

## PREFACE

It is the policy of the Capital Metropolitan Transportation Authority (CapMetro) that all available funds shall be invested in conformance with these legal and administrative guidelines.

Effective cash management is recognized as essential to good fiscal management. An aggressive cash management and investment policy will be pursued to take advantage of investment interest as viable and material revenue to all operating and capital funds.

CapMetro's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state and federal law.

Investments shall be made with the primary objectives of:

- Preservation of capital and protection of principal
- Maintenance of sufficient liquidity to meet operating needs
- Security of CapMetro funds and investments
- Diversification of investments to avoid unreasonable or unavoidable risks
- Maximization of return on the portfolio

**SECTION I****PURPOSE****I. PURPOSE****A. Authorization**

This Policy is to be authorized by the CapMetro Board of Directors in accordance with Section 2256.005 of the Public Funds Investment Act (Chapter 2256, Texas Government Code) which requires the adoption of a formal written Investment Policy.

**B. Scope**

This Policy shall govern the investment of all funds of CapMetro as entrusted to the Board of Directors and other authorized representatives in accordance with Section 451.101 of the Texas Transportation Code. In addition to this Policy, bond funds, including debt service and reserve funds, shall be managed by their governing resolution and federal law, including the Tax Reform Act of 1986 and subsequent legislation.

**C. Review and Amendment**

This Policy shall be reviewed annually. Amendments must be authorized by the CapMetro Board of Directors.

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**SECTION II**  
**INVESTMENT OBJECTIVES**

**II. INVESTMENT OBJECTIVES**

**A. Safety of Principal**

CapMetro has as its foremost objective to ensure the safety of principal, considering the portfolio as a whole. The manner in which CapMetro ensures safety of principal is presented in Section IV.B., “Ensuring Safety of Principal”.

**B. Maintenance of Adequate Liquidity**

CapMetro’s investment portfolio must be structured in a manner which will provide the liquidity necessary to pay obligations as they become due. Maintenance of adequate liquidity is described in Section IV.C., “Ensuring Liquidity”.

**C. Return on Investments**

Consistent with State law, CapMetro shall seek to optimize return on investments within the constraints of safety and liquidity. Investments (excluding assets managed under separate investment programs, such as in arbitrage restrictive programs) shall be made in permitted obligations at yields equal to or greater than the bond equivalent yield on United States Treasury obligations of comparable maturity. Other appropriate performance measures will be established by the Investment Committee. Specific policies regarding investment rate of return are presented in Section IV.D., “Achieving Investment Return Objectives”.

For bond issues to which Federal yield or arbitrage restrictions apply, the primary objectives shall be to maximize retainable earnings and to minimize the costs associated with investment of such funds.

**D. Prudence and Ethical Standards**

The standard of prudence used by CapMetro shall be the “prudent person rule” and shall be applied in the context of managing the overall portfolio within the applicable legal constraints. The prudent person rule is restated below:

“Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence would

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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.”

In determining whether the Investment Officer(s) or Investment Advisor under contract has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the Officer/Advisor had responsibility rather than a consideration as to the prudence of a single investment, and whether the investment decision was consistent with the written Investment Policy of CapMetro.

Specific policies describing CapMetro’s prudence and ethical standards are found in Section IV.E., “Responsibility and Controls”.

**SECTION III****INVESTMENT STRATEGY STATEMENT****III. INVESTMENT STRATEGY STATEMENT**

CapMetro maintains portfolios of operating and operating reserve funds. Investment strategies for operating and operating reserve funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. This may be accomplished by purchasing quality, short- to medium-term securities that will complement each other in a laddered or barbell maturity structure. The dollar weighted average maturity of 548 days or less for the combined investment portfolios will be calculated using the stated final maturity dates of each security. Securities may not be purchased that have a final stated maturity date which exceeds five years. Additional guidelines for specific investment portfolios include:

- A. General Fund - All securities identified in IV. A. Eligible Investments are suitable for the General Fund. Securities purchased for the General Fund will be laddered out with an average maturity of no more than one year.
- B. Budget Stabilization Reserve - All securities identified in IV. A. Eligible Investments are suitable for the Budget Stabilization Reserve. The portfolio may be invested for a maximum average maturity of no more than two years.
- C. Statutory Operating Reserve - All securities identified in IV. A. Eligible Investments are suitable for the Statutory Operating Reserve. The portfolio may be invested for a maximum average maturity of no more than two years.
- D. Project Specific Accounts - Project specific investment portfolio may be created from time to time for the investment of specific capital projects. All securities identified in IV. A. Eligible Investments are suitable and all investments must be scheduled to mature before any forecast cash flow. Currently, the Austin Mobility Portfolio has been established as a specific investment portfolio.

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**SECTION IV**  
**INVESTMENT POLICIES**

**IV. INVESTMENT POLICIES**

**A. Eligible Investments**

Investments described below are those authorized by the Public Funds Investment Act (Chapter 2256, Texas Government Code), as amended, which is included and made a part of this Policy as Appendix A. The following list may not contain all of those securities that are authorized by state statutes, but only those that the Board of Directors wish to include in the CapMetro's portfolios. The purchase of specific issues may at times be further restricted or prohibited because of current market conditions. CapMetro funds governed by this Policy may be invested in:

1. Obligations of the United States or its agencies and instrumentalities.
2. Direct Obligations of the State of Texas.
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities.
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 a rating of not less than A or its equivalent.
5. Bankers' Acceptances with a stated maturity of 270 days or less from the date of its issuance that will be, in accordance with its terms, liquidated in full at maturity; is eligible for collateral for borrowing from a Federal Reserve Bank; and 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. Commercial paper with a stated maturity of 365 days or less from the date of its issuance that either:
  - a. Is rated not less than A-1, P-1, or the equivalent by at least two nationally recognized credit rating agencies; or,

- b. 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 or any state thereof.
7. Fully collateralized repurchase agreements having a defined termination date, placed through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas, and secured by obligations described by 1 above (the principal and interest on which are guaranteed by the United States or any of its agencies), pledged with a third party selected or approved by CapMetro and having a market value (including accrued interest) of no less than the principal amount of the funds disbursed.
  8. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this State or the United States or their respective agencies and instrumentalities, 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.
  9. SEC-regulated, no load money market mutual funds with a dollar-weighted average stated portfolio maturity of 60 days or less and whose investment objectives include seeking to maintain a stable net asset value of \$1 per share. No more than 50% of CapMetro's average fund balance may be invested in money market mutual funds and may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market mutual fund. Money market mutual funds are to be rated AAA-m or equivalent by on Nationally Recognized Statistical Rating Organization ("NRSRO").
  10. Local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Act) as amended, whose assets consist exclusively of the obligations that are allowed as a direct investment for funds subject to the Public Funds Investment Act (Chapter 2256, Texas Government Code). A public funds investment pool must be continuously rated no lower than AAA, AAA-m or at an equivalent rating by at least one nationally recognized rating service and follow all applicable requirements of the Public Funds Investment Act.

Compensating balances may be held at CapMetro’s depository institution provided that market conditions or other factors, such as the depository institution’s earnings credit rate or cost of services, provides an economic benefit to CapMetro that helps to optimize return while maintaining adequate liquidity.

Investments in collateralized mortgage obligations are strictly prohibited. These securities are also disallowed for collateral positions. CapMetro will not be required to liquidate investments that were authorized investments at the time of purchase.

Settlement of all investment transactions, except those transactions involving investments in mutual funds or local government investment pools, must be made on a delivery versus payment basis.

## B. Ensuring Safety of Principal

Ensuring safety is accomplished through protection of principal and safekeeping.

### 1. Protection of Principal

CapMetro shall seek to control the risk of loss due to the failure of a security issuer or guarantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the Policy, by qualifying the broker/dealer and financial institution with whom CapMetro will transact, by collateralization as required by law, by portfolio diversification and by limiting maturity.

CapMetro will seek to control the risk of loss due to failure of issuers of commercial paper by monitoring the ratings of portfolio positions to ensure compliance with the rating requirements imposed by the Public Funds Investment Act. Should an issuer experience a single step downgrade of its credit rating by a nationally recognized credit rating agency within 90 days of the position’s maturity, the Investment Officer(s) may approve holding the paper to maturity. If the subject paper matures beyond the 90-day period or if the credit rating downgrade exceeds a single step, it will be CapMetro’s policy to convene an emergency meeting of the Investment Committee to determine whether liquidation of the position is warranted. This meeting should take place within 24 hours of notification or discovery of the credit downgrade.

The purchase of individual securities shall be executed “delivery versus payment” (“DVP”) through the Federal Reserve System. By so doing, CapMetro funds are not released until CapMetro has received, through the Federal Reserve wire, the securities purchased.



a. **Approved Broker/Dealers/Financial Institutions**

Investments shall only be made with those firms and institutions who have acknowledged receipt and understanding of CapMetro’s Investment Policy. The “qualified representative” of the business as defined in Chapter 2256 of the Texas Government Code shall execute a written certification to acknowledge receipt of CapMetro’s Investment Policy and to acknowledge that the organization has implemented reasonable procedures and controls to preclude imprudent investment activities arising out of the investment transactions conducted between the entity and CapMetro. Should CapMetro contract with an external investment advisor to execute the Authority’s investment strategy, including the negotiation and execution of investment transactions, a managing officer of the investment advisory firm may sign the written certification in lieu of the broker/dealer firms. This certification must be included as part of the investment advisory contract.

Securities, certificates of deposit and share certificates shall only be purchased from those institutions included on CapMetro’s list of broker/dealers, banks, savings banks and credit unions as approved by the Investment Committee. This list of approved investment providers must be reviewed at least annually by CapMetro’s Investment Committee.

b. **Master Repurchase Agreement**

It is the policy of CapMetro to require each issuer of repurchase agreements to sign a copy of the CapMetro Master Repurchase Agreement. An executed copy of this agreement must be on file before CapMetro will enter into any repurchase agreement with an issuer. (See Appendix B “Master Repurchase Agreement.”)

Note: CapMetro does not currently enter into repurchase agreements. The Master Repurchase Agreement previously attached to the Investment Policy expired in 2009. If CapMetro’s investment officers and advisor recommend the use of repurchase agreements in the future, a new Master Purchase Agreement will be drafted and brought to the Board of Directors for consideration.

c. **Collateralization**

Consistent with the requirements of State law, CapMetro requires all banks, savings banks and credit union deposits to be federally insured or collateralized with eligible securities. Financial institutions serving as CapMetro Depositories will be required to sign an Agreement with CapMetro

and its safekeeping agent for the collateral, perfecting CapMetro’s rights to the collateral in case of default, bankruptcy or closure. CapMetro shall not accept, as depository collateral, any security that is not specifically allowed to be held as a direct investment by the CapMetro portfolio (see W.A.). Repurchase agreements must also be collateralized in accordance with State law. Each issuer of repurchase agreements is required to sign a copy of CapMetro’s Master Repurchase Agreement. An executed copy of this agreement must be on file before CapMetro will enter into any repurchase agreements with an issuer. (See Appendix B, “Master Repurchase Agreement”.)

(1) Allowable Collateral

(a) Certificates of Deposit/Share Certificates

Eligible securities for collateralization of deposits are defined by the “Public Funds Collateral Act” (Chapter 2257, Texas Government Code) which is included and made a part of the Policy as Appendix A. The eligibility of specific issues may at times be restricted or prohibited because of current market conditions.

(b) Repurchase Agreements

Collateral underlying repurchase agreements is limited to U.S. government and agency obligations, which are eligible for wire transfer (i.e. book entry) to CapMetro’s designated safekeeping agent through the Federal Reserve System.

(2) Collateral Levels

Collateral is valued at current market plus interest accrued through the date of valuation.

(a) Certificates of Deposit/Share Certificates

The market value of collateral pledged for certificates of deposit/share certificates must at all times be equal to or greater than the par value of the certificate of deposit plus accrued interest, less the amount insured by the FDIC, FSLIC or the National Credit Union Share Insurance Fund or their successors.

(b) Repurchase Agreements

The market value of collateral required to be pledged for repurchase agreements shall be a percentage of the par value of the agreement plus accrued interest and shall be maintained at the following levels:

<u>Collateral Maturity</u>	<u>U.S. Treasury Securities</u>	<u>U.S. Government Agency</u>
1 year or less	101%	101%
1 year to 5 years	102%	102%
Over 5 years	103%	104%

**(3) Monitoring Collateral Adequacy**

**(a) Certificates of Deposit/Share Certificates**

CapMetro requires monthly reports with market values of pledged securities from all financial institutions with which CapMetro has certificates of deposit/share certificates. CapMetro’s Investment Advisor will at least weekly monitor the adequacy of collateral.

**(b) Repurchase Agreements**

Weekly monitoring by CapMetro’s Investment Advisor of all collateral underlying repurchase agreements is required. More frequent monitoring may be necessary during periods of market volatility.

**(4) Margin Calls**

**(a) Certificates of Deposit/Share Certificates**

If the collateral pledged for a certificate of deposit or share certificate falls below the par value of the deposit, plus accrued interest less FDIC, FSLIC or National Credit Union Share Insurance, the institution will be notified by CapMetro or its Investment Advisor and will be required to pledge additional securities no later than the end of the next succeeding business day.

**(b) Repurchase Agreements**

If the value of the collateral underlying a repurchase agreement falls below the margin maintenance levels specified above, CapMetro or its Investment Advisor will make a margin call unless the repurchase agreement is scheduled to mature within five business days and the

amount is deemed to be immaterial.

**(5) Collateral Substitution**

Collateral investments, certificates of deposit and share certificates often require substitution of collateral. Any broker or financial institution requesting substitution must contact the Investment Officer(s) or the external Investment Advisor under contract for approval and settlement. The substituted collateral’s value will be calculated and substitution approved if its value is equal to or greater than the required value (See IV.B1.c(2)(b)). The Investment Officer(s) or Investment Advisor must give immediate notification of the decision to the bank or the safekeeping agent holding the collateral. Substitution is allowable for all transactions, but should be limited, if possible, to minimize potential administrative problems and transfer expense. The Investment Officer(s) or Investment Advisor may limit substitution and assess appropriate fees if substitution becomes excessive or abusive.

**(6) Collateral Reductions**

Should the collateral’s market value exceed the required amount, any broker or financial institution may request approval from the Investment Officer(s) or the external Investment Advisor under contract to reduce collateral. Collateral reductions may be permitted only if CapMetro’s records indicate that the collateral’s market value exceeds the required amount.

**d. Portfolio Diversification**

Risk of principal loss in the portfolio as a whole shall be minimized by diversifying investment types according to the following limitations. As discussed below, these limitations do not apply to bond proceeds.

Investment Type:	% of Portfolio
• Repurchase Agreements	50%
• Certificate of Deposit	20%
• Share Certificates	5%
• U.S. Treasury Notes/Bond/Bills	100%
• U.S. Agencies	60%
• Money Market Mutual Funds	50%
• Local Government Investment Pools	100%
• Commercial Paper	30%
• Banker’s Acceptance	15%

It is the policy of CapMetro to diversify its investment portfolio so that reliance on any one issuer or broker will not place an undue financial burden on CapMetro. Generally, CapMetro should limit its repurchase agreement exposure with a single firm to no more than 15% of the value of CapMetro's overall portfolio and its commercial paper and bankers' acceptance exposure with a single issuer to no more than 5% of the value of CapMetro's overall portfolio. To allow efficient and effective placement of proceeds from any bond sales, these limits may be exceeded for a maximum of five business days following the receipt of bond proceeds.

(1) Bond Proceeds

Proceeds of a single bond issue may be invested in a single security or investment if the Investment Committee determines that such an investment is necessary to comply with Federal arbitrage restrictions or to facilitate arbitrage record keeping and calculation.

e. Limiting Maturity

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. Maturity guidelines by funds are as follows:

(1) General Funds

The dollar weighted average days to final stated maturity shall be 548 days or less. The Investment Advisor will monitor the maturity level and make changes as appropriate.

(2) Bond Proceeds, Bond Reserves, Debt Service Funds

The investment maturity of bond proceeds (including reserves and debt service funds) shall be determined considering:

- (a) the anticipated cash flow requirements of the funds, and;
- (b) the "temporary period" as defined by Federal tax law during which time bond proceeds may be invested at an unrestricted yield. After the expiration of the temporary period, bond proceeds subject to yield restriction shall be invested considering the anticipated cash flow requirements of the funds.

## 2. Safekeeping

### a. Safekeeping Agreement

CapMetro shall contract with a bank or banks for the safekeeping of securities either owned by CapMetro as a part of its investment portfolio or held as collateral to secure certificates of deposits, share certificates or repurchase agreements.

### b. Safekeeping of Certificate of Deposit/Share Certificate Collateral

All collateral securing bank, savings banks and credit union deposits must be held by a third party banking institution approved by CapMetro, or collateral may be held at the Federal Reserve Bank.

### c. Safekeeping of Repurchase Agreement Collateral

The securities which serve as collateral for repurchase agreements with dealers must be delivered to a third-party custodian with which CapMetro has established a third-party safekeeping agreement.

## C. Ensuring Liquidity

Liquidity shall be achieved by investing in securities with active secondary markets and by investing in eligible money market mutual funds (MNIMF's) and local government investment pools (LGIP's).

A security may be liquidated to meet unanticipated cash requirements, to re-deploy cash into other investments expected to outperform current holdings, or to otherwise adjust the portfolio.

## D. Achieving Investment Return Objectives

Investment selection for all funds shall be based on legality, appropriateness, liquidity, and risk/return considerations. The portfolios shall be actively managed to enhance overall interest income. Active management will take place within the context of the "Prudent Person Rule." (See Section MD.).

### 1. Securities Swaps

CapMetro will take advantage of security swap opportunities to improve portfolio yield. A swap which improves portfolio yield may be selected even if the transaction results in an accounting loss.

## 2. Competitive Bidding

It is the policy of CapMetro to require competitive bidding for all individual security purchases except for those transactions with money market mutual funds (MMMF's) and local government investment pools (LGIP's) which are deemed to be made at prevailing market rates, and for government securities purchased at issue through a primary dealer at auction price. Rather than relying solely on yield, investment in MMMF's and LGIP's shall be based on criteria determined by the Investment Committee, including adherence to Securities and Exchange Commission (SEC) guidelines for MMMF's when appropriate.

At least three bidders must be contacted in all transactions involving individual securities. Competitive bidding for security swaps is also required. Bids may be solicited in any manner provided by law. For those situations where it may be impractical or unreasonable to receive three bids for a transaction due to a rapidly changing market environment or to secondary market availability, documentation of a competitive market survey of comparable securities or an explanation of the specific circumstance must be included with the daily bid sheet. All bids received must be documented and filed for auditing purposes.

## 3. Methods of Monitoring Market Price

The methods/sources to be used to monitor the price of investments that have been acquired with public funds shall be from sources deemed reliable by the Investment Advisor, including primary or regional broker/dealers, market information vendors such as Bloomberg or Telerate and market pricing services.

## E. Responsibility and Controls

### 1. Authority to Invest

The authority to invest CapMetro funds and the execution of any documentation necessary to evidence the investment of CapMetro funds is granted to the Investment Advisory firm under current contract and those CapMetro personnel authorized as Investment Officers. The 'CapMetro Board of Directors will designate in writing those CapMetro personnel ("Investment Officers") authorized to invest on behalf of CapMetro.

### 2. Establishment of Internal Controls

The Chief Financial Officer will establish a system of internal controls over the investment activities of CapMetro and document such control in the Investment Procedures Manual.





### 3. Prudent Investment Management

The designated Investment Officers shall perform their duties in accordance with the adopted Investment Policy and procedures set forth in the Investment Procedures Manual. Investment Officers acting in good faith and in accordance with these Policies and Procedures shall be relieved of personal liability.

### 4. Standard of Ethics

The designated Investment Officers shall adhere to CapMetro's ethics policies.

### 5. Training and Education

In accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code), the designated Investment Officers, or those personnel authorized to execute investment transactions, shall attend at least one investment training session annually. State law requires that training relating to investment responsibilities must be provided by an independent source as approved by the Investment Committee. Personnel authorized to execute or approve investment transactions must receive at least 10 hours of investment training within each two-year period.

### 6. Investment Committee

An Investment Committee shall be established to determine investment guidelines, general strategies, and monitor performance. Members of the Investment Committee will include the Investment officers and a representative of the external investment advisory firm. The Committee may also include one additional member, as designated by the CapMetro Board of Directors. The Committee shall meet quarterly to review performance, strategy and procedures.

## F. Reporting

Investment performance is continually monitored and evaluated by the Investment Advisor. The Investment Advisor will provide detailed reports, as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code), Section 2256.023, for the General Manager, the Chief Financial Officer, the Board of Directors and the Investment Committee on a quarterly basis.

The report will outline conformance to the restrictions of the Policy in the area of diversification and term of maturity. The report will also compare the performance of CapMetro's portfolio to appropriate benchmarks as determined by the Investment Committee. The report will include an economic summary discussing interest rate trends, investment strategy and any other information deemed appropriate by the Chief

Financial Officer or the Investment Committee.

#### G. Compliance Audit

In conjunction with its annual financial audit, CapMetro shall perform a compliance audit of management controls on investments and adherence to CapMetro's established Investment Policies. The results of the audit shall be reported to the Investment Committee and the CapMetro Board of Directors.

#### H. Certification

A copy of this Investment Policy will be provided to the senior management of any bank, dealer, broker or investment advisor wishing to transact investment business directly with CapMetro in order that it is apprised of the investment goals of CapMetro. Before business is transacted with the firm, a certification (Appendix C) must be signed by a senior member of a firm. Should CapMetro contract with an external investment advisor to execute the Authority's investment strategy, including the negotiation and execution of investment transactions, a managing officer of the investment advisory firm may sign the written certification in lieu of the broker/dealer firms. Certifications will be provided on an annual basis immediately following the re-adoption of this Investment Policy by the Board of Directors.

**APPENDIX**

- A. INVESTMENT LEGISLATION
- B. MASTER REPURCHASE AGREEMENT (repurchase agreements not currently utilized, see note in Section IV.B, Ensuring Safety of Principal).
- C. BROKER/DEALER CERTIFICATION