

**ANDERSON MILL LIMITED DISTRICT
INVESTMENT POLICY
Re-adopted November 13, 2014**

1. Policy

It is the policy of Anderson Mill Limited District (the “District”) to invest public funds in a manner which will provide the highest reasonable investment return with maximum security while meeting the daily cash flow demands of the District and conforming to all state statutes governing the investment of public funds. This Policy sets forth the Investment Policy of the District and the guidelines to be followed in achieving its objectives and is created in compliance with the Public Funds Investment Act (Texas Government Code 2256, the “Act”).

2. Scope

This policy is applicable to all investment activities and all funds of the District. Currently structured funds covered by this policy include:

- Government Operating Funds; used to account for all financial resources relating to general District operations except those required to be accounted for in other funds.
- Special Reserve Funds; used to account for the proceeds of specific revenue sources, which are restricted to expenditures with specific purposes.
- All other funds maintained by the District, unless specifically exempted by this Policy.

3.0 Investment Objectives and Strategy

Investment of the funds covered by this Policy shall be governed by the following objectives, in order of priority:

- 3.1 Safety: Safety of principal is the primary objective of all investment transactions. Investment of the District’s funds shall be undertaken in a manner that seeks to ensure the preservation of capital.
- 3.2 Diversification: Diversification is required in order to reduce and manage potential risk including those on individual securities or market sectors.
- 3.3 Liquidity: The District’s investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements, which might be reasonably anticipated.
- 3.4 Yield: The District’s investment portfolio shall be designed with the objective of attaining or exceeding a reasonable yield, throughout budgetary and economic cycles, commensurate with the District’s investment risk constraints and the cash flow characteristics of the portfolio.
- 3.5 Legal Requirements: The District’s investment portfolio shall be designed to meet all legal requirements including bond yield restrictions. The investment yield on bonds funds may be restricted due to federal laws regarding arbitrage earnings.

Strategy

District funds may be commingled for investment purposes, but whether managed independently or commingled in one portfolio the unique needs of the individual funds will be recognized and cash flow requirements met.

Operating (“Government”) Funds

Investment strategies for operating funds have as their primary objective the assurance that anticipated cash flows are matched with adequate investment liquidity. The portfolio structure should meet anticipated cash flow needs. To accomplish this strategy, the District will purchase high credit quality, short-to-

intermediate-term investments primarily in a laddered structure. A limited liquidity buffer will be used to protect against unexpected cash needs.

Because operating funds are directed towards an annual fiscal year the portfolio will maintain a dollar weighted average investment maturity of 180 days or less and no investment longer than two (2) years will be permitted.

Reserve Special Funds

The reserve governmental funds are to be invested to generate reasonable yield and income. Only a portion of the principal is planned to be expended on an annual basis so the weighted average maturity of the funds shall have a maximum of one year. Funds may not be invested with a maximum maturity greater than three (3) years. The strategy shall have as the primary objective to safeguard and potentially build principal while generating a revenue stream,

4.0 Delegation of Authority:

Authority to invest District funds is derived from the Act and applicable District resolutions. The District's "Investment Officers" are designated by a resolution of the District's Board of Directors (the "Board") with the designation as Officer effective until revoked. Management responsibilities for the investment program are delegated by the Board to the Investment Officers. The Board may also engage an SEC-registered Investment Adviser to assist in the management of the District funds.

Regardless of the delegation of responsibilities, the Board retains the ultimate fiduciary responsibility for the management of District funds. [2256.005(f)]. The Board is responsible for:

- 1) Review and adoption of the Investment Policy and Strategy at least annually.
- 2) Receive and review, at least quarterly, the investment reports for the District.
- 3) Approve annually the list of broker/dealers with which the District may transact investment transactions.
- 4) Approve the training sources for Investment Officers.
- 5) Designate Investment Officers by resolution.

The major responsibilities of the District's Investment Officers are:

- 1) Recommend and monitor investment and accounting controls and procedures in accordance with this Policy.
- 2) Preserve and safeguard principal.
- 3) Recommend investment strategies to the Board in accordance with this Policy and economic conditions.
- 4) Review and present any needed revisions to this Policy and Strategy for Board annual approval.
- 5) Provide monthly and quarterly investment reports to the Board.
- 6) Obtain the training as required by law.
- 7) Recommend the broker/dealers and financial counter-parties to the Board for approval, at least annually.
- 8) Establish a system of controls to regulate the activities of any other individuals supporting the investment process.
- 9) Maintain a working knowledge of investment economics and the technical aspects of securities and markets, as well as the supervisory experience and judgment necessary to carry out the responsibilities outline in this policy.
- 10) Establish written procedures for the operation of the investment program consistent with this Investment Policy. Procedures shall include reference to:
 - Safekeeping of investments and collateral
 - Investment agreements
 - Banking depository services

Investment Officers may not delegate authority to other persons for investment transactions with the exception of a contracted investment adviser. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Board .

Investment Officer Training

The District will provide for the investment training required by the Act (2256.008). The training will be provided by courses and seminars offered by professional organizations and associations approved by the Board in order to insure the quality, capability and currency of the Investment Officers in making investment decisions.

The District's Investment Officers shall attend at least ten hours of training relating to their responsibilities under this Policy within twelve (12) months of taking office or assuming duties and in each succeeding two year fiscal period. Training must include education in investment controls, security risks, strategy risks, market risks, and compliance with the Act.

5.0 Ethics and Conflicts of Interest

Investment Officers shall not engage in personal or business activity that conflicts with proper execution of the investment program or which could impair their ability to make impartial investment decisions. Investment Officers and any District staff or Board members involved with the investment function, shall disclose any financial interests or personal relationships they have or may acquire in any counter-party conducting business with the District. They shall further disclose any personal financial/investment positions they have or may acquire that is related to the performance of the District's portfolio. Investment Officers shall refrain from any personal investment activity that would constitute a conflict of interest or be self-serving, or give the reasonable appearance of such. Disclosure in this subsection shall be made to the Texas Ethics Commission and the Board.

6.0 Prudence

The District's standard of care shall be the "Prudent Person Standard" and shall be applied in the context of managing the overall portfolio(s) under prevailing economic conditions at the moment of investment commitments and on an ongoing basis. The Standard requires that:

Investments shall be made with judgement and care under investment and economic circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Investment Officers, acting in accordance with this Policy and District established procedures and exercising due diligence, shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

In determining whether an Investment Officer has exercised prudence with respect to an investment decision the determination shall be made taking into consideration the investment of all funds over which the Officer had responsibility rather than a single investment. .

7.0 Authorized and Suitable Investments

Only the following investment types, as further defined by the Act, are authorized for purchase by the District. No other investment may be made until the Board has adopted changes to this Policy authorizing such investment.

- 7.1 Obligations of the United States, its agencies and instrumentalities, with a maximum maturity of three years. Mortgage backed securities are not authorized for operating funds.
- 7.2 Obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States or its respective agencies and instrumentalities with a maximum maturity of three years.
- 7.3 Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, with a maximum maturity of three years.
- 7.4 Fully insured or collateralized certificates of deposit issued by any bank doing business in Texas, collateralized in accordance with this Policy, not to exceed one year to maturity.
- 7.5 FDIC insured *brokered Certificates of Deposit* purchased from a broker or a bank in Texas, delivered versus payment to the District's safekeeping institution, not to exceed one year to maturity. Before purchase, the Investment Officer must verify before purchase the FDIC status of the bank on www.2fdic.gov/idasp/main_bankfind.asp to assure that the bank is FDIC insured.
- 7.5 A fully collateralized repurchase agreement, as defined in the Act, with a defined terminate date not to exceed one year; placed through a primary government securities dealer, and collateralized in accordance with this Policy. "Flex" repurchase agreements may be used for bond proceeds not to exceed the expenditure plan of the funds.
- 7.6 Prime domestic bankers' acceptances as defined by the Act with a maximum stated maturity of 90 days
- 7.7 Commercial Paper with a maximum maturity of 90 days rated A-1/P-1, or equivalent by two nationally recognized credit rating agencies.
- 7.8 SEC registered, no-load money market mutual funds which strive to maintain a \$1 NAV. The District may not invest more than 10% of its monthly average fund balance, in any one money market mutual fund.
- 7.8 Constant-dollar, local government investment pools as approved by resolution of the Board.
- 7.9 AAA-rated short-term bond mutual funds as defined by the Act with a maximum WAM of 2 years, restricted to Special Funds only. No more than 10% of Special Funds may be invested in such funds.
- 7.9 Depository bank interest bearing and money market accounts in any bank in Texas.

Unauthorized Investments:

The following investments are not authorized for District funds:

- Interest Only. Obligations whose payments represent coupon payments on outstanding principal balances of the underlying mortgage-backed securities and pays no principal.
- Principal Only. Obligations whose payments represent principal stream of cash flow from the underlying mortgage-backed securities and bears no interest.
- Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.

- Collateralized mortgage obligations, the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

The District may sell owned securities to take profits or swap opportunities to improve portfolio yield. A swap that improves portfolio yield may be selected, even if the transaction results in a current accounting loss, as long as the net financial impact is positive at a date within a three-month horizon of the initial maturity.

8 Internal Controls

Loss of Required Rating

An investment that requires a minimum rating by this Policy will not qualify as authorized during the period the investment does not have that minimum rating. Investment Officers shall inform the Board and take all prudent measures to liquidate the downgraded investment in a reasonable time period.

The Investment Officer or Adviser 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 shall notify board of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within two weeks after the loss of the required rating.

Authorization

Any investment purchased when the investment type was authorized by Policy need not be liquidated if the Policy is modified to un-authorize the investment. The Investment Officers will review the investment and act in a reasonable manner for the overall good of the portfolio(s).

FDIC Status

The Investment Officer or Adviser shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the District 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 shall immediately contact the banks and liquidate any brokered CD which is above the FDIC insurance level.

9 Collateralization

Pledged Collateral for Time and Demand Deposits

Depository collateral is *pledged* to and not owned by the District. All District time and deposit funds shall be fully collateralized or insured consistent with federal and state law. All collateral shall be held by a Custodian outside the pledging bank's holding company and approved by the District under an executed collateral agreement. The agreement will be executed under the terms of FIRREA¹ and approved by the bank's board or Loan Committee.

The market value of pledged collateral for time and demand deposits must be at least 102% of the principal plus accrued interest. Original evidence of independent custody shall be provided to and maintained by the Investment Officers. The Custodian will provide a monthly listing of collateral describing the securities directly to the District. The Investment Officers will monitor adequacy of collateralization on a monthly basis.

¹ Financial Institutions Resource, Recovery and Enforcement Act.

Collateral Substitution

Substitution rights are granted but the pledging entity must obtain approval from the Investment Officer prior to substitution. The substituted collateral's market value must be equal to or greater than the original collateral. Substituting securities shall be put in place before existing securities are released.

Should the collateral's market value exceed the required 102%, the depository may request approval from the Investment Officer to reduce collateral.

Collateral Owned by the District

Collateral within a repurchase agreement is owned by the District in a buy-sell transaction. The market value of the securities must be at least 102% of the principal plus accrued interest. All collateral shall be held by a custodian independent of the counter-party and approved by the District. Original evidence of ownership will be provided to the District. The custodian will provide a weekly or daily listing of collateral describing the securities and giving a market value.

Authorized Collateral

Authorized collateral for time and demand deposits and repurchase agreements includes only:

- Obligations of the US Government, its agencies or instrumentalities, excluding letters of credit but including mortgage backed securities passing the *bank test*.
- Obligations of any state, local or US governmental entity rated not less than A or its equivalent by two nationally recognized rating agencies.

Any voluntary collateral pool as defined by the Public Funds Collateral Act (Texas Government Code 2257) and presented as a collateral option by a depository shall be evaluated thoroughly by the Investment Officers in the areas of cost effectiveness and risk. Use of the collateral pool shall be approved by the Board.

10 Financial Counter-parties

Broker/Dealers

Any broker/dealer seeking to buy/sell an authorized Investment to the District are required to furnish all supporting documentation regarding the firm or the broker as required by the Investment Officers. Information on the firms will be maintained by the Investment Officers or the Investment Adviser.

A list of authorized broker/dealers is attached as an Exhibit to this Policy for annual approval by the Board.

Counter-party Certification:

Investments shall only be made with those firms who have executed a written certification as required by the Act and in a form acceptable to the District substantially to the effect that the firm has:

1. Received, thoroughly reviewed and acknowledged, in writing, receipt and understanding of the Investment Policy.
2. Acknowledged that the firm has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the firm and the District not authorized by the Investment Policy.

The Investment Manager may not buy any securities from a firm which has not delivered the certification.

Depositories

The District will choose, through a competitive process, a banking services depository at least every five years. The banking services depository shall not be utilized as a broker in order to perfect a delivery versus

payment settlement on all security transactions. The banking services depository and other Texas banks may be utilized for certificates of deposit. All depository relationships shall be documented by a depository agreement which includes collateral conditions, if appropriate.

Bank time or demand deposits will only be placed with those banks which:

- a) provide annual audited financial statements;
- b) complete the District's Authorized Depository application;
- c) been designated by the Board as an authorized depository;
- d) signed the District's Security Agreement; and
- e) provided collateral as set forth in this Policy.

An annual review of the financial condition of each depository holding District funds will be conducted by the District Controller.

11 Delivery v. Payment and Safekeeping

All securities shall be purchased using delivery versus payment (DVP) clearance to assure continuous control over the District funds and securities. District funds shall not be released until the District has received the securities purchased. The District shall custody all securities in safekeeping in an approved financial institution.

12 Audit

The Investment Officers will provide investment and collateral reports to assist the District's external auditors for accounting and auditing control. The Board will provide for an annual financial audit of all District funds by an independent auditing firm. The Investment Officers will assist the auditors in an annual compliance audit of investment controls and adherence to the Policy and the Act.

13 Reporting

Investment performance shall be continually monitored and evaluated by the Investment Officers. Not less than quarterly, the Investment Officers, or investment adviser, will prepare and submit to the Board, investment reports which demonstrate conformance to the requirements and objectives of this policy.

The quarterly reports must:

- a) describe in detail the investment position of the District on the date of the report;
- b) be signed by all Investment Officers of the entity;
- c) state the beginning and ending market values in each portfolio for the reporting period with additions and changes to the market value during the period to illustrate volatility;
- d) state the beginning and ending book values of each separately invested asset and portfolio the reporting period defined by market sector;
- e) state the maturity date of each separately invested asset;
- f) state the account, fund or portfolio for each individual asset;
- g) state the compliance of the investment portfolio to the investment strategy and relevant provisions of this Policy and the Act;
- h) state the total earnings for the period;
- i) state the weighted average maturity of the portfolio(s); and
- j) state the weighted average yield of the portfolio(s) as compared to their benchmark(s).

14 Performance and Risk Benchmarks

The investment portfolio(s) shall be managed within the Policy objectives of safety, liquidity, diversification, and yield. The benchmark for each portfolio reflect the cash flow requirements, established maximum maturities and the market sectors in which investments may be made. The operating portfolio(s) has a maximum weighted average maturity (WAM) of six months. The benchmark for the portfolio will be the comparable period yield on the current six month Treasury-Bill. The benchmark for the longer reserve special fund shall be the current, one-year Treasury-Bill.

15 Investment Policy Adoption:

The District's Investment Policy shall be reviewed and adopted by resolution of the Board at least annually. The resolution adopting the Policy must reference all changes made to the Policy.