

**INVESTMENT POLICY AND STRATEGY  
KEMPNER WATER SUPPLY CORPORATION**

August 2021

**POLICY STATEMENT**

The purpose of this Policy is to provide specific policy guidelines, so risk of investment capital is minimized while obtaining a reasonable market rate of return. It is the policy of the Kempner Water Supply Corporation 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 security of principal while meeting the daily cash flow needs of the Corporation making receipt of a market rate of return secondary to the requirements for safety and liquidity. The earnings from investments shall be used in a manner which best serves the interests of the Corporation.

It is the intent of the Corporation to be in complete compliance with applicable local law, Board actions and the Texas Public Funds Investment Act (PFIA) Texas Government Code Section 2256.

**I. SCOPE**

This Investment Policy applies to all the financial assets and funds of the Corporation. The Corporation may commingle its funds into one investment portfolio for efficiency and maximum investment opportunity. These funds include all operating funds and reserve funds while addressing each fund unique requirement within the portfolio. The Policy shall also pertain to any new funds unless specifically exempted by the Board and this Policy.

**Prudence**

The standard of prudence to be used shall be the "Prudent Person" Rule which states:

"Investments shall be made with judgment and care, under 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 expected income to be derived."

**II. OBJECTIVES AND STRATEGY**

It is the policy of the Corporation that all funds shall be managed and invested passively with the following four primary objectives, listed in priority order: safety, liquidity, diversification, and yield.

**Preservation of Principal**

Preservation of principal is the foremost objective of the Board. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital through the use of high credit quality investments and investments based on cash flow needs.

**Liquidity**

The Corporation's investments in operating funds shall be designed to meet cash flow needs and short-term funds shall remain sufficiently liquid to enable it to meet all operating requirements which might be reasonably anticipated. A liquidity buffer is maintained for unanticipated liquidity needs. Cash flow analysis and planning shall be used to identify cash needs. Unless matched to specific cash flow requirements, no more than one-third of the overall portfolio may be invested for a period greater than two (2) years.

Reserve funds may be invested to fifteen years. No portion of any portfolio may be invested for a period greater than fifteen (15) years and the maximum weighted average maturity shall not exceed 5 years.

**Diversification**

Diversification of the portfolio shall include diversification by maturity and market sector to limit market and credit risk.

**Yield**

The investment portfolio shall be designed with the objective of attaining a reasonable market rate of return, considering the Corporation's risk constraints. "Market rate of return" may be defined as the average yield of the current six-month U.S. Treasury Bill which matches the expected average maturity of the investments. The yield on the six-month Treasury Bill will be used as a benchmark for measuring risk as well as performance of the portfolio.

**Strategy**

There are two types of funds represented in the overall portfolio. The investment strategy shall recognize the distinct needs of these funds and incorporate it into cash and investment planning. The Investment Officer shall attempt, to the extent possible, to match investments with anticipated cash flow needs to reduce the need to sell securities prior to maturity and incurring market risk. The strategies used will recognize any contractual agreements controlling joint funds with other governmental entities.

**Operating Funds**

Operating funds are used for daily operations of the Corporation. The investments utilized for this portion of the portfolio shall be of the highest credit quality and marketability supporting the objectives of safety and liquidity. Securities shall be matched to specific anticipated liabilities in the short term to provide adequate liquidity for six months. The maximum weighted average maturity of these funds may not exceed six months.

**Reserve Funds**

Reserve funds are not needed for immediate use, but the same objectives of safety shall be met. The reserves can be invested for a longer period of time in accordance with needs and can therefore absorb some market risk. The investments utilized for this portfolio shall also be of the highest credit quality and marketability. The maximum weighted average maturity of reserve funds may not exceed five years.

### **III. LEGAL LIMITATIONS, RESPONSIBILITIES AND AUTHORITY**

The Corporation shall base its investment parameters on and comply with the Public Funds Investment Act, Chapter 2256, Texas Government Code, (the "PFIA") which governs investments for all public entities in Texas. The Act is attached for reference as Exhibit C.

As a public water supply *corporation*, the Corporation does not fulfill the FDIC definition of a "public unit" and therefore collateral depository agreements will not be honored by the FDIC. Therefore, all bank deposits must be limited to FDIC coverage (currently set at \$250,000).

### **IV. DELEGATION OF INVESTMENT AUTHORITY**

#### **Corporation Board**

The Board remains ultimately responsible for investment management as well as the quality and capability of staff and advisers. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

The Board is responsible for designating investment officers by resolution, accepting quarterly investment reports, approving broker/dealers, adopting the Investment Policy and Strategy no less than annually, approving training organizations, and providing funds for required training.

#### **Investment Officer**

The Secretary/Treasurer of the Board, acting on behalf of the Board, in conjunction with the General Manager, and the Chief Financial Officer are designated as the Investment Officers of the Corporation and are responsible for investment management decisions, controls and activities.

The Secretary/Treasurer of the Board is responsible for reviewing investment strategy, decisions and reports on a Quarterly basis. Approval of any investment security transaction shall be made by any two of the Investment Officers. The trade ticket for custody settlement of a security trade may be signed by the Secretary/Treasurer, President or the General Manager for instructions sent to the bank.

The General Manager shall establish a system of internal controls to regulate the process and activities of subordinate staff. Such controls shall be designed to prevent losses of public funds arising from fraud, employee error, or misrepresentations by third parties. General investment procedures to guide daily investment activities are attached as Exhibit A of this Policy. All security trades are to settle on a delivery versus payment basis assuring that Corporation funds are not released before receipt of the security into bank custody in the Corporation's name.

All Investment Officers shall attend at least ten hours of training as defined by the Public Funds Investment Act within 12 months of assuming their responsibility and every two succeeding years. Training shall include education in investment controls; security, market and strategy risks; diversification; and to the extent possible, compliance with the PFIA. The Board will approve all training sources.

#### **Limitation of Personal Liability**

The General Manager, Secretary/Treasurer and all others delegated investment authority under this Policy, when acting in accordance with the written procedures, this Policy, and the Prudent Person Rule,

shall be relieved of personal liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change or portfolio shifts are reported in a timely manner and appropriate action is taken to control adverse effects.

#### **Disclosure**

Investment officers and employees involved in the investment of funds shall refrain from personal business activity that could impair their ability to make impartial investment decisions. Investment officers shall disclose to the Board any material financial interests in financial institutions that conduct business with the Corporation, and any personal financial/investment positions that could be related to the performance of this portfolio.

#### **Investment Adviser**

The Board may contract with a SEC Registered non-discretionary Investment Adviser to assist in the investment process. The Adviser shall not have access to or control of the Corporation's funds or securities.

### **V. AUTHORIZED INVESTMENTS**

Authorized investments under this policy shall be limited to the instruments listed below and as further described by the Public Funds Investment Act.

- A. Obligations of the United States Government, its agencies and instrumentalities. In operating funds, mortgage backed securities are not authorized and the stated maturity of any obligation will not exceed three (3) years. In reserve funds, mortgage backed securities are authorized with a stated maximum maturity of 15 years.
- B. FDIC insured, depository certificates of deposit (including accrued interest) with banks doing business in the United States not to exceed one year to maturity.
- C. FDIC insured, brokered certificate of deposit securities issued by a bank in any US state, delivered versus payment to the Corporation's safekeeping agent, not to exceed one year to maturity. Before purchase, the Investment Officer or Adviser must verify the FDIC status of the bank on [www.fdic.gov](http://www.fdic.gov) to assure that the bank is FDIC insured.
- D. AAA-rated local government investment pools in Texas striving to maintain a \$1 net asset value.
- C. AAA-rated SEC registered money market mutual funds, striving to maintain a \$1 net asset value. Each fund shall be specifically approved before use by the Corporation Board. Money market funds can be used as sweep investment under the depository contract.
- D. State and local government general obligation notes and bonds in any US state rated A or better by two nationally recognized rating agencies and with a stated maturity not to exceed three years.
- E. FDIC insured interest bearing accounts in any Texas bank.
- F. Commercial paper rated A1/P1 or better by two nationally recognized rating agencies with a maximum stated maturity of 180 days.

If additional types of securities are approved for investment by public funds by state statute, they shall not be eligible for investment by the Corporation until this policy has been amended and the amended version adopted by the Board.

**Competitive Bidding Requirement**

All securities, including certificates of deposit, shall be purchased or sold on a competitive basis to verify the Corporation is receiving a fair market price for each investment.

**Delivery versus Payment**

All security transactions shall be conducted on a delivery versus payment (DVP) basis to insure the Corporation has full control of its funds and its securities at all times. No broker safekeeping is authorized in order to perfect delivery versus payment.

**VI. DIVERSIFICATION REQUIREMENTS**

It is the policy of the Corporation to diversify its investment portfolio by market sector as well as maturity to minimize risk or loss resulting from over-concentration of assets in a specific maturity, specific issuer, or specific class of securities. The overall portfolio shall be guided by of the following diversification requirements:

	Max. % of Portfolio
U.S. Treasuries	90 %
U.S. agencies and instrumentalities	80 %
Fully insured depository CDs	60 %
Fully insured brokered CDs	50 %
Commercial Paper	35 %
Max % in any one company	10 %
Money Market Mutual Funds	100 %
Local Government Investment Pools	100 %
State and Local Notes and Bonds	60 %

**VII. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

All investments shall be made through a Board authorized broker/dealer or with a FDIC insured bank.

All broker/dealers shall meet certain criteria as determined by the Investment Officer. The Investment Officer or Investment Adviser shall maintain all information required on file.

- a. The following minimum criteria must be met by broker/dealer firms: provision of the firm’s annual audited financial statement,
- b. current registration with the Financial Industry Regulatory Authority (FINRA),
- c. current registration with the Texas State Securities Board, and
- d. completion of the Corporation’s broker/dealer background information questionnaire.

A list of the authorized broker/dealers is attached as Exhibit C and adopted concurrently with the Investment Policy.

### **Policy Certification**

Every pool with which the Corporation transacts business shall be provided a copy of this Investment Policy to assure they are familiar with the Corporation's requirements and objectives. A representative of the firm shall be required to return a signed certification, basically in the form attached as Exhibit B, stating the Policy has been received, reviewed and controls are in place to assure that only authorized securities are sold to the Corporation.

## **VIII. SAFEKEEPING**

The laws of the State of Texas and prudent treasury management require all purchased securities be bought on a delivery versus payment (DVP) basis and be held in safekeeping by an independent third-party financial institution or the Corporation's designated depository.

All safekeeping arrangements shall be approved by the Secretary/ Treasurer as Investment Officer and an agreement of the terms executed in writing. The safekeeping agent shall be required to issue original safekeeping receipts to the Corporation listing each security, its rate, description, maturity, and cusip number, and designating the security held for the Corporation.

## **IX. INTERNAL CONTROLS**

### **Cash Flow Forecasting**

Cash flow forecasting is designed to protect and sustain cash flow requirements. Supplemental to the financial and budgetary systems, the Investment Officer will maintain a cash flow forecast designed to monitor and forecast cash positions for investment purposes.

### **Audits**

The Investment Officer and Investment Adviser will annually review all procedures to assure that the Corporation is in compliance with its Investment Policy and the PFIA. The external auditor shall review the quarterly reports.

### **Monitoring Credit Ratings**

The Investment Officer or Adviser shall monitor, on no less than a monthly basis, the credit rating on all authorized investments in the portfolio requiring a credit rating based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the Investment Officer or Adviser shall notify the General Manager on a timely basis 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 or Adviser shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the Corporation 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 or Adviser shall immediately liquidate any brokered CD which places the Corporation above the FDIC insurance level.

**X. REPORTING**

The Investment Officer(s) shall submit a signed quarterly investment report to the Board in accordance with the PFIA containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program and consistent with statutory requirements. The reports shall summarize investment strategies employed in the most recent quarter and fully describe investment securities, maturities, risk characteristics, and investment return for the quarter. The report will include the following at a minimum:

- A full description of each individual security or position held at the end of the reporting period including the book and market value at the beginning and end of the period,
- Unrealized gains or losses,
- Overall change in market value during the period as a measure of volatility,
- Weighted average yield of the portfolio and its applicable benchmarks,
- Earnings for the period,
- Analysis of the total portfolio by market sector and maturity, and
- Statement of compliance of the investment portfolio with the Act and the Investment Policy.

Market prices for the calculation of market value will be obtained from independent sources.

**XI. DEPOSITORIES**

The Budget and Financial Management Committee shall designate one financial institution through a competitive process as its central depository (banking services provider) at least every five years. This institution shall be used for normal banking services including collections, disbursements, deposits, safekeeping and checking. The banking services agreement shall be approved by the Corporation Board prior to any commitment to use the banks services. The banking services depository may be outside the jurisdictional limits of the Corporation. If necessary, additional financial institution(s) may be designated as depositories to administer specialized corporate and/or customer service(s).

No certificates of deposit shall be purchased from any bank or bank holding company, singularly or in the aggregate, for which the principal and accrued interest exceed FDIC limit. Therefore, no written depository collateral agreement shall be required from these institutions.

**XII. INVESTMENT POLICY ADOPTION BY GOVERNING BOARD**

The Corporation's Investment Policy shall be reviewed and adopted by the Board on no less than an annual basis. Any changes made to the Policy from this review shall be recorded in the adopting resolution of the Board.

**APPROVED BY BOARD:**

Corporation Secretary

\_\_\_\_\_ Date

## **EXHIBIT A**

### **Investment Procedures Kempner Water Supply Corporation**

#### **INVESTMENT PROCESS PROCEDURE**

This general procedure will be used by the Investment Officer(s) and Investment Adviser.

1. Research cash balances daily to determine if funds are available for investment.
2. Review cash flow needs and existing investment maturities to determine appropriate maturity ranges for new investments.
3. Determine the highest yielding authorized investment in the appropriate determined maturity range through market information gathered on-line or through the adviser.
4. Maturities may be shorter than the needed liability date but may not extend beyond the determined maturity date for an operating fund investment. Maturities may be based on investment opportunity in the reserve funds. All investments must fulfill Investment Policy requirements and guidelines.
5. Obtain at least three competitive offers for securities fitting investment chosen parameters. Chose the best alternative investment for the Corporation.
6. Place trade order with the chosen broker/dealer through the Adviser. Document the trade with a trade ticket prepared by the Adviser. A copy of the trade ticket is sent to the Investment Officer(s) for approval signature(s). The approval signature shall be that of the Secretary/Treasurer or General Manager, or both.
7. Electronically forward the trade ticket to the custody section of the bank for the pending settlement for any security to be safe kept at the bank (normally US Treasuries and agencies or commercial paper).
8. Make appropriate general ledger entries to record investment.
9. Match transaction tickets to broker/dealer and bank confirmations and file receipt as received.
10. File statements by maturity date.
11. Review investments monthly to identify upcoming maturities.

#### **COUPON EARNINGS AND MATURITY PROCESS PROCEDURE**

1. If funds are not to be reinvested, add maturity amount to daily cash balance.
2. Make appropriate general ledger entries to record coupon interest or maturity.
3. If funds are to be reinvested, follow investment procedures above for next day settlement.

#### **REPORTING**

1. The Investment Adviser or Investment Officer shall prepare a monthly report on the portfolio(s) on a timely basis in accordance with the Investment Policy.
2. The monthly report will be provided to the General Manager.
3. The quarterly report will be provided to the Board on a timely basis.

EXHIBIT B

KEMPNERWATER SUPPLY CORPORATION  
FINANCIAL INSTITUTION POLICY CERTIFICATION  
Required by Texas Government Code 2256.005(k)



TEXAS PUBLIC FUNDS INVESTMENT ACT  
ACKNOWLEDGMENT OF RECEIPT OF INVESTMENT POLICY

This Acknowledgment is executed on behalf of the Kempner Water Supply Corporation (the "Participant") and Local Government Investment Cooperative ("LOGIC") pursuant to the Public Funds Investment Act, Chapter 2256.005(k), Government Code (the "Act"), in connection with investment transactions conducted between the Participant and LOGIC.

The undersigned qualified representative of LOGIC (the "Qualified Representative") hereby acknowledges on behalf of LOGIC that:

- (i) The Qualified Representative is duly authorized to execute this Acknowledgment on behalf of LOGIC; and,
- (ii) The Qualified Representative has received and reviewed the investment policy provided by the Participant; and,
- (iii) LOGIC has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Participant and LOGIC that are not authorized by the Participant's investment policy, except
  - (a) to the extent that the Participant's investment policy does not reflect the most current requirements for a local government investment pool contained in the Public Funds Investment Act, LOGIC will comply with the most current requirements and;
  - (b) to the extent that this authorization is dependent on an analysis of the makeup of the Participant's entire portfolio, requires an interpretation of subjective investment standards, or relates to investment transactions of the Participant that are not made in LOGIC.

QUALIFIED REPRESENTATIVE

A handwritten signature in blue ink, appearing to read "Mary Ann Dunda", is written over the typed name.

Mary Ann Dunda  
Managing Director, LOGIC Administrator  
Hilltop Securities Inc.  
June 1, 2022

## EXHIBIT C

### KEMPNER WATER SUPPLY CORPORATION AUTHORIZED BROKER/DEALER LIST

The authorized broker/dealer list for Kempner Water Supply Corp is shown below.

In accordance with the Public Funds Investment Act (TX Gov't Code 2256.005(k)) before any broker/dealer transacts business with the Corp it will have had to certify in writing to a review of the Corporation's Investment Policy and have certified that procedures are in place to assure compliance with that policy. Each of these firms, and the individual covering the account, will be sent the adopted Investment Policy and certify to receipt before any transactions are initiated.

The Corporation's Investment Policy establishes specific criteria for the broker/dealers and requires that the list of broker/dealers be approved annually by the Board. *Patterson & Associates* maintains the brokerage compliance files for the Corporation.

When any material changes are made to the Investment Policy the new adopted Policy is sent out for re-certification.

International F.C. Stone  
Merrill Lynch/Bank of America  
Mizuho Securities  
Morgan Stanley  
Mutual Securities  
Piper Sandler & Co.  
Raymond James  
RBC  
Stifel Nicolaus  
Wells Fargo  
Robert W. Baird  
BOK Financial  
Cantor Fitzgerald  
FHN Financial  
Incapital  
Oppenheimer  
USB Financial Services