written documentation on all transactions, and
- Review, maintenance and monitoring of security procedures.

The Act requires that in conjunction with the annual audit and the preparation of City’s Comprehensive Annual Financial Report, an internal compliance of investment procedures will be performed to ensure compliance with the Policy and the Act.

The Investment Officer(s) will develop and maintain internal procedures, describing use of bank balances, calculation of the City’s liquidity needs, daily investment procedures, investment transaction documentation, and distribution of reports, at a minimum.

Competitive Transactions

The Investment Officer(s) or Investment Advisor shall obtain and document competitive bid information on all transactions. A competitive bid/offer must involve at least three separate brokers/institutions or use of a nationally recognized trading platform with three bids/offers.

For transactions involving new issue agencies or securities for which there is no readily available competitive offering on the same specific issue, then the Investment Officer(s) or Investment Advisor shall document quotations for comparable or alternative securities.

Delivery vs. Payment

The Act requires that all trades of marketable securities shall be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City’s safekeeping institution prior to the release of funds.
Cash Flow Forecasting
Cash flow forecasting is designed to protect and sustain cash flow requirements of the City. Supplemental to the financial and budgetary systems, the Investment Officer(s) will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes.

Monitoring Credit Ratings
The Investment Officer(s) or Investment Advisor shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officer(s) or Investment Advisor shall notify the Investment Committee within two business days of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available.

Monitoring FDIC Status for Mergers and Acquisitions
The Investment Officer(s) or Investment Advisor shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CD securities owned by the City based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the Investment Officer(s) or Investment Advisor shall immediately liquidate any brokered CD securities which places the City above the insured FDIC insurance level.

External Audits
An annual review of the quarterly investment reports will be made by the City’s external auditors. Such audit will include tests deemed appropriate by the auditor.

XIII. Safekeeping
All security transactions will be settled on a delivery versus payment basis.

Securities owned by the City will be held by the City’s depository or other City contracted safekeeping institution independent from any security transactions. All safekeeping contracts will be recommended for approval by the City Treasurer and executed in writing. The safekeeping agent shall provide documentation of all securities and evidenced by safekeeping receipts/reports indicating ownership by the City.

XIV. Reporting
Quarterly Reporting
In accordance with the Act, no less than quarterly the City Treasurer and Investment Officer(s) or Investment Advisor will prepare and submit a quarterly report to the City Council. The report will comply with the Act and will contain, at a minimum:

a. detailed description of each investment position as of the date of the report including book and market values and purchase yield;
b. summary statements for the total portfolio including:
   (1) beginning and ending book value for the reporting period,
   (2) beginning and ending market value for the reporting period,
   (3) change in market value (volatility measure) for the reporting period,
   (4) total earnings for the reporting period,
   (5) WAM at the end of the period, and
(4) portfolio yield and benchmark yield for the reporting period.

The quarterly report shall include a statement of compliance for the portfolio as it relates to the City’s strategy and Investment Policy and be signed by the City Treasurer and each Investment Officer(s) and Investment Advisor.

Prices used for calculation of market values will be obtained from an independent source.

**Benchmark: Risk Measurement**

The benchmarks for the performance of the City's investment portfolio will be (a) the comparable period averages of the yield of the portfolio and the two-year Treasury Note and (b) the rolling 12-month averages of the portfolio and the two-year Treasury Note which reflect the cash flows and the market sectors restricting the portfolio. The City's objective is to match or exceed the benchmarks through active portfolio management.

**XV. Investment Policy Adoption**

The Investment Policy shall be reviewed and adopted by the City Council at least annually. The adopting rule, order, ordinance, or resolution shall include any changes made to the Policy.

**Restated and Revised Policy Adopted:**
February 5, 2013 (M&C G-17801)

**Policy Reviewed and Approved:**
December 3, 2013 (M&C G-18067)
May 5, 2015 (M&C G-18466)
September 15, 2015 (M&C ____________)