

MAY 11 2015

## JOHNSON COUNTY INVESTMENT POLICY

### I. OBJECTIVES

The Objectives of the Johnson County Investment Policy shall be:

To set forth the methods, means, and goals of financial investment and debt management operation for Johnson County.

To ensure the highest degree of safety and optimum liquidity of Johnson County funds at all times.

To assist Johnson County in achieving the maximum reasonable portion of all assets are invested in a prudent manner at all times.

To ensure Johnson County will achieve the maximum interest yield on County funds at all times through methods allowed under Federal and State Law, applicable Bond Resolution requirements, adopted Investment Policy, adopted Investment Strategy and in accordance with the current County Bank Depository Contract. Johnson County shall review its investment strategies and policies not less than annually. This policy serves to satisfy the statutory requirement (specifically the Public Funds Investment Act, Government Code Ch. 2256 (the "Act") to define, adopt and review a formal investment strategy and policy.

### II. STANDARD OF CARE

Johnson County investments shall be made with judgment and care under circumstances then prevailing that 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 and optimum liquidity required for operations. Preservation and safety of principal shall be the first priority, adequate liquidity the second, and yield the third priority. Moreover, all participants in the County's investment process shall seek to act responsibly as custodian of the public trust. Individual investments shall be made in a manner consistent with this Policy.

### III. INVESTMENT STRATEGY

Johnson County maintains portfolios that utilize three specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolios.

#### **General Operating Funds**

Johnson County's investment strategy for General Operating Funds shall be made to ensure that anticipated cash flows are matched with adequate investment liquidity.

### **Debt Service Funds**

Johnson County shall utilize as the primary objective for the investment of Debt Service Funds adequate liquidity to cover the debt service obligation of the County on required payment dates.

### **Special Revenue and Trust and Agency Funds**

Johnson County shall invest Special Revenue and Trust and Agency Funds in accordance with State law and the Johnson County Investment Policy to the maximum ability that such investments may benefit the County directly, or utilize said funds in a method that such funds may benefit the County indirectly.

### **General Strategy**

Johnson County's investment portfolio shall consist of a variety of securities, which may include any or all of the authorized investments listed in Section VII, Authorized Investments, of this Policy.

It shall be the general practice of Johnson County to utilize an investment strategy based on Section II, Standard of Care, of this Policy, which also defines yield objectives, as well as Section 2256.006, Government Code, and/or invest funds directly with the Depository Bank and expect that all related collateral confirmations thereto be confirmed and received within the required time frames. Johnson County shall, in general, be conservative in its investment programs consistent with Section VIII, Investment Implementation, of this Policy. Investment collateral is addressed in Section XI, XII and XIII of this policy.

It is Johnson County's intent to hold purchased securities to the stated maturity date and to have invested in such a manner to insure both the safety and liquidity of such transaction. In the event, however, the need arises to sell securities before the stated maturity date, the situation shall be analyzed to determine the appropriate time to liquidate said securities and minimize any potential real or book value loss.

The Johnson County Investment Portfolio shall not exceed an Average Weighted Maturity Life of two years for the entire Investment Portfolio. There shall be no investment made that has a maturity of more than three years unless approved by the Commissioners Court.

## **IV. DEPOSIT OF FUNDS**

All funds received by Officials of Johnson County shall be officially deposited with the County Treasurer upon receipt or the next day after receipt and in accordance with prescribed policy and procedure; however, without exception, all funds shall be deposited within seven (7) days from the date of collection by said officer, in accordance with State Law.

## V. INVESTMENT OFFICER

The County Treasurer of Johnson County shall be the Investment Officer for the County. In the absence of the County Treasurer, the County Auditor shall have the same authority as the County Treasurer relating to the duties of the Investment Officer.

Should at any time the Investment Officer have a personal business relationship with any entity seeking to sell investments to Johnson County or the County Treasurer or County Auditor is related within the second degree by affinity or consanguinity to an individual seeking to transact investment business with the entity, the County Treasurer or Auditor will file a Disclosing Statement with the Texas Ethics Commission and the Johnson County Commissioners Court.

It is understood at all times that the control and general fiduciary responsibility of Johnson County funds is vested in the Commissioners Court of Johnson County and said right of investment or management is extended by the Commissioners Court to the Investment Officer in its behalf.

## VI. INVESTMENT AUTHORIZATION

For purchases of Certificates of Deposits only, in order to allow the maximum flexibility for the investment of Johnson County funds, the Johnson County Commissioners Court extends the Investment Officer full authority for the investment of Johnson County funds when he has obtained agreement with the County Auditor for the purpose of determining that the County will retain adequate liquidity.

The Investment Officer is hereby authorized to transfer funds or disburse Johnson County checks for investment transactions and to release same as required. It shall be the responsibility of the County Treasurer as chief custodian of Johnson County funds to perform the actual transaction of purchasing/withdrawal of all investments. All transactions must be reported to the County Auditor immediately upon completion.

Johnson County may approve contracting with an investment management firm for the management of its funds. The firm must be registered under the Investment Advisers Act of 1940 (the "1940 Act") or, if the firm is not subject to the 1940 Act, registered with the State Securities Board. An investment management contract may be for a term of up to two years with any renewal or extension approved by Johnson County Commissioners Court. A written copy of the entity's approved investment policy must be given to the management firm. An officer or principal of the investment management firm serves as the qualified representative who will provide the entity with a written instrument acknowledging receipt of the investment policy.

Annually, Johnson County will review, revise and adopt a list of qualified brokers that are

authorized to engage in investment transactions with the County, should we have any.

## **VII. AUTHORIZED INVESTMENTS**

In Accordance with authorizing Federal and State Laws, Johnson County's Depository Contract, and appropriated approved collateral provisions, Johnson County may utilize the following methods for the investment of Johnson County funds as provided in Section 2256.009(a), Government Code:

1. Obligations of the United States or its agencies and instrumentalities.
2. Direct obligations of the State of Texas or its agencies and instrumentalities.
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.
4. Other obligations, the principal of and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities.
5. 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.

However, in accordance with the provisions of Section 2256.009(b), Government Code, the following are not authorized investments:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Additional authorized investments are:

1. Certificates of Deposits

Section 2256.010, Government Code states that a certificate of deposit or share certificate is an authorized investment under this subchapter if the certificate is issued by a depository institution that has its main office or a branch office in this state and is:

- 1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor, or
- 2) secured by obligations that are described by Section 2256.009 (a), Government Code, including mortgage-backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage-backed securities of the nature described by Section 2256.009(b) Government code, or
- 3) secured in any other manner and amount provided by law for deposits of the investing entity.

## 2. Investment Pools

As stated in Section 2256.016, Government Code, for Investment Pools; Johnson County may invest its funds and funds under its control through an eligible investment pool if the Commissioners Court, by official Court Order, authorizes investment in the particular pool. An investment pool shall invest County funds only in authorized investments permitted by State Statutes. The County, by contract, may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

Investment Pools must meet the following requirements:

1. The investment pool must furnish to the investment officer or other authorized representative of the County an offering circular or similar disclosure instrument that contains, at a minimum, the following information:
  - a. The types of investments in which money is allowed to be invested;
  - b. The maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
  - c. The maximum stated maturity date any investment security within the portfolio has;
  - d. The objectives of the pool;
  - e. The size of the pool;
  - f. The names of the members of the advisory board of the pool and the dates their terms expire;
  - g. The custodian bank that will safekeeping the pool's assets;
  - h. Whether the intent of the pool is to maintain a net asset value of \$1 and the risk of market price fluctuation;

- i. Whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
  - j. The name and address of the independent auditor of the pool;
  - k. The requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and
  - l. The performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.
2. The investment pool must be rated no lower than AAA or AAA-m or at an equivalent rating of at least one nationally recognized rating service.
  3. The investment pool must furnish to the investment officer investment transaction confirmations and a monthly report that contains, at a minimum, the following information:
    - a. The types and percentage breakdown of securities in which the pool has invested;
    - b. The current average dollar-weighted maturity, based on the stated maturity date, of the pool;
    - c. The current percentage of the pool's portfolio in investments that have stated maturities more than one year;
    - d. The book value versus the market value of the pool's portfolio, using amortized cost valuation;
    - e. The size of the pool;
    - f. The number of participants in the pool;
    - g. The custodian bank that is safekeeping the assets of the pool;
    - h. A listing of daily transaction activity of the entity participating in the pool;
    - i. The yield and expense ratio of the pool
    - j. The portfolio managers of the pool; and
    - k. Any changes or addenda to the offering circular.
  4. For purposes of investment in an investment pool, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

#### VIII. INVESTMENT IMPLEMENTATION

The County Investment Officer will solicit at least three competitive offers or bids for all

individual security purchases and sales from contracted financial brokers and or banks orally, in writing, electronically, or by any combination of these methods (excluding transactions with money market mutual funds and local government investment pools, which are deemed to be made at prevailing market rates).

Johnson County Funds will generally be placed for investment periods of 1 to 365 days. However, funds placed for investment longer than 3 years shall be upon approval of the Commissioners Court. An Investment Report will be submitted to the Commissioners Court each calendar quarter. Johnson County Funds will be invested within the Depository Bank, with contracted Financial Brokers, or from time to time in other sources as authorized in this Policy, utilizing a Controlled Disbursement Investment Program, or a similar cash management program in the County Auditor's Office to maximize interest yield on Johnson County funds, with funds becoming available as needed to meet the financial needs of Johnson County.

The market price of acquired investments will be monitored by the following methods:

1. Internet access to review market
2. Broker contracts that give market analysis
3. Quotes from other investment firms and/or pools not currently contracted

At the expiration of the designated number of days of Johnson County investments, said funds shall be returned to their designated Johnson County account, unless otherwise instructed by official Court Order or as required for immediate re-investment of said same Funds.

Johnson County requires that settlement of all transactions, except investment pool funds and mutual funds, will be on a delivery versus payment basis.

#### **IX. INVESTMENT INSTITUTIONS**

The Investment Officer is authorized to utilize the following institutions or groups to facilitate the investment of Johnson County funds, consistent with Federal and State Law and Johnson County's Bank Depository Contract:

1. Depository Bank
2. Other Banks and financial institutions
3. Contracted Securities and Investment Firms
4. Local, State, and Governmental units
5. Public Funds Investment Pools based in the State of Texas
6. State or Federal Credit Union domiciled in the State of Texas

The Investment Officer is authorized to place investment orders on an "as needed" basis with designated Financial Brokerage Firms, Banks, or contractors with which Johnson County maintains a current written Contract, authorized by Commissioners Court Order, and consistent with the Investment Policy of Johnson County.

A written copy of the Johnson County Investment Policy shall be presented to any Investment Institution as defined under Section IX of the Policy, which seeks to sell to Johnson County an authorized investment. The registered principal of the Investment Institution seeking to sell authorized investments to Johnson County shall execute a written instrument that shall indicate that the registered principal has:

1. Received and thoroughly reviewed the Johnson County Investment Policy.
2. Acknowledges in writing as prescribed by Johnson County that the Investment Institution has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between Johnson County and an organization not authorized by Johnson County's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of Johnson County's entire portfolio or requires an interpretation of subjective investment standards.

The Investment Officer of Johnson County may not buy any securities from an Investment Institution that has not delivered to Johnson County a written instrument as set-forth herein above.

#### **X. METHODS OF INVESTMENTS**

##### **Investments made outside of Depository Bank**

Johnson County will generally disburse all funds for investments in accordance with Section 2256.051, Government Code, using electronic funds transfer as a means to invest all funds collected or controlled by Johnson County.

The County Treasurer is authorized to electronically wire Johnson County funds for investment purposes from Johnson County accounts, to authorized Investment Institutions as indicated under Section IX of this Policy, and in accordance with procedures mutually established with County Auditor. The County Treasurer is further authorized to accept, electronically, all Johnson County investments, including principal and interest, as such investments mature, for the proper internal allocation to Johnson County accounts.

#### **XI. AUTHORIZED COLLATERAL AND COLLATERAL PROCEDURES**

The Investment Officer shall select the form of securities pledge contract or surety bond used to secure Johnson County funds. Addition, withdrawal, or substitution of collateral for Johnson County funds shall be subject to the official approval of the Johnson County Investment Officer.

The investment of any Johnson County funds shall be collateralized, consistent with Federal and State Law, Johnson County's Bank Depository Contract, and the Johnson County



Investment Policy, without exception, in one or more of the following manners:

1. FDIC insurance coverage.
2. A direct Obligation of the United States.
3. An Obligation that in the opinion of the Attorney General of the United States is general obligation of the United States and backed by its full faith and credit.
4. An Obligation, the principal of and interest of which are unconditionally guaranteed by the United States.
5. An Obligation of an Agency or Instrumentality of the United States, including a mortgage-backed security of the agency or instrumentality; however, obligations of the nature described in Section 2256.009(b), Government Code, shall not be eligible for use as collateral for any Johnson County Funds.
6. A general or special obligation issued by a public agency, payable from taxes, revenues, or a combination of taxes and revenues that has been rated as to investment quality by a nationally recognized rating agency that has a current rating of not less than A or its equivalent.
7. Any security in which a public entity may invest under the Public Funds Investment Act of 1987.

#### **XII. LEVEL OF COLLATERAL**

All securities pledged as collateral shall be deposited in trust with the Federal Reserve Bank or an independent investment institution under an appropriate legal contract. The amount of securities so pledged shall be determined by their market value. The County Auditor shall maintain a monitoring program to establish market value of such collateral, as best available, for the security of Johnson County funds.

#### **XIII. POSSESSION OF COLLATERAL**

All Securities of surety bonds pledged to secure deposits of Johnson County funds shall be held at the Federal Reserve Bank of Dallas for investments made directly through the Bank Depository Contract and with a third-party custodian as directed by the Johnson County Investment Officer. Delivery of collateral shall be made to the Federal Reserve Bank of Dallas not later than 1:30 P.M. CST. Delivery of collateral by a broker and/or bank shall be made to the third party custodian not later than 1:00 P.M. CST on the same day of a trade. All brokers and/or banks shall indicate "Johnson County" on all transaction details.

The Federal Reserve Bank of Dallas and all other custodians so authorized by the Johnson County Investment Officer shall immediately provide a receipt of the securities and/or surety bonds to the County Auditor evidencing the deposit of said securities and/or surety bonds. When the pledged securities and/or surety bonds held by the Federal Reserve Bank of Dallas, or other custodians are deposited, the permitted institution may apply book entry procedures to the securities. The records of the permitted institution shall at all times reflect the name of custodian depositing the pledged securities. The trust receipts that the Federal Reserve Bank of Dallas, or other custodians, issued to Johnson County through the Investment Officer shall

indicate that the custodian has deposited with the permitted institution the pledged securities and/or surety bonds held in trust for the Depository Bank pledging the securities.

All participants in the investment or holding of collateral for Johnson County investments must provide the Investment Officer with a notification of confirmation of trade and safekeeping of collateral on the same day of the transaction without exception.

Johnson County's Depository Bank shall not hold collateral for Johnson County investments made at or through said institution.

#### **XIV. INVESTMENT REPORTS**

Not less than quarterly the Investment Officer shall prepare and submit to the Commissioners Court a written report of Johnson County's investment transactions for the preceding reporting period, in addition to other information that may be required by Johnson County. The report shall:

1. Describe in detail the investment position of Johnson County on the date of the report and be signed by the investment officer;
2. Contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled fund group that states the beginning market value for the reporting period, additions and changes to the market value during the period, the ending market value for the period and fully accrued interest for the period;
3. State the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested;
4. State the maturity date of each separately invested asset that has a maturity date;
4. State the account or fund or pooled group fund of Johnson County from which each individual investment was acquired; and
6. State compliance of the Johnson County Investment Portfolio as it relates to the investment strategy expressed in Section III, Investment Strategy, of this Policy, as well as other relevant provisions of the Policy.

Johnson County shall have performed as a part of its Annual External Financial Audit a compliance audit of management controls on investments and adherence to Johnson County's established investment policies. Quarterly investment reports must be formally reviewed annually by an independent auditor and reported to the Commissioners Court.

Johnson County must annually adopt a written instrument stating that is has reviewed the

Investment Policy and investment strategies and record any changes made to either the policy or the strategy.

#### **XV. CONTINUING EDUCATION**

Each member of the governing board and each investment officer who is in office or who has assumed duties on September 1, 1995, and who would be required by Section 2256.007(a), Government Code, as amended by this Act to attend investment training within six months after taking office or assuming duties shall attend at least one training session relating to person's responsibilities under Chapter 2256, Government Code, that meets the requirements of that section.

Each treasurer, chief financial officer, and investment officer who is in office or who has assumed duties on September 1, 1995, and who would be required by Section 2256.008(a), Government Code, as amended by this Act, to attend investment training within 6 months after taking office or assuming duties shall attend at least one training session relating to the person's responsibilities under Chapter 2256, Government Code, that meets the requirements of that section.

Section 2256.008(a) Government Code amended as of September 1, 1997, requires the Treasurer, the Chief Financial Officer, and the investment officer of a local government to attend an investment training session not less than once in a two-year period and receive not less than 10 hours of instruction relating to investment responsibilities. The training must be provided by an independent source approved by the governing body or a designated investment committee of the local government.