



San Antonio Water System

San Antonio, Texas

INVESTMENT POLICY

December 2017

1.0 INTRODUCTION

Fiduciary responsibility for the management and safeguarding of the San Antonio Water System's (SAWS) monetary assets resides with the SAWS' Finance Department. SAWS' investment strategy for all investments is to ensure availability of funds to meet cash flow requirements, safeguard and preserve principal, maintain liquidity, practice security diversification, and maximize yield, all within the context of understanding the suitability of each investment and the cash flow requirements of SAWS.

The Investment Policy (the "Policy") for SAWS encompasses a dynamic framework, which, under the direction and approval of the Board of Trustees (the "Board"), provides SAWS with the flexibility and control required to execute investment transactions and manage the investment portfolio. The Policy incorporates the investment guidelines and mandates promulgated in the Texas Public Funds Investment Act (the "Act"), as amended. Daily investment transactions and management of SAWS' invested funds are the responsibility of SAWS' designated Investment Officers within the Finance Department.

As prescribed by the Act, and as authorized by this Policy, pursuant to Board approval, SAWS' designated Investment Officers include the Senior Vice President-Chief Financial Officer, Treasurer, and Manager – Treasury.

2.0 POLICY STATEMENT

This policy is designed to serve as a guideline for the investment of all SAWS' funds by the individuals designated by the Board of Trustees as having the authority and responsibility for making such investments. This policy reflects the concept that SAWS, by law, manages funds defined as public funds.

This policy serves to satisfy the statutory requirements of Texas Government Code Chapter 2256 of the Act, as amended to define and adopt a formal investment policy. This policy will be reviewed and approved by the Board at least annually according to Section 2256.005(e) of the Act.

Provisions of the Investment Policy are designed to be consistent with guidelines set forth in

City Ordinance No. 75686 (the authorizing ordinance of SAWS) which discusses investment of funds under management and control of the Board and are designed to be within the limitations of the Act and any amendments thereto.

SAWS' funds shall be kept and/or invested until required for payment of operating and maintenance expenses, debt service, construction costs, or any other debt or amount rightfully due and owed by SAWS.

Investments shall be made with the primary objectives of (in order of priority):

- Legality - Funds of SAWS shall be invested in accounts or instruments that are provided for by law.
- Safety - Funds of SAWS shall not be invested in accounts or instruments which expose the assets of SAWS to undue or unreasonable risk.
- Liquidity - Funds of SAWS shall be invested in accounts or instruments that mature in such a manner that cash is provided as required to finance daily maintenance and operation expenditures, construction costs, or other asset acquisitions.
- Diversification - SAWS should attempt to reduce investment risk by participating in a variety of authorized investment instruments and financial institutions.
- Yield - Funds of SAWS shall be invested in accounts or instruments that ensure a competitive rate of return after considering all other objectives of the Investment Policy. Active portfolio management may be practiced to enhance portfolio yield without a resulting increase in risk.

When determining the term of an investment, market trends and economic conditions shall be recognized factors within the parameters of projected cash requirements.

3-0. **AUTHORITY FOR INVESTMENT**

Authority for the investment of funds of SAWS in accordance with this policy is placed with the Senior Vice President-Chief Financial Officer, Treasurer and Manager-Treasury.

4-0. **INVESTMENT TRAINING**

The Senior Vice President-Chief Financial Officer, Treasurer, and Manager - Treasury are the designated Investment Officers for SAWS. In order to ensure the quality and capability of investment management in compliance with the Act, SAWS shall provide periodic training in investments for the designated Investment Officers and other investment personnel through courses and seminars offered by professional organizations, associations, and other independent sources. The Investment Officers of SAWS must comply with the following training requirements as required by the Act.

- 4-1. The Investment Officers must attend 10 hours of investment training within 12 months of taking office or assuming investment duties.
- 4-2. The Investment Officer must attend eight hours of investment training within a two year period that begins on the first day of SAWS's fiscal year and consists of the two consecutive fiscal years after that date. The Investment Officer's training must be from an independent source that relates to the Investment Officer's responsibilities and must comply with the Act. This training must include education in investment controls, investment-related risks, portfolio diversification, and compliance with and defined by the Act.

4-3. The independent training source can be from, but is not limited to the following:

- Government Treasurers Organization of Texas (GTOT)
- Texas Municipal League (TML)
- TEXPO
- Government Finance Officers Association (GFOA)
- Government Finance Officer Association of Texas (GFOAT)
- Universities
- Consulting Firms

5-0. **STANDARD OF CARE**

Investment Officers of SAWS who are related by blood or marriage within the second degree by affinity or consanguinity, or have a personal business relationship with a business organization offering to engage in an investment transaction with SAWS, shall file a statement disclosing that relationship or personal business interest with SAWS and the Texas Ethics Commission as required by the Act. 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 capital and the probable income to be derived. Investment of funds shall be governed by the objectives stated in the Policy Statement. 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, or funds under SAWS' control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment and whether the investment decision was consistent with the written approved investment policy of SAWS.

6-0. **PERMISSIBLE TYPES OF INVESTMENTS**

The Act, as subsequently amended, direct and authorize specific investment parameters for the investment of public funds. Listed below are authorized investments by this statute and in which available funds of SAWS may be invested. Investment of SAWS' funds in any instrument or security not authorized for investment under the Act and by this investment policy is prohibited.

- 6-1. Direct obligations, including letters of credit, of the United States or its agencies and instrumentalities.
- 6-2. Direct obligations of the State of Texas or its agencies and instrumentalities.
- 6-3. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by the United States or its agencies and instrumentalities or the State of Texas, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States.
- 6-4. Obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received not less than an "A" rating or its equivalent.
- 6-5. Certificates of Deposit and Share Certificates, where investments in certificates of deposit or share certificates are in accordance with the Act and meets the following criteria:
 - 6-5.1. Certificate of deposit issued by depository institutions that have their main

office or a branch office in the state of Texas that are:

- 6-5.1.1. guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor;
- 6-5.1.2. secured by obligations that are described by sections 6-1 through 6-4 above that have a market value of not less than the principal amount and accrued interest of the certificates.
- 6-5.1.3. secured in any other manner and amount provided by law for deposits of SAWS.

6-5.2. In addition to the authority to invest funds in certificates of deposit as stated above, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment if:

- 6-5.2.1. the funds are invested by SAWS through a depository institution or an approved broker-dealer firm (as required under section 13-4) that (a) has its main office or a branch office in the State of Texas; (b) authorized to offer services through Certificates of Deposit Account Registry Service, "CDARS"; and (c) is selected by SAWS;
- 6-5.2.2. the depository institution or the broker-dealer firm selected by SAWS arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, including out of state. Each of the certificates of deposit will be issued for the account of SAWS as the beneficial owner of the certificate of deposit;
- 6-5.2.3. the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; in effect the Federal Deposit Insurance Corporation (FDIC). Each certificate of deposit will be issued in an amount within the FDIC insurance coverage limit. The total amount of SAWS' investment will be allocated among a number of financial institutions. SAWS' investment will thus be fully protected against the failure of any of the institutions issuing the certificates of deposit;
- 6-5.2.4. the depository institution selected by SAWS or a broker-dealer firm registered with the Securities and Exchange Commission and selected by SAWS shall act as custodian for SAWS with respect to the certificates of deposit issued for the account of SAWS with respect to the certificates of deposit. Under this provision, when the certificates of deposit issued by other institutions to SAWS mature, the payment of the principal and accrued interest will be made by those institutions through the selected depository institution in the state of Texas; and

6-6. Interest-bearing banking deposits that are guaranteed or insured by:

- 6-6.1. the FDIC or its successor; or
- 6-6.2. the National Credit Union Share Insurance Fund or its successor; and

- 6-6.1. Interest-bearing banking deposits other than those described in 6-6, if:
- 6-6.1.1. the funds invested in the banking deposits are invested through:
 - a broker with a main office or branch office in the state of Texas that SAWS selects from an approved list; or
 - a depository institution with a main office or branch office in the state of Texas that SAWS selects;
 - 6-6.1.2. the broker or depository institution selected as described above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for SAWS' account;
 - 6-6.1.3. the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and
 - 6-6.1.4. SAWS appoints as the custodian of the banking deposits issued for SAWS:
 - a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).
- 6-7. Commercial paper with a stated maturity of 270 days or less from its issuance that either:
- 6-7.1. is rated at least "A-1", or "P-1" or the equivalent by at least two nationally recognized credit rating agencies; or
 - 6-7.2. is rated at least "A-1", "P-1" or the equivalent by at least one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States of America.
- 6-8. A fully collateralized repurchase agreement is an authorized investment if the repurchase agreement:
- 6-8.1. has a defined termination date;
 - 6-8.2. is secured by a combination of cash and obligations, including letters of credit, of the United States or its agencies and instrumentalities;
 - 6-8.3. requires the securities being purchased by SAWS or cash held by SAWS to be pledged to SAWS, held in SAWS' name, and deposited at the time the investment is made with SAWS or with a third party selected and approved by SAWS; and
 - 6-8.4. is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas.

A repurchase agreement is a simultaneous agreement to buy, hold for a specific time, and sell back at a future date, obligations, including letters of credit, of the United States or its agencies and instrumentalities, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. A repurchase

agreement includes a direct security repurchase agreement and a reverse security repurchase agreement.

Reverse repurchase agreements must not have a term to exceed 90 days. Money received under the terms of a reverse repurchase agreement may not be used to purchase any investment whose final maturity date exceeds the expiration date of the reverse.

- 6-9. SEC-regulated and registered, no load money market mutual fund with a dollar-weighted average stated maturity of 90 days or fewer, which includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.
- 6-10. No-load mutual funds with a weighted average maturity of up to two years are allowable as long as they are registered with the Securities and Exchange Commission. They must be invested exclusively in obligations authorized by the Act, and are continuously rated by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. Investments in this type of mutual fund may be no more than 15 percent of the total operating funds (excluding bond proceeds, reserves and debt service funds).
- 6-11. Banker's Acceptance with a stated maturity of 270 days or less from its issuance that either:
 - 6-11.1. will be, in accordance with its terms, liquidated in full at maturity; or
 - 6-11.2. is eligible for collateral for borrowing from a Federal Reserve Bank; and
 - 6-11.3. is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.
- 6-12. Investment Pools, such as:
 - TexPool
 - TexPool Prime
 - LOGIC
 - TexStar
 - Texas Class

where SAWS may invest its funds and funds under its control, through an eligible investment pool if the governing body of SAWS by resolution, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from SAWS in authorized investments as stated herein. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with the investment policies and objectives adopted by the investment pool. The investment pool shall invest funds it receives from SAWS in authorized investments as permitted by the Act and meets the following criteria:

- 6-12.1. An investment pool must furnish SAWS an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

- 6-12.1.1. the types of investments in which money is allowed to be invested;
 - 6-12.1.2. the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
 - 6-12.1.3. the maximum stated maturity date any investment security within the portfolio has;
 - 6-12.1.4. the objectives of the pool;
 - 6-12.1.5. the size of the pool;
 - 6-12.1.6. the names of the members of the advisory board of the pool and the dates their terms expire;
 - 6-12.1.7. the custodian bank that will safekeep the pool's assets;
 - 6-12.1.8. whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
 - 6-12.1.9. 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;
 - 6-12.1.10. the name and address of the independent auditor of the pool;
 - 6-12.1.11. the requirements to be satisfied for SAWS to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for SAWS to invest funds in and withdraw funds from the pool;
 - 6-12.1.12. the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios; and
 - 6-12.1.13. the pool's policy regarding holding deposits in cash.
- 6-12.2. An investment pool must maintain its eligibility with SAWS by furnishing the following to SAWS:
- 6-12.2.1. investment transaction confirmations; and
 - 6-12.2.2. a monthly report that contains, at a minimum, the following information:
 - the types and percentage breakdown of securities in which the pool is invested;
 - the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
 - the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
 - the book value versus the market value of the pool's portfolio, using amortized cost valuation;
 - the size of the pool;
 - the number of participants in the pool;
 - the custodian bank that is safekeeping the assets of the pool;
 - a listing of daily transaction activity of SAWS;
 - the yield and expense ratio of the pool, including a

- statement regarding how yield is calculated;
- the portfolio managers of the pool; and
- any changes or addenda to the offering circular.

6-12.3. SAWS by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its funds.

6-12.4. An investment pool shall calculate "Yield" 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.

6-12.5. A public funds investment pool must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1.00 net asset value, when rounded and expressed to two decimal places. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, the governing body of the public funds investment pool shall take action as the body determines necessary to eliminate or reduce to the extent reasonably practicable any dilution or unfair result to existing participants, including a sale of portfolio holdings to attempt to maintain the ratio between 0.995 and 1.005. In addition to the requirements of its investment policy and other forms of reporting, a public funds investment pool shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds. In addition to the requirements in this policy, the public funds investment pool must follow all requirements of the Act.

6-12.6. A public funds investment pool must have an advisory board composed:

6-12.6.1. equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter [791](#) and managed by a state agency; or

6-12.6.2. of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

6-12.7. An investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

6-12.8. If the investment pool operates an Internet website it must provide all information required in the offering circular, transaction confirmations and monthly statements, mark to market data and net asset value on the website.

6-12.9. To maintain eligibility to receive funds from and invest funds on behalf of SAWS, an investment pool must make available to SAWS an annual audited financial statement of the investment pool in which SAWS has funds invested.

6-12.10. If an investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible

level of return based on the smallest level of funds invested.

6-13. Securities Lending Program, where the program must meet the Act requirements and the following criteria:

6-13.1. the value of the securities loaned under the program must be not less than 102 percent collateralized, including accrued income;

6-13.2. a loan made under the program must allow for termination at any time;

6-13.3. a loan made under the program must be secured by:

6-13.3.1. pledged securities authorized by the Act, Section 2256.009;

6-13.3.2. pledged irrevocable letters of credit issued by a bank that is:

- organized and existing under the laws of the United States or any other state; and
- continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent;

6-13.3.3. cash invested in accordance with the Act;

6-13.4. the terms of a loan made under the program must require that the securities being held as collateral be:

6-13.4.1. pledged to SAWS;

6-13.4.2. held in SAWS's name; and

6-13.4.3. deposited at the time the investment is made with SAWS or with a third party selected by or approved by SAWS;

6-13.5. a loan made under the program must be placed through:

6-13.5.1. a primary government securities dealer as defined by 5 C.F.R. Section 6801-102 (f), as that regulation existed on September 1, 2003; or

6-13.5.2. a financial institution doing business in the state of Texas; and

6-13.6. an agreement to lend securities is executed under this section and has a term of one year or less.

6-14. Guaranteed Investment Contract, where the guaranteed investment contract meets the Act requirements and the following criteria:

6-14.1. A guaranteed investment contract is an authorized investment for bond proceeds if the guaranteed investment contract:

6-14.1.1. has a defined termination date;

6-14.1.2. is secured by obligations described by Section 2256.009(a)(1) of the Act, excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract; and

6-14.1.3. is pledged to SAWS and deposited with SAWS or with a third party selected and approved by SAWS.

6-14.2. Bond Proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.

6-14.3. To be eligible as an authorized investment:

6-14.3.1. the governing body of SAWS must specifically authorize guaranteed investment contracts as an eligible investment in the resolution authorizing the issuance of bonds;

6-14.3.2. SAWS must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;

6-14.3.3. SAWS must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;

6-14.3.4. the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and

6-14.3.5. the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

6-15. Overnight investment sweep products that invest in securities stated in Section 6-0, items 6-1 through 6-4.

6-16. An Investment that requires a minimum rating under this section does not qualify as an authorized investment during the period the investment does not have the minimum rating. SAWS shall take all prudent measures that are consistent with this policy to liquidate an investment that does not have the minimum rating.

7-0. MATURITY OF INVESTMENTS

Investments shall have maturities no longer than the date the funds can reasonably be expected to be needed for the purpose for which they are being held. Investments of the Reserve Fund shall be invested to mature no later than the final maturity date of the senior lien or junior lien obligations.

8-0. SECURITY OF INVESTED FUNDS

Investments in Time Deposit Accounts, Certificates of Deposit, Interest Bearing Cash Accounts, and Repurchase Agreements, along with deposits in standard bank depository accounts, shall be fully secured by insurance of the Federal Deposit Insurance Corporation, National Credit Union Share Insurance Fund or by obligations described in Section 6-0, items 6-1 through 6-4.

8-1. All such collateral must be fully documented, approved by an authorized SAWS representative and held at an authorized third party institution. An authorized System representative shall mean person(s) designated by the Board of Trustees by execution

of a formal written authorizing document. With respect to certificates of deposit in which SAWS has invested pursuant to the provisions listed above for CDARS, the depository institution selected by SAWS is an approved third party institution.

- 8-2. The market value of collateral shall at all times equal or exceed the principal amount plus accrued interest on all Time Deposit Accounts or Certificates of Deposit in excess of Federal Deposit Insurance Corporation or National Credit Union Share Insurance Fund coverage. Market value shall mean the bid or closing price as quoted in the most recent "The Wall Street Journal" or as quoted by another recognized pricing service.
- 8-3. Collateral shall either be delivered to SAWS or held in joint safekeeping at the Federal Reserve Bank or at another bank not affiliated with the depositing bank for the account and in favor of the San Antonio Water System Board of Trustees.
- 8-4. Substitutions and decreases in the amount or types of securities pledged as collateral or any other transaction that may decrease the value of the pledge shall have the written approval of the Senior Vice President-Chief Financial Officer, or in the event the Senior Vice President-Chief Financial Officer is not available within a reasonable time under the circumstances, either one of the following: President/Chief Executive Officer, Senior Vice President-Chief Operating Officer, Vice President-General Counsel, and the Vice President-Human Resources prior to their execution.
- 8-5. The type and market value of collateral shall be monitored weekly.
- 8-6. Collateral shall not be required with respect to purchase and investment in direct obligations of the United States of America or its instrumentalities, mutual funds, money market mutual funds, interest bearing cash accounts, commercial paper, or investment pools .

9-0. INVESTMENT TRANSACTIONS

Investment transactions stated in 6-1 through 6-4, are executed through approved Broker/Dealer Firms only, with securities delivered to the designated custodian bank. Investment transactions are settled on a delivery versus payment basis with the exception of investment transactions stated in 6-5 through 6-16. Settlement of trades may be done on a same day or subsequent day basis as the Investment Officers deem most appropriate and advantageous to SAWS.

10-0. LIMITS

There is no limit on the amount that may be invested in U.S. Treasury securities, government-guaranteed securities, or government-sponsored entity securities, with the exception of a maximum of 50% of the total investment portfolio in any one government-sponsored entity issuer. Furthermore, any other investment in non-government issues is limited to 30% of the total investment portfolio unless it is fully collateralized by securities stated in Section 6-0, items 6-1 through 6-4.

11-0. INVESTMENT STRATEGIES

In order to enhance return and fulfill all of the objectives of the Board, the portfolio may be directed toward an active versus a passive investment strategy. The risk-return relationship will be maintained and controlled through direct compliance with this policy. Risks will be

minimized by adequate collateralization and delivery versus payment procedures at all times. The maximum weighted average maturity (WAM) applicable to all SAWS funds will be no more than three (3) years. Investment strategies such as swaps and trading may be considered in order to provide incremental income. However, no strategies which will result in an accounting loss will be transacted without the approval of the Senior Vice President-Chief Financial Officer.

11-1. The following are SAWS's investment strategies for each SAWS fund:

- 11-1.1. System and Operating Funds - Investments should be structured to meet the various operating expenses of SAWS and other costs associated with daily operations. Funds should be invested in instruments that are considered to be safe and short-term in nature with maturities generally no greater than one year. Additionally, these instruments should consist of a diversified group of approved investments that are intended to maximize yield. Instruments should be marketable if the need arises to liquidate them prior to maturity.
- 11-1.2. Debt Service Funds - Investments should be structured to mature in conjunction with SAWS debt service requirements, and to ensure compliance with any pertinent covenants and legal requirements contained in related bond ordinances. Funds should be invested in a diversified group of safe and approved instruments intended to maximize yield and liquidity. All investments must be marketable should the need arise to liquidate them prior to maturity. Due to definitive debt service schedules, the nature of these funds allows for precise forecasting of required cash flows.
- 11-1.3. Reserve Funds - Investments should be structured to pay the principal and interest on any senior lien and/or junior lien bonds if the amounts in the Debt Service Fund are insufficient for such purpose, and may be used for retiring the last of any outstanding senior lien and/or junior lien bonds. Funds should be invested in a diversified group of safe and approved instruments intended to maximize yield and liquidity. All investments must be marketable should the need arise to liquidate them prior to maturity. The maturity of these investments should be based on a structure to mature up to five years.
- 11-1.4. Project and Construction Funds - Investments should be structured to meet SAWS's construction obligations. Funds should be invested in a diversified group of safe and approved instruments intended to maximize yield and liquidity. Investments must be marketable should the need arise to liquidate them before maturity. The maturity of these investments should be based on projections and information related to construction expenditures, with maturity terms coordinated with and timed to meet the construction draw schedule requirements.
- 11-1.5. Renewal & Replacement Funds - Investments should be structured to meet the various capital expenditures of SAWS, along with any unexpected or extraordinary expenses that occur where operating funds are not available. Funds should be invested in a diversified group of safe and approved instruments intended to maximize yield and liquidity. All investments must be marketable should the need arise to liquidate them. The maturity of these

investments should be based on a laddered structure to mature up to two years.

11-1.6. The stated investment strategies must be in accordance with the objectives stated in section 2-0.

12-0. WRITTEN CONTRACTS

Written contracts are required for Time Deposit Accounts, Certificates of Deposit, custodial undertakings, and the initial set up of investment pools and Federally Insured Cash Accounts. With respect to the purchase of direct federal or state obligations of the United States of America and its instrumentalities the interest of SAWS will be adequately protected by conditioning payment on the physical delivery of the purchased securities to SAWS or custodial bank, or in the case of book-entry transactions on the crediting of purchased securities to the custodial bank's Federal Reserve System account held in favor of SAWS. All purchases will be confirmed in writing to SAWS.

13-0. DESIGNATION OF CUSTODIAL BANK

The custodial bank shall be the bank then currently serving SAWS as its general depository bank, or another approved financial institution.

14-0. QUALIFICATIONS OF INVESTMENT PROVIDER

For purposes of this Investment Policy investment providers are defined as a banking corporation, association, individual bank, investment banker, investment advisor, primary registered securities dealer or a regional brokerage firm which underwrites U. S. Government Agency Issues. To qualify as an investment provider a bank must not be in receivership and/or be under the management and control of any Federal or State banking agency. Concentration of investments in only one financial institution should be avoided if at all possible. Securities dealers must be in good standing with the regulatory agencies.

14-1. When direct obligations of the United States of America or the State of Texas are purchased, the seller shall be required to deliver the securities to SAWS or to the custodial bank versus payment.

14-2. There should always be at least three competitive offers or bids from three different Investment Providers for all individual security purchases and sales, excluding transactions with mutual funds, money market mutual funds and investment pools.

14-3. All investment providers will provide a written acknowledgement of receipt and thorough review of SAWS's Investment Policy and will attest to having implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising from investment transactions as required by the Act.

14-4. SAWS will create an internal investment committee that shall, at least annually, review, revise, and adopt a list of qualified brokers/dealers with whom it may do business.

15-0. INVESTMENT MANAGEMENT FIRMS

SAWS may contract with an investment management firm or firms 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, it must be 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 the Board. A written copy of SAWS' investment policy must be given to the investment management firm. An officer or principal of the investment management firm will serve as a qualified representative who will provide SAWS with a written instrument acknowledging receipt and compliance with the investment policy as required by the Act.

16-0. OPERATIONS AND REPORTING

The purchase and sale of securities shall be done through a competitive bid process. Certificates of Deposit may be purchased from the general depository bank. Contracts for purchase of Certificates of Deposit from banks other than the general depository banks shall be established. Deposits into Federally Insured Cash Accounts, Investment Pools, and Money Market Mutual Funds will be made at the discretion of the Investment Officers.

- 16-1. The Senior Vice President-Chief Financial Officer, the Treasurer, and the Manager - Treasury, are authorized to approve and award the purchase of securities and Certificates of Deposit to the best qualified bid.
- 16-2. The Senior Vice President-Chief Financial Officer is authorized to execute contracts for Certificates of Deposit.
- 16-3. The following procedure(s) will be used to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provision in section 6-18.
 - 16-3.1. SAWS will monitor market activity on a continuous basis via financial news made available over e-mail and the internet, as well as live news reports and on-line systems.
 - 16-3.2. Broker/Dealers will also be utilized to provide market information and financial news updates.
 - 16-3.3. Financial periodicals will be pursued as an additional information vehicle to broaden financial and market awareness and knowledge.
- 16-4. One of the following method(s) will be used to monitor the market price of acquired investments:
 - 16-4.1. SAWS may contract with a service provider to furnish online real-time market posting of securities as needed.
 - 16-4.2. At month end, a list of outstanding investments owned by SAWS will be sent to either one of the following entities:
 - 16-4.2.1. SAWS' general depository bank;
 - 16-4.2.2. one of SAWS' approved Broker/Dealer firms;

- 16-4.2.3. any entity contracted by SAWS to provide this service.
- 16-4.3. The selected entity will provide the market price of each security as of month end on the outstanding list and return it to SAWS.
- 16-4.4. SAWS will then use the month end outstanding list to compute the market value of each security and prepare a monthly report displaying all investment activity and balances for all securities and funds.
- 16-5. Not less than quarterly, the Investment Officers shall prepare and submit to the governing body of SAWS a written report of investment transactions of all funds covered by this Policy and the Act, for the preceding reporting period. The report must:
 - 16-5.1. describe in detail the investment position of SAWS on the date of the report;
 - 16-5.2. be prepared and signed jointly by each Investment Officer;
 - 16-5.3. contain a summary statement of each pooled fund group that states the beginning market value for the reporting period, ending market value for the period, and fully accrued interest for the reporting period;
 - 16-5.4. state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;
 - 16-5.5. state the maturity date of each separately invested asset that has a maturity date;
 - 16-5.6. state the account or fund or pooled group fund of SAWS for which each individual investment was acquired;
 - 16-5.7. state the compliance of the investment portfolio of SAWS as it relates to the investment strategy expressed in SAWS' Investment Policy and relevant provisions of the Act; and
 - 16-5.8. the report shall be presented not less than quarterly to the governing body and the President/Chief Executive Officer of SAWS within a reasonable time after the end of the period.

17-0. INVESTMENT POLICY

The investment policy must be reviewed by the governing body of SAWS at least once a year. It will adopt a written instrument reviewing the policy and record the changes made to the policy.