

FORT BEND COUNTY

INVESTMENT STRATEGY STATEMENT

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Fort Bend County, Texas Investment Strategy

I. PURPOSE

It is the policy of Fort Bend County that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State and Federal Regulations, applicable Bond Resolution requirements, adopted Investment Policy and adopted Investment Strategy.

I.1 Priorities

In accordance with the Public Funds Investment Act, County investment strategies shall address the following priorities (in order of importance):

- A. Understanding the suitability of the investment to the financial requirements of the County;
- B. Preservation and safety of principal;
- C. Liquidity;
- D. Marketability of the investment prior to maturity;
- E. Diversification of the investment portfolio; and
- F. Yield.

Effective investment strategy development coordinates the primary objectives of the County's Investment Policy and cash management procedures to enhance interest earnings and reduce investment risk. Aggressive cash management will increase the available "investment period" and subsequently interest earnings. Maturity selections shall be based on cash flow and market conditions to take advantage of various interest rate cycles. The County's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with the Investment Policy.

I.2 Fund Types

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund's unique requirements. County funds shall be analyzed and invested according to the following major fund types:

- A. General Operating Funds
- B. Construction and Capital Improvement Funds
- C. Debt Service Funds

II. INVESTMENT STRATEGY

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:

II.1 General Operating Funds

- A. Suitability – Any investment eligible in the Investment Policy is suitable for the Operating funds.
- B. Safety of Principal – All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the weighted

average days to maturity for the Operating Fund portfolio to less than 270 days and restricting the maximum allowable maturity to two years, the price volatility of the overall portfolio will be minimized. Operating Fund balances at the end of the fiscal year shall have a maximum allowable maturity not to exceed three years.

- C. Marketability – Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market “spreads” between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.
- D. Liquidity – The Operating Fund requires the greatest short-term liquidity of any of the fund types. Short-term investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.
- E. Diversification – Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the County. Market cycle risk will be reduced by diversifying the appropriate maturity structure out through the two years.
- F. Yield – Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury bill portfolio shall be the minimum yield objective.

II.2 Construction and Capital Improvement Funds

- A. Suitability – Any investment eligible in the Investment Policy is suitable for Construction and Capital Improvement Funds.
- B. Safety of Principal – All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the Construction and Capital Improvement Fund’s portfolio to exceed the anticipated expenditure schedule, the market risk of the overall portfolio will be minimized.
- C. Marketability – Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market “spreads” between the bid and offer prices of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.
- D. Liquidity – County funds used for construction and capital improvement programs have reasonably predictable draw down schedules. Therefore, investment maturities shall generally follow the anticipated cash flow requirements. Investment pools and money market mutual funds shall provide readily available funds generally equal to one month’s anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.
- E. Diversification – Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for bond proceeds and other construction and capital improvement funds. With bond proceeds, if investment rates exceed the applicable arbitrage yield, the

County is best served by locking in most investments. If the arbitrage yield can not be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger lumps. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield with any County funds.

- F. Yield – Achieving a positive spread to the applicable arbitrage yield is the desired objective for bond proceeds. Non-bond priced construction and capital project funds will target a rolling portfolio of six-month Treasury bills.

II.3 Debt Service Funds

- A. Suitability – Any investment eligible in the Investment Policy is suitable for the Debt Service Fund.
- B. Safety of Principal – All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will however occur. By managing the Debt Service Fund's portfolio to not exceed the debt service payment schedule, the market risk of the overall portfolio will be minimized.
- C. Marketability – Securities with active and efficient secondary markets are not necessary, as the event of an unanticipated cash requirement is not probable.
- D. Liquidity – Debt service funds have predictable payment schedules. Therefore, investment maturities shall not exceed the anticipated cash flow requirements. Investment pools and money market mutual funds shall provide a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any debt service payment. This investment structure is commonly referred to as a flexible repurchase agreement.
- E. Diversification – Market conditions influence the attractiveness of fully extending maturity to the next “unfunded” payment date. Generally, if investment rates are trending down, the County is best served by locking in most investments. If interest rates are flat or trending up, then concurrent market conditions will determine the attractiveness of extending maturity or investing in shorter alternatives. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.
- F. Yield – Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury bill portfolio shall be the minimum yield objective.