Memorandum

CITY OF DALLAS

DATE October 23, 2009

TO Members of the Budget, Finance & Audit Committee:
Chair Jerry Allen, Vice-Chair Ann Margolin, Vonciel Jones Hill, Angela Hunt, Delia Jasso, Ron Natinsky, David Neumann

SUBJECT Annual Investment Policy Review and Discussion of Investment Strategies

The October 26, 2009 Budget, Finance & Audit meeting agenda includes a briefing of the Annual Investment Policy Review and Investment Strategies. Attached is a copy of the briefing, the redline copy of the recommended 2009 Investment Policy (to show changes from the 2008 policy) and the recommended 2009 Investment Policy.

David Cook
Chief Financial Officer

c: Honorable Mayor & Members of the City Council
Mary K. Suhm, City Manager
Ryan S. Evans, First Assistant City Manager
Jill A. Jordan, P.E., Assistant City Manager
A.C. Gonzalez, Assistant City Manager
Forest E. Turner, Assistant City Manager
Craig Kinton, City Auditor

CITY OF DALLAS

ANNUAL INVESTMENT POLICY REVIEW
DISCUSSION OF INVESTMENT STRATEGIES

BUDGET, FINANCE & AUDIT COMMITTEE

October 26, 2009

BACKGROUND

- City Council adopted the original investment policy in 1987.
- The Texas Public Funds Investment Act (PFIA) requires City Council, not less than annually, to review the investment policy and approve any changes.
- City Council approved the current investment policy on November 10, 2008.

BACKGROUND

- Changes in the investment policy are typically made:
  - To incorporate amendments to the Texas Public Funds Investment Act
  - To improve management of the City's investments
  - To increase diversification and reduce risk
  - To reflect organizational changes within the City

BACKGROUND

- Characteristics of the City's investment policy:
  - Guides the investment process
  - Emphasizes safety, liquidity and yield in that order
  - Complies with all state and federal laws governing management of public funds

INVESTMENT POLICY AMENDMENTS

The following are highlights of changes recommended by the Investment Committee (see the attached policy for details):

- **Section 1 – Policy**
  - Replace "the best commensurate yield" with "optimize interest earnings to the maximum extent possible" to match investment strategy.

INVESTMENT POLICY AMENDMENTS

- **Section 2 – Scope**
  - Clarify that City-established non-profit corporations follow the City's investment policy if the corporation has not adopted its own policy. Clarify that additional investment authority may be provided by governing documents authorizing the issuance of bonds either by the City or by a non-profit corporation established by the City.

INVESTMENT POLICY AMENDMENTS

- **Section 3 – Objective**
  - Revise Section 3.1 ("Safety") to include methods to mitigate credit risk and interest rate risk.
  - Revise Section 3.2 ("Liquidity") to include methods to maintain sufficient liquidity.
  - Revise section 3.3 ("Yield") to replace "the best yield" with "a market rate of return" to match investment strategy.

INVESTMENT POLICY AMENDMENTS

- **Section 8 – Authorized and Suitable Investments**
  - Revise Section 8.2 to replace "City Council-approved depository" with "a bank or credit union that has its main office or branch office within the City".
  - Revise Section 8.4 to move collateral requirements for repurchase agreements to the section authorizing investment. Revise eligible collateral and collateral margins for repurchase agreements to reflect current market conditions.

INVESTMENT POLICY AMENDMENTS

- **Section 8 – Authorized and Suitable Investments**
  - Add Section 8.5 to authorize a securities lending program, which will comply with all PFIA and Internal Revenue Code requirements related to counterparties, loan terms, eligible collateral, safekeeping of collateral, and investment of collateral.

INVESTMENT POLICY AMENDMENTS

- **Section 11 – Collateralization of Deposits**
  - Revise eligible collateral and collateral margins to reflect current market conditions.
    - Add mortgage-backed securities issued directly by a U.S. Government agency or instrumentality.
- **Section 17 – Investment Strategies**
  - Revise Section 17.1 ("Investment Pool Strategy") to replace "the best feasible yield" with "a market rate of return" to match investment strategy.

AUTHORIZE TexSTAR

- Authorize by separate resolution an additional local government investment pool to increase diversification
- Texas Short Term Asset Reserve Program (TexSTAR)
  - Established in 2002, TexSTAR has 695 participants and over $5 billion in assets
  - Rated AAAm by Standard & Poor's
  - Functions as a money market mutual fund investing in U.S. Government securities
  - Joint venture between JPMorgan Investment Management, Inc. and First Southwest Asset Management, Inc.

INVESTMENT STRATEGIES

- "As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control."

  Chapter 2256.005(d), Texas Public Funds Investment Act

INVESTMENT STRATEGIES

- Cash flow needs determine the appropriate investment strategy
  - Short term – current needs (0 to 1 year)
  - Medium term – liability matching horizon (1 to 3 years)
  - Long term – dedicated purpose (3 to 5 years)

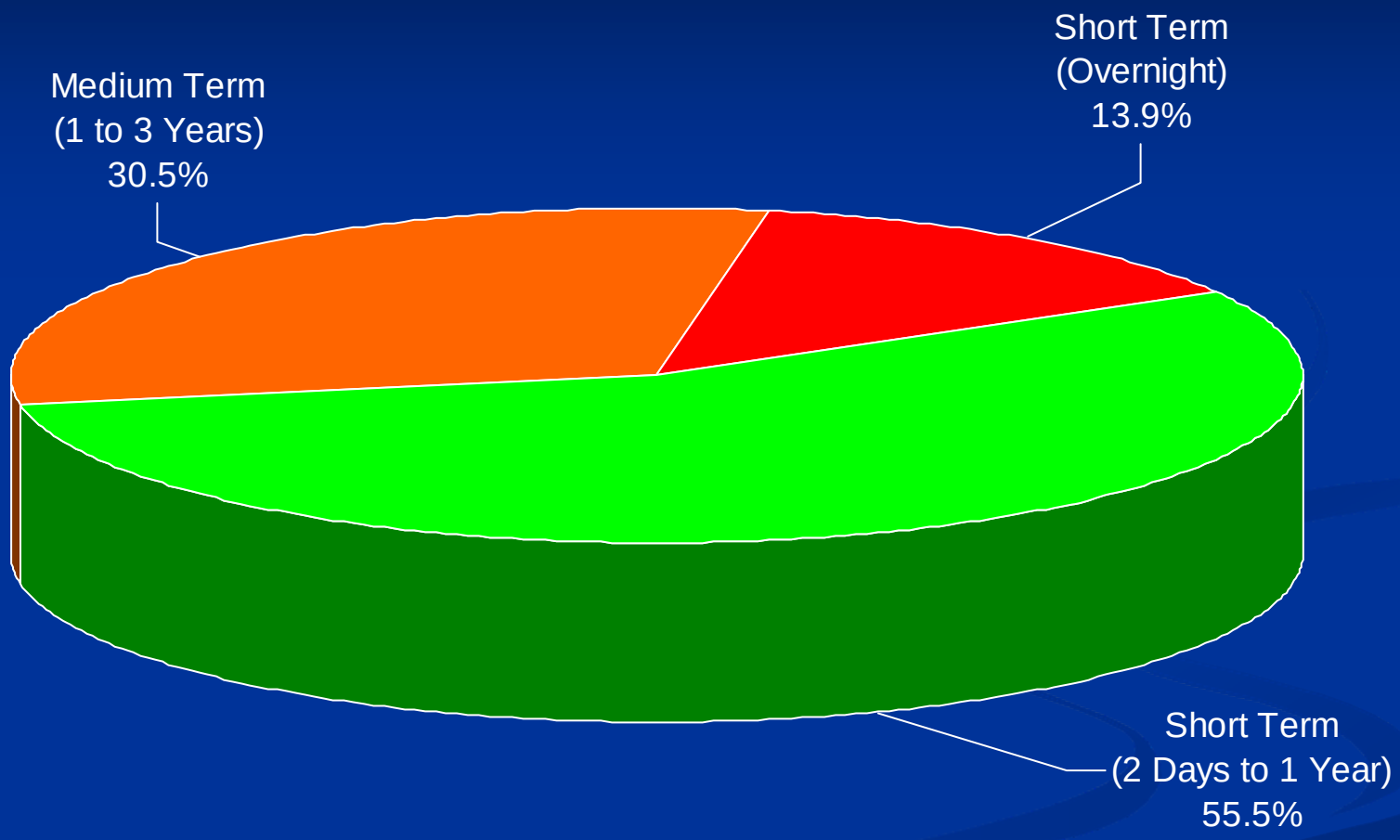
INVESTMENT POOL STRATEGY

- The majority of City revenues are pooled internally for investment
  - Tax receipts
  - Enterprise fund revenues
  - Fine and fee revenues
  - Some bond proceeds, grants and gifts

INVESTMENT POOL STRATEGY

- Objectives
  - Keep adequate liquidity to meet short term needs
    - Money market mutual funds
    - Local government investment pools
    - Short term securities with maturities of less than 1 year
  - Match medium term investments to known future cash flow needs (payroll, debt service payments, etc.)
    - U.S. treasury and agency securities
  - Limit weighted average maturity of the pool to 1.5 years

INVESTMENT POOL STRATEGY
PORTFOLIO BY MATURITY AS OF 9/30/09



BOND RESERVE FUND STRATEGY

- Some bond reserve funds are invested separately
- Objectives
  - Use long term investments to optimize interest earnings
    - Subject to rebate under federal tax regulations
  - Keep investment market values at levels required by bond ordinances
    - U.S. treasury and agency securities
  - Keep investment maturities less than final maturity of the bonds
    - Investment policy limits maximum maturity to 5 years

Key Dates

- Investment Committee review and recommendation – October 21, 2009
- Budget, Finance & Audit Committee briefing – October 26, 2009
- Council consideration of the City's investment policy and resolution authorizing TexSTAR – November 9, 2009

CITY OF DALLAS

INVESTMENT POLICY

As adopted by City Council
November ~~10~~ 9, ~~2008~~ 2009

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1.0 Policy

It is the policy of the City of Dallas to invest public funds in a manner which will provide ~~maximum~~ security and optimize interest earnings to the maximum extent possible ~~and the best commensurate yield~~ while meeting the daily cash flow demands of the City and conforming to all federal, state and local statutes, rules and regulations governing the investment of public funds. This Policy sets forth the investment program of the City of Dallas and the guidelines to be followed in achieving its objectives.

Not less than annually, City Council shall adopt a written instrument by resolution stating that it has reviewed the Investment Policy and investment strategies and that the written instrument so adopted shall record any changes made to the Investment Policy or investment strategies.

2.0 Scope

This Policy governs the investment of all funds of the City except those that are ~~not managed by authority of City Council.~~ identified in Section 2.2 below. With respect to the funds of non-profit corporations that are established by City resolution and act ~~as instrumentalities of the City~~ on behalf of the City in accordance with State law, ~~Council recommends that the City's Investment Policy be followed.~~ this Policy shall prevail in the absence of a specific investment policy adopted by the non-profit corporation. In addition to this Policy, the investment of bond proceeds and other bond funds (including debt service and reserve funds) of the City or of a non-profit corporation established by City resolution and acting on behalf of the City in accordance with State law shall be governed and controlled by their governing ordinance, resolution or trust indenture, including the authorization of eligible investments, and by the provisions of the ~~Tax Reform Act~~ Internal Revenue Code of 1986, as amended, including all regulations and rulings promulgated thereunder applicable to the issuance of tax-exempt obligations.

2.1 All funds are managed as a pooled fund group with the exception of the following, which are managed as separately invested assets:

- 2.1.1 Bond Funds - funds established with the proceeds from specific bond issues when it is determined that segregating these funds from the pooled funds portfolio will result in maximum interest earnings retention under the provisions of the ~~Tax Reform Act~~ Internal Revenue Code of 1986~~, as amended~~
- 2.1.2 Bond Reserve Funds - funds set at prescribed levels by certain bond ordinances to pay principal and/or interest if required to prevent default.
- 2.1.3 Endowment Funds - funds given to the City with the instructions that the principal is to remain intact, unless otherwise agreed to, and the income generated by the investments will be used for specified purposes.
- 2.1.4 Commercial Paper Funds - unexpended proceeds from the issuance of ~~Water Utilities~~ commercial paper notes (e.g., commercial paper notes issued for the benefit of Dallas Water Utilities).

2.2 Funds not governed by this Policy include:

- 2.2.1 Employees' Retirement Fund
- 2.2.2 ~~Firemen, Policemen, and Fire Alarm Operator's~~ Dallas Police and Fire Pension ~~Funds~~ System
- 2.2.3 Deferred Compensation Funds
- 2.2.4 Hale-Davis and W.W. Samuell Express Charitable Trusts

3.0 Objective

Investment of the funds covered by this Policy shall be governed by the following investment objectives, in order of priority:

3.1 **Safety**: Safety of principal is the primary objective of the Investment Policy. Investment of the City's funds shall be undertaken in a manner that seeks to ensure the preservation of capital for the overall portfolio. ~~To attain this objective, investment in only high quality securities and diversification are required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio~~ The objective will be to mitigate credit risk and interest rate risk.

The City will mitigate credit risk, which is the risk of loss due to the failure of the issuer or backer, by:

- Limiting investments to the types listed in Section 8.0 ("Authorized and Suitable Investments") of this Policy
- Qualifying the broker/dealers and financial institutions with which the City may engage in an investment transaction in accordance with Section 9.0 ("Authorized Broker/Dealers and Financial Institutions)
- Diversifying the investment portfolio so that the impact of potential losses from any one type of investment or from any one individual issuer will be minimized (see Section 13.0 "Diversification and Maximum Maturities").

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar local government investment pools and limiting the weighted average maturity of the portfolio in accordance with this Policy (see Section 17.0 "Investment Strategies").

3.2 **Liquidity**: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. A portion of the portfolio will be placed in money market mutual funds or local government investment pools offering same-day liquidity to meet unanticipated demands.

3.3 **Yield**: The City's investment portfolio shall be designed with the objective of attaining ~~the best yield~~ a market rate of return, throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

4.0 Delegation of Authority

The Chief Financial Officer, under the direction and authority of the City Manager, shall direct the cash management program of the City as defined in Section 2-134, "Duties of the Chief Financial Officer", Chapter 2 "Administration" of the Dallas City Code, as amended. City Council shall designate the Chief Financial Officer, City Controller, and the Assistant Director/Treasury Manager as Investment Officers responsible for the investment of its funds, under the direction and authority of the City Manager.

The City's Investment Officers shall establish written procedures for the operation of the investment program consistent with this Investment Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the written procedures. Authority granted to a person to invest the City's funds is effective until rescinded or until termination of the person's employment by the City. The Investment Officers shall be responsible for all transactions undertaken and shall establish a system of controls, to be reviewed by the City Auditor, to regulate the activities of subordinate officials. In order to assure quality and capability of investment management, the Investment Officers shall possess sufficient working knowledge of economics and securities markets, as well as the supervisory experience and judgment necessary to carry out the responsibilities outlined in this Policy.

5.0 Prudence

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 probable income to be derived.

5.1 The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment Officers acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

5.2 In determining whether an investment official 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 official had responsibility rather than consideration as to the prudence of a single investment and, whether the investment decision was consistent with the City's Investment Policy and written investment procedures.

6.0 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

6.1 Officers and employees involved in the investment process shall sign annual statements agreeing to abide by this section of the Investment Policy and affirming no known conflicts of interest.

6.2 Officers and employees involved in the investment process must file a disclosure statement with the Texas Ethics Commission and City Council if:

a) the officer or employee has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or
b) the officer or employee is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the City.

6.3 An officer or employee involved in the investment process has a personal business relationship with a business organization if:

a) the officer or employee owns 10 percent or more of the voting stock or shares of the business organization or owns $5,000 or more of the fair market value of the business organization;
b) funds received by the officer or employee from the business organization exceed 10 percent of his/her gross income for the previous year; or

c) the officer or employee has acquired from the business organization during the previous year investments with a book value of $2,500 or more for his/her personal account.

7.0 Training

The Investment Officers and the persons authorized to execute investment transactions shall attend at least one investment training session within 12 months after taking office or assuming duties and receive not less than 10 hours of instruction relating to investment responsibilities every two years. Training must be received from an independent source approved by the City's Investment Committee and must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with the Public Funds Investment Act.

8.0 Authorized and Suitable Investments

City funds governed by this Policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act).

~~Investments not listed below, including collateralized mortgage obligations and reverse repurchase agreements, are strictly prohibited. In addition, the Investment Officers may at times restrict or prohibit the purchase of specific issues due to current market conditions.~~ *(moved to end of Section 8.0)*

~~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.~~ *(moved to end of Section 8.0)*

~~The City shall take all prudent measures consistent with this Investment Policy to liquidate an investment that does not have the minimum rating.~~ *(moved to end of Section 8.0)*

8.1 Direct obligations of the United States, its agencies or instrumentalities. Unless backed by the full faith and credit of, or insured or guaranteed by the United States, obligations of agencies and instrumentalities must be rated in the highest category as to investment quality by a nationally recognized investment rating firm.

The City will restrict investments in eligible obligations described in this section to discount notes and callable or non-callable fixed-rate securities with a fixed principal repayment amount.

8.2 Fully collateralized Certificates of Deposit/Share Certificates that are issued by a ~~City Council-approved depository (as described below)~~ a bank or credit union that has its main office or branch office within the City and are:

a) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or
b) secured by obligations in accordance with Section 11.0 herein.

~~A City Council-approved depository is a depository institution that has its main office or a branch office in Texas.~~ If the certificate of deposit is collateralized by pledged securities, ~~T~~the City must have on file a signed Depository Agreement, approved as to form by the City Attorney, which details eligible collateral, collateralization ratios for pledged securities, standards for collateral custody and control of pledged securities, collateral valuation of pledged securities, and conditions for agreement termination.

8.3 Certificates of Deposit obtained through a depository institution that has its main office or branch office ~~in Texas~~ within the City and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Public Funds Investment Act.

8.4 Fully collateralized repurchase agreements in accordance with the conditions prescribed in Section 2256.011 of the Public Funds Investment Act. provided Prior to investment in a repurchase agreement the City has must have on file a signed Master Repurchase Agreement, approved as to form by the City Attorney, which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination and provided the repurchase agreement:

a) has a defined termination date;
b) is secured by obligations in accordance with Section 11.0 herein of the United States or its agencies and instrumentalities described by Section 2256.009(a)(1) of the Public Funds Investment Act. Securities received for repurchase agreements must have a market value greater than or equal to 103% at the time the investment is made and throughout the terms of the repurchase agreement;
c) requires the securities being purchased by the City to be assigned to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and
d) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state, and which is rated no less than A or its equivalent by two nationally recognized rating services.

8.5 A securities lending program is an authorized investment if it meets the following conditions:

a) A loan made under the program must allow for termination at any time;
b) A loan made under the program must be placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state that is rated no less than A or its equivalent by two nationally recognized rating services. An agreement to lend securities must have a term of one year or less and shall comply with the provisions of section 1058 of the Internal Revenue Code, as amended;
c) A loan made under the program may be secured by cash, irrevocable letters of credit issued by a bank that is organized and exists under the laws of the United States or any other state and is continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent, or by securities issued by the U.S. Government or its agencies and instrumentalities as described in Section 11.0 of this Policy. Securities being held as collateral must be pledged to the City , held in the City's name, and deposited at the time the investment is made with a third party approved by the City;
d) The amount of collateral must not be less than 100% of the market value of securities loaned, including accrued income. The market value of securities loaned shall be determined daily. Cash received as collateral shall not be invested for a term later than the expiration date of the securities lending agreement and may only be invested in investments as authorized by this Policy.

8.6 No-load money market mutual funds that are registered with and regulated by the Securities and Exchange Commission that:

a) have a dollar-weighted average stated maturity of 90 days or fewer;
b) seek to maintain a stable net asset value of $1 per share;
c) are rated not less than Aaa, AAAm or an equivalent rating by at least one nationally recognized rating service. A rating is not required for a sweep account investment, which is part of the city's depository contract; and,
d) have provided the City with a prospectus and other information required by the Securities Exchange Act of 1934 of the Investment Company Act of 1940.

Investments will be made in a money market mutual fund only after a thorough investigation of the fund and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved funds.

8.7 Local government investment pools which are organized in conformity with Chapter 791 (Interlocal Cooperation Contracts Act) and meet the requirements of Chapter 2256 (Public Funds Investment Act) of the Government Code that:

a) have a dollar-weighted average stated maturity of 90 days or fewer if created to function as a money market mutual fund;
b) seek to maintain a stable net asset value of $1 per share if created to function as a money market mutual fund;
c) are rated not less than Aaa, AAAm or an equivalent rating by at least one nationally recognized rating service; and
d) have provided the City with an offering circular and other information required by the Public Funds Investment Act.

To become eligible, investment pools must be approved by City Council action. Investments will be made in a local government investment pool only after a thorough investigation of the pool and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved pools.

~~Investments not listed below, including collateralized mortgage obligations and reverse repurchase agreements, are strictly prohibited. In addition, the~~ The Investment Officers may at times restrict or prohibit the purchase of specific issues due to current market conditions. 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. The City shall take all prudent measures consistent with this Investment Policy to liquidate an investment that does not have the minimum rating.

9.0 Authorized Broker/Dealers and Financial Institutions

The Investment Committee shall, at least annually, review, revise, and adopt a list of qualified broker/dealers and financial institutions authorized to engage in the purchase and sale of obligations of the U.S. Government, its agencies or instrumentalities with the City. In order to be considered, those firms that desire to become qualified bidders for securities transactions will be required to provide information regarding creditworthiness, experience and reputation. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

A written copy of this Investment Policy shall be presented to any person offering to engage in an investment transaction with the City. Investments shall only be made with those business organizations (including money market mutual funds and local government investment pools) which have provided the City with a written instrument executed by a qualified representative of the firm, acknowledging that the business organization has:

a) received and reviewed the City's Investment Policy; and
b) implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City and the organization that are not authorized by the City's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

10.0 Competitive Bidding

It is the policy of the City to require competitive bidding for all individual security purchases and sales except for:

a) transactions with money market mutual funds and local government investment pools (which are deemed to be made at prevailing market rates)~~;~~
b) treasury and agency securities purchased at issue through an approved broker/dealer or financial institution~~; or~~
c) automatic overnight "sweep" transactions with the City Depository~~;~~
d) fully insured certificates of deposit placed in accordance with the conditions prescribed in Section 2256.010(b) of the Public Funds Investment Act.

At least three bids or offers must be solicited for all other transactions involving individual securities. The City's investment advisor is also required to solicit at least three bids or offers when transacting trades on the City's behalf. In situations where the exact security being offered is not offered by other dealers, offers on the closest comparable investment may be used to establish a fair market price for the security. **Bids** for certificates of deposit may be solicited in any manner permitted by the Public Funds Investment Act.

11.0 Collateralization **of Deposits**

The City requires that all uninsured collected balances plus accrued interest, if any, in depository accounts be secured in accordance with the requirements of **this Policy and** Chapter 2257, Government Code (Collateral for Public Funds) and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Financial institutions serving as City depositories will be required to sign a Depository Agreement with the City which details securities that can serve as eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution and conditions for agreement termination.

~~The City requires that all securities purchased under the terms of a repurchase agreement be assigned to the City in accordance with applicable law. Dealers and financial institutions wishing to transact repurchase agreements with the City will be required to sign the City's Master Repurchase Agreement which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution, and conditions for agreement termination.~~ *(moved to Section 8.4)*

Pledged securities serving as collateral will always be held by an independent third party with which the City has a current custodial agreement and shall be reviewed at least monthly to ensure that the market value of the pledged securities is adequate. Eligible collateral and collateral ratios are as follows:

~~Eligible Collateral~~	~~Collateral Ratios~~ *(Repurchase Agreement Collateral Moved to Section 8.4)*	
	~~Deposits~~	~~Repurchase Agreements~~
~~1) Direct obligations of the United States of America; or~~		
~~2) Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the United States of America;~~		
~~3) Direct obligations of the Federal National Mortgage Assoc. and the Federal Home Loan Mortgage Corp.:~~		
~~a) maturing in less than one year~~	~~102%~~	~~102%~~
~~b) maturing in one to ten years~~	~~105%~~	~~105%~~
~~c) maturing in more than ten years~~	~~110%~~	~~105%~~

Eligible Collateral	**Collateral Ratios**
1) Direct obligations of the United States or other obligations of the United States or other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States:	
a) Maturing in less than three years	102%
b) Maturing in more than three years	105%
2) Direct debt obligations of an agency or instrumentality of the United States:	
a) Maturing in less than three years	102%
b) Maturing in more than three years	105%
3) Mortgage-backed securities issued directly by an agency or instrumentality of the United States eligible for investment under the Public Funds Investment Act	105%

The use of a letter of credit issued to the City by the Federal Home Loan Bank may be considered by the City to ~~meet the depository collateral required amount.~~ provide collateral for bank deposits and for certificates of deposit.

The City's Investment Officers reserve the right to accept or reject any form of collateral or enhancement at their sole discretion.

12.0 Safekeeping and Custody

Safekeeping and custody of investment securities shall be in accordance with applicable law and accounting standards. All securities transactions, except local government investment pool and money market mutual fund transactions, shall be conducted on a delivery versus payment (DVP) basis. Investment securities will be held by a third party custodian designated by the City, and be required to issue safekeeping receipts clearly detailing that the securities are owned by the City.

Safekeeping and custody of collateral shall be in accordance with applicable law and accounting standards. Pledged securities serving as collateral will be held by a third party custodian designated by the City, and pledged to the City as evidenced by safekeeping receipts of the institution with which the securities are deposited.

13.0 Diversification and Maximum Maturities

The City's investment portfolios, in aggregate, will be diversified to limit market and credit risk by observing the following limitations:

	Maximum Stated Maturity (1)	Issuer Limitations
U.S. Treasuries	5 Years	100% of the total portfolio may be invested in obligations of the U.S. Treasury.
U.S. Agencies/Instrumentalities	5 years	No more than 30% of the book value of the total portfolio may be invested in the obligations of any one issuer. The City may not own more than 20% of any single issue with the exception of Discount Notes.
Repurchase Agreements	30 days	No more than 15% of the portfolio may be invested with one counterparty, excluding flexible repurchase agreements for investment of bond proceeds.
Money Market Mutual Funds	NA	The City may not own more than the lesser of $100 million or 5% of the total assets of any one fund.
Local Government Investment Pools	NA	The City may not own more than the lesser of $200 million or 5% of the total assets of any one pool.
Certificates of Deposit	1 year	The City may not own more than $50 million of any single financial institution's certificates of deposit at any one time.

In addition to the above limitations the City's Investment Pool shall be diversified by market sector as follows:

	Maximum Percentage of Investment Pool
U.S. Treasuries	100%
U.S. Agencies/Instrumentalities	100% (maximum 15% callable)
Repurchase Agreements	15%*
Money Market Mutual Funds	15%
Local Government Investment Pools	25%
Certificates of Deposit	20%

*Excluding flexible repurchase agreements for bond proceeds

(1) Purchases of securities with stated maturities greater than the maximum authorized under this section require prior City Council approval. With respect to bond proceeds and other bond funds, the City may, in the bond ordinance, specifically authorize investments in repurchase agreements with maturities in excess of 30 days subject to any required approvals from bond insurers.

14.0 Sale of Securities

The City's policy is to hold securities to maturity. However, securities may be sold:

(a) in order to minimize the potential loss of principal on a security whose credit quality has declined;
(b) in order to reposition the portfolio for the purpose of improving the quality, yield, or target duration of the portfolio; or
(c) in order to meet unanticipated liquidity needs of the portfolio.

15.0 Investment Committee

An Investment Committee shall be established and meet quarterly to determine investment guidelines, general strategies, and monitor performance. Members of the Investment Committee will include the Investment Officers, ~~the City Controller~~, the Cash and Investment Manager and the City's Investment Advisor~~,~~ if the City has contracted with an Advisor. The Investment Advisor is a non-voting member of the Investment Committee.

16.0 Investment Advisor

The City may retain the services of an Investment Advisor to assist in the review of cash flow requirements, the formulation of investment strategies, and the execution of security purchases, sales and deliveries.

17.0 Investment Strategies

The City of Dallas maintains separate portfolios for individual funds or groups of funds (as listed under Sec. 2.0 of this Policy) which are managed according to the terms of this Policy and the corresponding investment strategies listed below. The investment strategy for portfolios established after the annual Investment Policy adoption will be managed in accordance with the terms of this Policy and applicable agreements until the next annual review when a specific strategy will be adopted.

17.1 Investment Pool Strategy - The City's Investment Pool is an aggregation of the majority of City funds which includes tax receipts, enterprise fund revenues, fine and fee revenues, as well as some, but not all, bond proceeds, grants, gifts and endowments. This portfolio is maintained to meet anticipated daily cash needs for City of Dallas operations, capital projects and debt service. In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the Investment Pool shall not exceed 1.5 years. The objectives of this portfolio are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) limit market and credit risk through diversification; and

d) attain ~~the best feasible yield~~ a market rate of return commensurate with the objectives and restrictions set forth in this Policy by managing the portfolio to meet or exceed the 12 month moving average yield on treasury one-year constant maturities as reported by Federal Reserve Statistical Release H.15.

17.2 Bond Funds Strategy - Occasionally, separate non-pooled portfolios are established with the proceeds from bond sales in order to maximize earnings within the constraints of arbitrage regulations. The objectives of these portfolios are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) manage market and credit risk through diversification; and
d) attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy and the bond ordinance by managing the portfolio to meet or exceed the bond yield

17.3 Bond Reserve Fund Strategy - Non-pooled reserve funds for outstanding revenue bonds are set at levels required by their respective bond ordinances. These funds will be used to pay principal and/or interest if required to prevent default. The objectives of Bond Reserve Fund Portfolios are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) manage market and credit risk through diversification; and
d) attain the best feasible yield commensurate with the objectives and the restrictions set forth in this Policy and the bond ordinance by managing the portfolio to meet or exceed the bond yield.

17.4 Endowment Funds Strategy - Funds received as gifts to the City with instructions that the income generated by the investment of said funds be used for specified purposes are invested as separate non-pooled portfolios in order to maximize return. The objectives of Endowment Portfolios are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) manage market and credit risk through diversification; and
d) attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy.

17.5 Commercial Paper Funds Strategy - Water Utilities issues tax-exempt commercial paper notes as an interim financing tool for construction projects. Proceeds from the issuance of commercial paper debt must be liquid in order to fund periodic payments to contractors and must be invested in tax-exempt securities in order to avoid costly and complex arbitrage rebate computations. In order to meet these requirements, commercial paper proceeds will be invested in tax-exempt money market mutual funds. The objectives of this portfolio are to:

a) ensure safety of principal by investing only in AAA-rated tax-exempt money market mutual funds;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) manage market and credit risk through diversification; and
d) attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy and governing bond ordinances.

17.6 Trinity City Parkway Escrow Strategy – This escrow was established pursuant to an Agreement dated as of January 1, 1999 with the North Texas Tollway Authority ("NTTA") pertaining to development of the Trinity Parkway. These funds will be used to reimburse NTTA for specified payments related to project feasibility. Permitted investments for this portfolio are defined in the Escrow Agreement as those that are consistent with the Public Funds Investment Act. The objectives of this portfolio are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) manage market and credit risk through diversification; and
d) attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy and the Agreement.

18.0 Reporting

Investment performance is regularly monitored by investment staff and reported to the Investment Committee on a monthly basis. Month-end market prices on each security are obtained from a variety of nationally recognized securities databases (e.g., Street Software Technology, Inc., Interactive Data Corp., the Wall Street Journal, and Bloomberg). These prices are recorded in the City's portfolio database and included in all management reports as well as the City's Comprehensive Annual Financial Report.

Not less than quarterly the Investment Officers will submit to the ~~Finance and Audit Committee~~ city council finance committee described in Chapter III, Section 13 of the Dallas City Charter, the City Manager, and the Mayor and City Council a written report of the status of the current investment portfolio. The report must meet the requirements of Chapter 2256.023 of the Texas Government Code (Public Funds Investment Act).

An independent auditor shall formally review the quarterly reports prepared under this section at least annually, and that auditor shall report the results of the review to City Council.

19.0 Annual Compliance Audit

In conjunction with the annual financial audit, a compliance audit shall be performed which includes an audit of management controls on investments and adherence to the City's established policy.

20.0 Investment Policy Adoption

The City's Investment Policy is hereby adopted by resolution of the City Council on November 9, 2009 in accordance with Chapter 2256 of the Texas Government Code.

GLOSSARY

ACCRETION OF DISCOUNT: Periodic straight-line increases in the book or carrying value of a security so the amount of the purchase price discount below face value is completely eliminated by the time the bond matures or by the call date, if applicable.

ACCRUED INTEREST: The interest accumulated on a security from its issue date or since the last payment of interest up to but not including the purchase date. The purchaser of the security pays to the seller the market price plus accrued interest.

AMORTIZATION OF PREMIUM: Periodic straight-line decreases in the book or carrying value of a security so the premium paid for a bond above its face value or call price is completely eliminated.

ASK: The price at which securities are offered by sellers.

BARBELL MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are concentrated in both the short and long ends of the maturity spectrum.

BASIS POINT: One one-hundredth (1/100) of one percent; 0.0001 in decimal form.

BENCHMARK: A comparative base for performance evaluation. A benchmark can be a broad-based bond index, a customized bond index, or a specific objective.

BID: The price offered for securities by purchasers. (When selling securities, one asks for a bid.)

BOND EQUIVALENT YIELD: Used to compare yields available from discounted securities that pay interest at maturity with yields available from securities that pay interest semi-annually.

BOOK ENTRY SECURITIES: Stocks, bonds, other securities, and some certificates of deposit that are purchased, sold, and held as electronic computer entries on the records of a central holder. These securities are not available for purchase in physical form; buyers get a receipt or confirmation as evidence of ownership.

BOOK VALUE: The original cost of the security as adjusted for amortization of any premium paid or accretion of discount since the date of purchase.

BROKER: A party who brings buyers and sellers together. Brokers do not take ownership of the property being traded. They are compensated by commissions. They are not the same as dealers; however, the same firms that act as brokers in some transactions may act as dealers in other transactions.

CALLABLE BOND: A bond that the issuer has the right to redeem prior to maturity at a specified price. Some callable bonds may be redeemed on one call date while others may have multiple call dates. Some callable bonds may be redeemed at par while others can be redeemed only at a premium.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination (over $100,000) CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATION (CMO): A type of mortgage-backed security created by dividing the rights to receive the principal and interest cash flows from an underlying pool of mortgages in separate classes or tiers.

COMMERCIAL PAPER: Short-term unsecured promissory notes issued by corporations for a maturity specified by the buyer. It is used primarily by corporations for short-term financing needs at a rate which is generally lower than the prime rate.

CONFIRMATION: The document used to state in writing the terms of the trade which had previously been agreed to verbally.

COUPON RATE: The stated annual rate of interest payable on a coupon bond expressed as a percentage of the bond's face value.

CREDIT RISK: The risk that (1) the issuer is downgraded to a lower quality category and/or (2) the issuer fails to make timely payments of interest or principal.

CUSIP NUMBER: A nine-digit number established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

CUSTODY: The service of an organization, usually a financial institution, of holding (and reporting) a customer's securities for safekeeping. The financial institution is known as the custodian.

DEALER: A firm which buys and sells for its own account. Dealers have ownership, even if only for an instant, between a purchase from one party and a sale to another party. They are compensated by the spread between the price they pay and the price they receive. Dealers are not the same as brokers; however, the same firms which act as dealers in some transactions may act as brokers in other transactions.

DELIVERY VERSUS PAYMENT (DVP): The safest method of settling a trade involving a book entry security. In a DVP settlement, the funds are wired from the buyer's account and the security is delivered from the seller's account in simultaneous, interdependent wires.

DEPOSITORY TRUST COMPANY (DTC): An organization that holds physical certificates for stocks and bonds and issues receipts to owners. Securities held by DTC are immobilized so that they can be traded on a book entry basis.

DERIVATIVE: A security that derives its value from an underlying asset, group of assets, reference rate, or an index value. Some derivatives can be highly volatile and result in a loss of principal in changing interest rate environments.

DISCOUNT: The amount by which the price paid for a security is less than its face value.

DISCOUNT SECURITIES: Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns, to reduce risk inherent in particular securities.

DURATION: A sophisticated measure of the weighted average maturity of a bond's cash flow stream, where the present values of the cash flows serve as the weights.

ECONOMIC CYCLE (BUSINESS CYCLE): As the economy moves through the business cycle, interest rates tend to follow the levels of production, output, and consumption - rising as the economy expands and moves out of recession and declining after the economy peaks, contracts, and heads once again into recession.

EFFECTIVE MATURITY: The average maturity of a bond, given the potential for early call. For a non-callable bond, the final maturity date serves as the effective maturity. For a callable bond, the effective maturity is bounded by the first call date and the final maturity date; the position within this continuum is a function of the call price, the current market price, and the reinvestment rate assumed.

FACE VALUE: The principal amount due and payable to a bondholder at maturity; par value. Also, the amount on which coupon interest is computed.

FAIL: The event of a securities purchase or sale transaction not settling as intended by the parties.

FAIR VALUE: The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $300,000 per depositor ($100,000 for non-interest bearing demand deposits, $100,000 for interest bearing demand, savings or time deposits and a separate $100,000 for interest and sinking funds).

FEDERAL FARM CREDIT BANKS (FFCB): A government-sponsored corporation that was created in 1916 and is a nationwide system of banks and associations providing mortgage loans, credit, and related services to farmers, rural homeowners, and agricultural and rural cooperatives. The banks and associations are cooperatively owned, directly or indirectly, by their respective borrowers. The Federal Farm Credit System is supervised by the Farm Credit Administration, an independent agency of the U.S. government. (See Government Sponsored Enterprise)

FEDERAL FUNDS: Monies within the Federal Reserve System representing a member bank's surplus reserve funds. Banks with excess funds may sell their surplus to other banks whose funds are below required reserve levels. Normally, Federal funds are employed in settling all government securities transactions. The Federal Funds Rate is the rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government-sponsored wholesale banks (currently twelve regional banks) which lend funds and provide correspondent banking services to member commercial bank, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank. (See Government Sponsored Enterprises)

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC or "Freddie Mac"): A government-sponsored corporation that was created in July 1970, by the enactment of Title III of the Emergency Home Finance Act of 1970. Freddie Mac was established to help maintain the availability of mortgage credit for residential housing, primarily through developing and maintaining an active, nationwide secondary market in conventional residential mortgages. (See Government Sponsored Enterprises)

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae is a private stockholder-owned corporation. FNMA securities are highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest. (See Government Sponsored Enterprises)

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank presidents. The president of the New York Federal Reserve Bank is a permanent member while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., twelve regional banks and about 5700 commercial banks that are members of the system.

FIXED-INCOME SECURITY: A financial instrument promising a fixed amount of periodic income over a specified future time span.

GOVERNMENT-SPONSORED ENTERPRISES (GSE's): Payment of principal and interest on securities issued by these corporations is not guaranteed explicitly by the U.S. government, however, most investors consider these securities to carry an implicit U.S. government guarantee. The debt is fully guaranteed by the issuing corporations. GSE's include: Farm Credit System, Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association.

INSTRUMENTALITIES: See Government-Sponsored Enterprises

INTEREST RATE RISK: The risk that the general level of interest rates will change, causing unexpected price appreciations or depreciations.

LADDERED MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are equally spaced. Over time, the shortening of the remaining lives of the assets provides a steady source of liquidity or cash flow. Given a normal yield curve with a positive slope this passive strategy provides the benefit of being able to take advantage of the higher, longer-term yields without sacrificing safety or liquidity.

LIQUIDITY: An entity's capacity to meet future monetary outflows (whether they are required or optional) from available resources. Liquidity is often obtained from reductions of cash or by converting assets into cash.

LIQUIDITY RISK: The risk that an investment will be difficult to sell at a fair market price in a timely fashion.

MARKET RISK: The risk that the value of a security will rise or decline as a result of changes in market conditions. It is that part of a security's risk that is common to all securities of the same general class (stocks and bonds) and thus cannot be eliminated by diversification; also known as systematic risk.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MARKING-TO-MARKET: The practice of valuing a security or portfolio according to its market value, rather than its cost or book value.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer to liquidate the underlying securities in the event of default by the seller.

MATURITY DATE: The date on which the principal or face value of an investment becomes due and payable.

MONEY MARKET INSTRUMENT: Generally, a short-term debt instrument that is purchased from a broker, dealer, or bank. Sometimes the term "money market" with "short-term", defines an instrument with no more than 12 months remaining from the purchase date until the maturity date. Sometimes the term "money market" is used more restrictively to mean only those instruments that have active secondary markets.

MORTGAGE-BACKED SECURITIES (MBS): Securities composed of, or collateralized by, loans that are themselves collateralized by liens on real property.

OFFER: The price asked by a seller of securities. (When purchasing securities, one asks for an offer.)

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

OPPORTUNITY COST: The cost of pursuing one course of action measured in terms of the foregone return that could have been earned on an alternative course of action that was not undertaken.

PAR: See Face Value

POOLED FUND GROUP: An internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested (as defined by the Public Funds Investment Act).

PREMIUM: The amount by which the price paid for a security exceeds its face value.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRINCIPAL: The face or par value of an instrument, exclusive of accrued interest.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED REPRESENTATIVE: A person who holds a position with - and is authorized to act on behalf of - a business organization (as defined by the Public Funds Investment Act).

RATE OF RETURN: The amount of income received from an investment, expressed as a percentage. A market rate of return is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

REINVESTMENT RATE: The interest rate earned on the reinvestment of coupon payments.

REINVESTMENT RATE RISK: The risk that the actual reinvestment rate falls short of the expected or assumed reinvestment rate.

REPURCHASE AGREEMENT (RP or REPO): An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price on demand or at a specified later date. The difference between the selling price and the repurchase price provides the interest income to the party that provided the funds. Every transaction where a security is sold under an agreement to be repurchased is a repo from the seller/borrower's point of view and a reverse repo from the buyer/lender's point of view.

REVERSE REPURCHASE AGREEMENT: (See Repurchase Agreement)

SAFEKEEPING: A procedure where securities are held by a third party acting as custodian for a fee.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SECURITIES LENDING: The temporary transfer of securities by one party, the lender, to another, the borrower. The securities borrower is required to provide acceptable assets as collateral to the securities lender in the form of cash or other securities. If the borrower provides securities as collateral to the lender, it pays a fee to borrow the lent securities. If it provides cash as collateral, the lender pays interest to the borrower and reinvests the cash at a higher rate.

SEC RULE 15C3-1: See Uniform Net Capital Rule

STRUCTURED NOTES: Debt obligations whose principal or interest payments are determined by an index or formula.

SEPARATELY INVESTED ASSET: An account or fund of a state agency or local government that is not invested in a pooled fund group (as defined by the Public Funds Investment Act).

SPREAD: Most commonly used when referring to the difference between the bid and asked prices in a quote. Additionally, it may also refer to additional basis points that a non-Treasury security earns over and above a Treasury with a comparable maturity date.

STRIPS: Separation of the principal and interest cash flows due from any interest-bearing securities into different financial instruments. Each coupon payment is separated from the underlying investment to create a separate security. Each individual cash flow is sold at a discount. The amount of the discount and the time until the cash flow is paid determine the investor's return.

SWAP: The trading of one asset for another. Sometimes used in active portfolio management to increase investment returns by "swapping" one type of security for another.

TOTAL RETURN: Interest income plus capital gains (or minus losses) on an investment.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury, generally having initial maturities of 3 months, 6 months, or 1 year.

TREASURY BONDS: Long-term, coupon bearing U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: Intermediate-term, coupon bearing U.S. Treasury securities having initial maturities of 2 - 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD TO MATURITY (YTM): The promised return assuming all interest and principal payments are made and reinvested at the same rate taking into account price appreciation (if priced below par) or depreciation (if priced above par).

CITY OF DALLAS

INVESTMENT POLICY

As adopted by City Council
November 9, 2009

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1.0 Policy

It is the policy of the City of Dallas to invest public funds in a manner which will provide security and optimize interest earnings to the maximum extent possible while meeting the daily cash flow demands of the City and conforming to all federal, state and local statutes, rules and regulations governing the investment of public funds. This Policy sets forth the investment program of the City of Dallas and the guidelines to be followed in achieving its objectives.

Not less than annually, City Council shall adopt a written instrument by resolution stating that it has reviewed the Investment Policy and investment strategies and that the written instrument so adopted shall record any changes made to the Investment Policy or investment strategies.

2.0 Scope

This Policy governs the investment of all funds of the City except those that are identified in Section 2.2 below. With respect to the funds of non-profit corporations that are established by City resolution and act on behalf of the City in accordance with State law, this Policy shall prevail in the absence of a specific investment policy adopted by the non-profit corporation. In addition to this Policy, the investment of bond proceeds and other bond funds (including debt service and reserve funds) of the City or of a non-profit corporation established by City resolution and acting on behalf of the City in accordance with State law shall be governed and controlled by their governing ordinance, resolution or trust indenture, including the authorization of eligible investments, and by the provisions of the Internal Revenue Code of 1986, as amended, including all regulations and rulings promulgated thereunder applicable to the issuance of tax-exempt obligations.

2.1 All funds are managed as a pooled fund group with the exception of the following, which are managed as separately invested assets:

- 2.1.1 Bond Funds - funds established with the proceeds from specific bond issues when it is determined that segregating these funds from the pooled funds portfolio will result in maximum interest earnings retention under the provisions of the Internal Revenue Code of 1986, as amended.
- 2.1.2 Bond Reserve Funds - funds set at prescribed levels by certain bond ordinances to pay principal and/or interest if required to prevent default.
- 2.1.3 Endowment Funds - funds given to the City with the instructions that the principal is to remain intact, unless otherwise agreed to, and the income generated by the investments will be used for specified purposes.
- 2.1.4 Commercial Paper Funds - unexpended proceeds from the issuance of commercial paper notes (e.g., commercial paper notes issued for the benefit of Dallas Water Utilities).

2.2 Funds not governed by this Policy include:

- 2.2.1 Employees' Retirement Fund
- 2.2.2 Dallas Police and Fire Pension System
- 2.2.3 Deferred Compensation Funds
- 2.2.4 Hale-Davis and W.W. Samuell Express Charitable Trusts

3.0 Objective

Investment of the funds covered by this Policy shall be governed by the following investment objectives, in order of priority:

3.1 **Safety**: Safety of principal is the primary objective of the Investment Policy. Investment of the City's funds shall be undertaken in a manner that seeks to ensure the preservation of capital for the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

The City will mitigate credit risk, which is the risk of loss due to the failure of the issuer or backer, by:

- Limiting investments to the types listed in Section 8.0 ("Authorized and Suitable Investments") of this Policy
- Qualifying the broker/dealers and financial institutions with which the City may engage in an investment transaction in accordance with Section 9.0 ("Authorized Broker/Dealers and Financial Institutions)
- Diversifying the investment portfolio so that the impact of potential losses from any one type of investment or from any one individual issuer will be minimized (see Section 13.0 "Diversification and Maximum Maturities").

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar local government investment pools and limiting the weighted average maturity of the portfolio in accordance with this Policy (see Section 17.0 "Investment Strategies").

3.2 **Liquidity**: The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated. This is accomplished by structuring the portfolio so that investments mature concurrent with cash needs to meet anticipated demands. A portion of the portfolio will be placed in money market mutual funds or local government investment pools offering same-day liquidity to meet unanticipated demands.

3.3 **Yield**: The City's investment portfolio shall be designed with the objective of attaining a market rate of return, throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

4.0 Delegation of Authority

The Chief Financial Officer, under the direction and authority of the City Manager, shall direct the cash management program of the City as defined in Section 2-134, "Duties of the Chief Financial Officer", Chapter 2 "Administration" of the Dallas City Code, as amended. City Council shall designate the Chief Financial Officer, City Controller, and the Assistant Director/Treasury Manager as Investment Officers responsible for the investment of its funds, under the direction and authority of the City Manager.

The City's Investment Officers shall establish written procedures for the operation of the investment program consistent with this Investment Policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the written procedures. Authority granted to a person to invest the City's funds is effective until rescinded or until termination of the person's employment by the City. The Investment Officers shall be responsible for all transactions undertaken and shall establish a system of controls, to be reviewed by the City Auditor, to regulate the activities of subordinate officials. In order to assure quality and capability of investment management, the Investment Officers shall possess sufficient working knowledge of economics and securities markets, as well as the supervisory experience and judgment necessary to carry out the responsibilities outlined in this Policy.

5.0 Prudence

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 probable income to be derived.

5.1 The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment Officers acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

5.2 In determining whether an investment official 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 official had responsibility rather than consideration as to the prudence of a single investment and, whether the investment decision was consistent with the City's Investment Policy and written investment procedures.

6.0 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

6.1 Officers and employees involved in the investment process shall sign annual statements agreeing to abide by this section of the Investment Policy and affirming no known conflicts of interest.

6.2 Officers and employees involved in the investment process must file a disclosure statement with the Texas Ethics Commission and City Council if:

a) the officer or employee has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or
b) the officer or employee is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the City.

6.3 An officer or employee involved in the investment process has a personal business relationship with a business organization if:

a) the officer or employee owns 10 percent or more of the voting stock or shares of the business organization or owns $5,000 or more of the fair market value of the business organization;
b) funds received by the officer or employee from the business organization exceed 10 percent of his/her gross income for the previous year; or
c) the officer or employee has acquired from the business organization during the previous year investments with a book value of $2,500 or more for his/her personal account.

7.0 Training

The Investment Officers and the persons authorized to execute investment transactions shall attend at least one investment training session within 12 months after taking office or assuming duties and receive not less than 10 hours of instruction relating to investment responsibilities every two years. Training must be received from an independent source approved by the City's Investment Committee and must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio and compliance with the Public Funds Investment Act.

8.0 Authorized and Suitable Investments

City funds governed by this Policy may be invested in the instruments described below, all of which are authorized by Chapter 2256 of the Government Code (Public Funds Investment Act).

8.1 Direct obligations of the United States, its agencies or instrumentalities. Unless backed by the full faith and credit of, or insured or guaranteed by the United States, obligations of agencies and instrumentalities must be rated in the highest category as to investment quality by a nationally recognized investment rating firm.

The City will restrict investments in eligible obligations described in this section to discount notes and callable or non-callable fixed-rate securities with a fixed principal repayment amount.

8.2 Fully collateralized Certificates of Deposit/Share Certificates that are issued by a bank or credit union that has its main office or branch office within the City and are:

a) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or
b) secured by obligations in accordance with Section 11.0 herein.

If the certificate of deposit is collateralized by pledged securities the City must have on file a signed Depository Agreement, approved as to form by the City Attorney, which details eligible collateral, collateralization ratios for pledged securities, standards for collateral custody and control of pledged securities, collateral valuation of pledged securities, and conditions for agreement termination.

8.3 Certificates of Deposit obtained through a depository institution that has its main office or branch office within the City and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Public Funds Investment Act.

8.4 Fully collateralized repurchase agreements in accordance with the conditions prescribed in Section 2256.011 of the Public Funds Investment Act. Prior to investment in a repurchase agreement, the City must have on file a signed Master Repurchase Agreement, approved as to form by the City Attorney, which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination and provided the repurchase agreement:

a) has a defined termination date;
b) is secured by obligations of the United States or its agencies and instrumentalities described by Section 2256.009(a)(1) of the Public Funds Investment Act. Securities received for repurchase agreements must have a market value greater than or equal to 103% at the time the investment is made and throughout the terms of the repurchase agreement;
c) requires the securities being purchased by the City to be assigned to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and
d) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state, and which is rated no less than A or its equivalent by two nationally recognized rating services.

8.5 A securities lending program is an authorized investment if it meets the following conditions:

a) A loan made under the program must allow for termination at any time;
b) A loan made under the program must be placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state that is rated no less than A or its equivalent by two nationally recognized rating services. An agreement to lend securities must have a term of one year or less and shall comply with the provisions of section 1058 of the Internal Revenue Code, as amended;
c) A loan made under the program may be secured by cash, irrevocable letters of credit issued by a bank that is organized and exists under the laws of the United States or any other state and is continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent, or by securities issued by the U.S. Government or its agencies and instrumentalities as described in Section 11.0 of this Policy. Securities being held as collateral must be pledged to the City , held in the City's name, and deposited at the time the investment is made with a third party approved by the City.
d) The amount of collateral must not be less than 100% of the market value of securities loaned, including accrued income. The market value of securities loaned shall be determined daily. Cash received as collateral shall not be invested for a term later than the expiration date of the securities lending agreement and may only be invested in investments as authorized by this Policy.

8.6 No-load money market mutual funds that are registered with and regulated by the Securities and Exchange Commission that:

a) have a dollar-weighted average stated maturity of 90 days or fewer;
b) seek to maintain a stable net asset value of $1 per share;
c) are rated not less than Aaa, AAAm or an equivalent rating by at least one nationally recognized rating service. A rating is not required for a sweep account investment, which is part of the city's depository contract; and,
d) have provided the City with a prospectus and other information required by the Securities Exchange Act of 1934 of the Investment Company Act of 1940.

Investments will be made in a money market mutual fund only after a thorough investigation of the fund and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved funds.

8.7 Local government investment pools which are organized in conformity with Chapter 791 (Interlocal Cooperation Contracts Act) and meet the requirements of Chapter 2256 (Public Funds Investment Act) of the Government Code that:

a) have a dollar-weighted average stated maturity of 90 days or fewer if created to function as a money market mutual fund;
b) seek to maintain a stable net asset value of $1 per share if created to function as a money market mutual fund;
c) are rated not less than Aaa, AAAm or an equivalent rating by at least one nationally recognized rating service; and
d) have provided the City with an offering circular and other information required by the Public Funds Investment Act.

To become eligible, investment pools must be approved by City Council action. Investments will be made in a local government investment pool only after a thorough investigation of the pool and approval by the Investment Committee which shall, at least annually, review, revise and adopt a list of approved pools.

The Investment Officers may at times restrict or prohibit the purchase of specific issues due to current market conditions. 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. The City shall take all prudent measures consistent with this Investment Policy to liquidate an investment that does not have the minimum rating.

9.0 Authorized Broker/Dealers and Financial Institutions

The Investment Committee shall, at least annually, review, revise, and adopt a list of qualified broker/dealers and financial institutions authorized to engage in the purchase and sale of obligations of the U.S. Government, its agencies or instrumentalities with the City. In order to be considered, those firms that desire to become qualified bidders for securities transactions will be required to provide information regarding creditworthiness, experience and reputation. Authorized firms may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule).

A written copy of this Investment Policy shall be presented to any person offering to engage in an investment transaction with the City. Investments shall only be made with those business organizations (including money market mutual funds and local government investment pools) which have provided the City with a written instrument executed by a qualified representative of the firm, acknowledging that the business organization has:

a) received and reviewed the City's Investment Policy; and
b) implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the City and the organization that are not authorized by the City's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards.

10.0 Competitive Bidding

It is the policy of the City to require competitive bidding for all individual security purchases and sales except for:

a) transactions with money market mutual funds and local government investment pools (which are deemed to be made at prevailing market rates)
b) treasury and agency securities purchased at issue through an approved broker/dealer or financial institution
c) automatic overnight "sweep" transactions with the City Depository
d) fully insured certificates of deposit placed in accordance with the conditions prescribed in Section 2256.010(b) of the Public Funds Investment Act.

At least three bids or offers must be solicited for all other transactions involving individual securities. The City's investment advisor is also required to solicit at least three bids or offers when transacting trades on the City's behalf. In situations where the exact security being offered is not offered by other dealers, offers on the closest comparable investment may be used to establish a fair market price for the security. Bids for certificates of deposit,may be solicited in any manner permitted by the Public Funds Investment Act.

11.0 Collateralization of Deposits

The City requires that all uninsured collected balances plus accrued interest, if any, in depository accounts be secured in accordance with the requirements of this Policy and Chapter 2257, Government Code (Collateral for Public Funds) and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Financial institutions serving as City depositories will be required to sign a Depository Agreement with the City which details securities that can serve as eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution and conditions for agreement termination.

Pledged securities serving as collateral will always be held by an independent third party with which the City has a current custodial agreement and shall be reviewed at least monthly to ensure that the market value of the pledged securities is adequate. Eligible collateral and collateral ratios are as follows:

Eligible Collateral	Collateral Ratios
1) Direct obligations of the United States or other obligations of the United States or other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the United States.	
a) Maturing in less than three years	102%
b) Maturing in more than three years	105%
2) Direct debt obligations of an agency or instrumentality of the United States.	
a) Maturing in less than three years	102%
b) Maturing in more than three years	105%
3) Mortgage-backed securities issued directly by an agency or instrumentality of the United States eligible for investment under the Public Funds Investment Act.	105%

The use of a letter of credit issued to the City by the Federal Home Loan Bank may be considered by the City to provide collateral for bank deposits and for certificates of deposit.

The City's Investment Officers reserve the right to accept or reject any form of collateral or enhancement at their sole discretion.

12.0 Safekeeping and Custody

Safekeeping and custody of investment securities shall be in accordance with applicable law and accounting standards. All securities transactions, except local government investment pool and money market mutual fund transactions, shall be conducted on a delivery versus payment (DVP) basis. Investment securities will be held by a third party custodian designated by the City, and be required to issue safekeeping receipts clearly detailing that the securities are owned by the City.

Safekeeping and custody of collateral shall be in accordance with applicable law and accounting standards. Pledged securities serving as collateral will be held by a third party custodian designated by the City, and pledged to the City as evidenced by safekeeping receipts of the institution with which the securities are deposited.

13.0 Diversification and Maximum Maturities

The City's investment portfolios, in aggregate, will be diversified to limit market and credit risk by observing the following limitations:

	Maximum State Maturity[1]	Issuer Limitations
U.S. Treasuries	5 Years	100% of the total portfolio may be invested in obligations of the U.S. Treasury.
U.S. Agencies/Instrumentalities	5 Years	No more than 30% of the book value of the total portfolio may be invested in the obligations of any one issuer. The City may not own more than 20% of any single issue with the exception of Discount Notes.
Repurchase Agreements	30 Days	No more than 15% of the portfolio may be invested with one counterparty, excluding flexible repurchase agreements for investment of bond proceeds.
Money Market Mutual Funds	N/A	The City may not own more than the lesser of $100 million or 5% of the total assets of any one pool.
Local Government Investment Pools	N/A	The City may not own more than the lesser or $200 million or 5% of the total assets of any one pool.
Certificates of Deposit	1 Year	The City may not own more than $50 million of any single financial institution's certificates of deposit at any one time.

In addition to the above limitations the City's Investment Pool shall be diversified by market sector as follows:

	Maximum Percentage of Investment Pool
U.S. Treasuries	100%
U.S. Agencies/Instrumentalities	100% (maximum 15% callable)
Repurchase Agreements	15%*
Money Market Mutual Funds	15%
Local Government Investment Pools	25%
Certificates of Deposit	20%

* Excluding flexible repurchase agreements for bond proceeds.

(1) Purchases of securities with stated maturities greater than the maximum authorized under this section require prior City Council approval. With respect to bond proceeds and other bond funds, the City may, in the bond ordinance, specifically authorize investments in repurchase agreements with maturities in excess of 30 days subject to any required approvals from bond insurers.

14.0 Sale of Securities

The City's policy is to hold securities to maturity. However, securities may be sold:

(a) in order to minimize the potential loss of principal on a security whose credit quality has declined;
(b) in order to reposition the portfolio for the purpose of improving the quality, yield, or target duration of the portfolio; or
(c) in order to meet unanticipated liquidity needs of the portfolio.

15.0 Investment Committee

An Investment Committee shall be established and meet quarterly to determine investment guidelines, general strategies, and monitor performance. Members of the Investment Committee will include the Investment Officers, the Cash and Investment Manager and the City's Investment Advisor if the City has contracted with an Advisor. The Investment Advisor is a non-voting member of the Investment Committee.

16.0 Investment Advisor

The City may retain the services of an Investment Advisor to assist in the review of cash flow requirements, the formulation of investment strategies, and the execution of security purchases, sales and deliveries.

17.0 Investment Strategies

The City of Dallas maintains separate portfolios for individual funds or groups of funds (as listed under Sec. 2.0 of this Policy) which are managed according to the terms of this Policy and the corresponding investment strategies listed below. The investment strategy for portfolios established after the annual Investment Policy adoption will be managed in accordance with the terms of this Policy and applicable agreements until the next annual review when a specific strategy will be adopted.

17.1 Investment Pool Strategy - The City's Investment Pool is an aggregation of the majority of City funds which includes tax receipts, enterprise fund revenues, fine and fee revenues, as well as some, but not all, bond proceeds, grants, gifts and endowments. This portfolio is maintained to meet anticipated daily cash needs for City of Dallas operations, capital projects and debt service. In order to ensure the ability of the City to meet obligations and to minimize potential liquidation losses, the dollar-weighted average stated maturity of the Investment Pool shall not exceed 1.5 years. The objectives of this portfolio are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) limit market and credit risk through diversification; and
d) attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy by managing the portfolio to meet or exceed the 12 month moving average yield on treasury one-year constant maturities as reported by Federal Reserve Statistical Release H.15.

17.2 Bond Funds Strategy - Occasionally, separate non-pooled portfolios are established with the proceeds from bond sales in order to maximize earnings within the constraints of arbitrage regulations. The objectives of these portfolios are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) manage market and credit risk through diversification; and
d) attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy and the bond ordinance by managing the portfolio to meet or exceed the bond yield

17.3 Bond Reserve Fund Strategy - Non-pooled reserve funds for outstanding revenue bonds are set at levels required by their respective bond ordinances. These funds will be used to pay principal and/or interest if required to prevent default. The objectives of Bond Reserve Fund Portfolios are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) manage market and credit risk through diversification; and
d) attain the best feasible yield commensurate with the objectives and the restrictions set forth in this Policy and the bond ordinance by managing the portfolio to meet or exceed the bond yield.

17.4 Endowment Funds Strategy - Funds received as gifts to the City with instructions that the income generated by the investment of said funds be used for specified purposes are invested as separate non-pooled portfolios in order to maximize return. The objectives of Endowment Portfolios are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) manage market and credit risk through diversification; and
d) attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy.

17.5 Commercial Paper Funds Strategy - Water Utilities issues tax-exempt commercial paper notes as an interim financing tool for construction projects. Proceeds from the issuance of commercial paper debt must be liquid in order to fund periodic payments to contractors and must be invested in tax-exempt securities in order to avoid costly and complex arbitrage rebate computations. In order to meet these requirements, commercial paper proceeds will be invested in tax-exempt money market mutual funds. The objectives of this portfolio are to:

a) ensure safety of principal by investing only in AAA-rated tax-exempt money market mutual funds;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) manage market and credit risk through diversification; and
d) attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy and governing bond ordinances.

17.6 Trinity Parkway Escrow Strategy – This escrow was established pursuant to an Agreement dated as of January 1, 1999 with the North Texas Tollway Authority ("NTTA") pertaining to development of the Trinity Parkway. These funds will be used to reimburse NTTA for specified payments related to project feasibility. Permitted investments for this portfolio are defined in the Escrow Agreement as those that are consistent with the Public Funds Investment Act. The objectives of this portfolio are to:

a) ensure safety of principal by investing only in high-quality securities for which a strong secondary market exists;
b) ensure that anticipated cash flows are matched with adequate investment liquidity;
c) manage market and credit risk through diversification; and
d) attain the best feasible yield commensurate with the objectives and restrictions set forth in this Policy and the Agreement.

18.0 Reporting

Investment performance is regularly monitored by investment staff and reported to the Investment Committee on a monthly basis. Month-end market prices on each security are obtained from a variety of nationally recognized securities databases (e.g., Street Software Technology, Inc., Interactive Data Corp., the Wall Street Journal, and Bloomberg). These prices are recorded in the City's portfolio database and included in all management reports as well as the City's Comprehensive Annual Financial Report.

Not less than quarterly the Investment Officers will submit to the city council finance committee described in Chapter III, Section 13 of the Dallas City Charter, the City Manager, and the Mayor and City Council a written report of the status of the current investment portfolio. The report must meet the requirements of Chapter 2256.023 of the Texas Government Code (Public Funds Investment Act).

An independent auditor shall formally review the quarterly reports prepared under this section at least annually, and that auditor shall report the results of the review to City Council.

19.0 Annual Compliance Audit

In conjunction with the annual financial audit, a compliance audit shall be performed which includes an audit of management controls on investments and adherence to the City's established policy.

20.0 Investment Policy Adoption

The City's Investment Policy is hereby adopted by resolution of the City Council on November 9, 2009 in accordance with Chapter 2256 of the Texas Government Code.

GLOSSARY

ACCRETION OF DISCOUNT: Periodic straight-line increases in the book or carrying value of a security so the amount of the purchase price discount below face value is completely eliminated by the time the bond matures or by the call date, if applicable.

ACCRUED INTEREST: The interest accumulated on a security from its issue date or since the last payment of interest up to but not including the purchase date. The purchaser of the security pays to the seller the market price plus accrued interest.

AMORTIZATION OF PREMIUM: Periodic straight-line decreases in the book or carrying value of a security so the premium paid for a bond above its face value or call price is completely eliminated.

ASK: The price at which securities are offered by sellers.

BARBELL MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are concentrated in both the short and long ends of the maturity spectrum.

BASIS POINT: One one-hundredth (1/100) of one percent; 0.0001 in decimal form.

BENCHMARK: A comparative base for performance evaluation. A benchmark can be a broad-based bond index, a customized bond index, or a specific objective.

BID: The price offered for securities by purchasers. (When selling securities, one asks for a bid.)

BOND EQUIVALENT YIELD: Used to compare yields available from discounted securities that pay interest at maturity with yields available from securities that pay interest semi-annually.

BOOK ENTRY SECURITIES: Stocks, bonds, other securities, and some certificates of deposit that are purchased, sold, and held as electronic computer entries on the records of a central holder. These securities are not available for purchase in physical form; buyers get a receipt or confirmation as evidence of ownership.

BOOK VALUE: The original cost of the security as adjusted for amortization of any premium paid or accretion of discount since the date of purchase.

BROKER: A party who brings buyers and sellers together. Brokers do not take ownership of the property being traded. They are compensated by commissions. They are not the same as dealers; however, the same firms that act as brokers in some transactions may act as dealers in other transactions.

CALLABLE BOND: A bond that the issuer has the right to redeem prior to maturity at a specified price. Some callable bonds may be redeemed on one call date while others may have multiple call dates. Some callable bonds may be redeemed at par while others can be redeemed only at a premium.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination (over $100,000) CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATION (CMO): A type of mortgage-backed security created by dividing the rights to receive the principal and interest cash flows from an underlying pool of mortgages in separate classes or tiers.

COMMERCIAL PAPER: Short-term unsecured promissory notes issued by corporations for a maturity specified by the buyer. It is used primarily by corporations for short-term financing needs at a rate which is generally lower than the prime rate.

CONFIRMATION: The document used to state in writing the terms of the trade which had previously been agreed to verbally.

COUPON RATE: The stated annual rate of interest payable on a coupon bond expressed as a percentage of the bond's face value.

CREDIT RISK: The risk that (1) the issuer is downgraded to a lower quality category and/or (2) the issuer fails to make timely payments of interest or principal.

CUSIP NUMBER: A nine-digit number established by the Committee on Uniform Securities Identification Procedures that is used to identify publicly traded securities. Each publicly traded security receives a unique CUSIP number when the security is issued.

CUSTODY: The service of an organization, usually a financial institution, of holding (and reporting) a customer's securities for safekeeping. The financial institution is known as the custodian.

DEALER: A firm which buys and sells for its own account. Dealers have ownership, even if only for an instant, between a purchase from one party and a sale to another party. They are compensated by the spread between the price they pay and the price they receive. Dealers are not the same as brokers; however, the same firms which act as dealers in some transactions may act as brokers in other transactions.

DELIVERY VERSUS PAYMENT (DVP): The safest method of settling a trade involving a book entry security. In a DVP settlement, the funds are wired from the buyer's account and the security is delivered from the seller's account in simultaneous, interdependent wires.

DEPOSITORY TRUST COMPANY (DTC): An organization that holds physical certificates for stocks and bonds and issues receipts to owners. Securities held by DTC are immobilized so that they can be traded on a book entry basis.

DERIVATIVE: A security that derives its value from an underlying asset, group of assets, reference rate, or an index value. Some derivatives can be highly volatile and result in a loss of principal in changing interest rate environments.

DISCOUNT: The amount by which the price paid for a security is less than its face value.

DISCOUNT SECURITIES: Securities that do not pay periodic interest. Investors earn the difference between the discount issue price and the full face value paid at maturity.

DIVERSIFICATION: Dividing investment funds among a variety of securities offering independent returns, to reduce risk inherent in particular securities.

DURATION: A sophisticated measure of the weighted average maturity of a bond's cash flow stream, where the present values of the cash flows serve as the weights.

ECONOMIC CYCLE (BUSINESS CYCLE): As the economy moves through the business cycle, interest rates tend to follow the levels of production, output, and consumption - rising as the economy expands and moves out of recession and declining after the economy peaks, contracts, and heads once again into recession.

EFFECTIVE MATURITY: The average maturity of a bond, given the potential for early call. For a non-callable bond, the final maturity date serves as the effective maturity. For a callable bond, the effective maturity is bounded by the first call date and the final maturity date; the position within this continuum is a function of the call price, the current market price, and the reinvestment rate assumed.

FACE VALUE: The principal amount due and payable to a bondholder at maturity; par value. Also, the amount on which coupon interest is computed.

FAIL: The event of a securities purchase or sale transaction not settling as intended by the parties.

FAIR VALUE: The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $300,000 per depositor ($100,000 for non-interest bearing demand deposits, $100,000 for interest bearing demand, savings or time deposits and a separate $100,000 for interest and sinking funds).

FEDERAL FARM CREDIT BANKS (FFCB): A government-sponsored corporation that was created in 1916 and is a nationwide system of banks and associations providing mortgage loans, credit, and related services to farmers, rural homeowners, and agricultural and rural cooperatives. The banks and associations are cooperatively owned, directly or indirectly, by their respective borrowers. The Federal Farm Credit System is supervised by the Farm Credit Administration, an independent agency of the U.S. government. (See Government Sponsored Enterprise)

FEDERAL FUNDS: Monies within the Federal Reserve System representing a member bank's surplus reserve funds. Banks with excess funds may sell their surplus to other banks whose funds are below required reserve levels. Normally, Federal funds are employed in settling all government securities transactions. The Federal Funds Rate is the rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government-sponsored wholesale banks (currently twelve regional banks) which lend funds and provide correspondent banking services to member commercial bank, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank. (See Government Sponsored Enterprises)

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC or "Freddie Mac"): A government-sponsored corporation that was created in July 1970, by the enactment of Title III of the Emergency Home Finance Act of 1970. Freddie Mac was established to help maintain the availability of mortgage credit for residential housing, primarily through developing and maintaining an active, nationwide secondary market in conventional residential mortgages. (See Government Sponsored Enterprises)

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae is a private stockholder-owned corporation. FNMA securities are highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest. (See Government Sponsored Enterprises)

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank presidents. The president of the New York Federal Reserve Bank is a permanent member while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., twelve regional banks and about 5700 commercial banks that are members of the system.

FIXED-INCOME SECURITY: A financial instrument promising a fixed amount of periodic income over a specified future time span.

GOVERNMENT-SPONSORED ENTERPRISES (GSE's): Payment of principal and interest on securities issued by these corporations is not guaranteed explicitly by the U.S. government, however, most investors consider these securities to carry an implicit U.S. government guarantee. The debt is fully guaranteed by the issuing corporations. GSE's include: Farm Credit System, Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association.

INSTRUMENTALITIES: See Government-Sponsored Enterprises

INTEREST RATE RISK: The risk that the general level of interest rates will change, causing unexpected price appreciations or depreciations.

LADDERED MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are equally spaced. Over time, the shortening of the remaining lives of the assets provides a steady source of liquidity or cash flow. Given a normal yield curve with a positive slope this passive strategy provides the benefit of being able to take advantage of the higher, longer-term yields without sacrificing safety or liquidity.

LIQUIDITY: An entity's capacity to meet future monetary outflows (whether they are required or optional) from available resources. Liquidity is often obtained from reductions of cash or by converting assets into cash.

LIQUIDITY RISK: The risk that an investment will be difficult to sell at a fair market price in a timely fashion.

MARKET RISK: The risk that the value of a security will rise or decline as a result of changes in market conditions. It is that part of a security's risk that is common to all securities of the same general class (stocks and bonds) and thus cannot be eliminated by diversification; also known as systematic risk.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MARKING-TO-MARKET: The practice of valuing a security or portfolio according to its market value, rather than its cost or book value.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer to liquidate the underlying securities in the event of default by the seller.

MATURITY DATE: The date on which the principal or face value of an investment becomes due and payable.

MONEY MARKET INSTRUMENT: Generally, a short-term debt instrument that is purchased from a broker, dealer, or bank. Sometimes the term "money market" with "short-term", defines an instrument with no more than 12 months remaining from the purchase date until the maturity date. Sometimes the term "money market" is used more restrictively to mean only those instruments that have active secondary markets.

MORTGAGE-BACKED SECURITIES (MBS): Securities composed of, or collateralized by, loans that are themselves collateralized by liens on real property.

OFFER: The price asked by a seller of securities. (When purchasing securities, one asks for an offer.)

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

OPPORTUNITY COST: The cost of pursuing one course of action measured in terms of the foregone return that could have been earned on an alternative course of action that was not undertaken.

PAR: See Face Value

POOLED FUND GROUP: An internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested (as defined by the Public Funds Investment Act).

PREMIUM: The amount by which the price paid for a security exceeds its face value.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRINCIPAL: The face or par value of an instrument, exclusive of accrued interest.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the state. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED REPRESENTATIVE: A person who holds a position with - and is authorized to act on behalf of - a business organization (as defined by the Public Funds Investment Act).

RATE OF RETURN: The amount of income received from an investment, expressed as a percentage. A market rate of return is the yield that an investor can expect to receive in the current interest-rate environment utilizing a buy-and-hold to maturity investment strategy.

REINVESTMENT RATE: The interest rate earned on the reinvestment of coupon payments.

REINVESTMENT RATE RISK: The risk that the actual reinvestment rate falls short of the expected or assumed reinvestment rate.

REPURCHASE AGREEMENT (RP or REPO): An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price on demand or at a specified later date. The difference between the selling price and the repurchase price provides the interest income to the party that provided the funds. Every transaction where a security is sold under an agreement to be repurchased is a repo from the seller/borrower's point of view and a reverse repo from the buyer/lender's point of view.

REVERSE REPURCHASE AGREEMENT: (See Repurchase Agreement)

SAFEKEEPING: A procedure where securities are held by a third party acting as custodian for a fee.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES AND EXCHANGE COMMISSION (SEC): Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SECURITIES LENDING: The temporary transfer of securities by one party, the lender, to another, the borrower. The securities borrower is required to provide acceptable assets as collateral to the securities lender in the form of cash or other securities. If the borrower provides securities as collateral to the lender, it pays a fee to borrow the lent securities. If it provides cash as collateral, the lender pays interest to the borrower and reinvests the cash at a higher rate.

SEC RULE 15C3-1: See Uniform Net Capital Rule

STRUCTURED NOTES: Debt obligations whose principal or interest payments are determined by an index or formula.

SEPARATELY INVESTED ASSET: An account or fund of a state agency or local government that is not invested in a pooled fund group (as defined by the Public Funds Investment Act).

SPREAD: Most commonly used when referring to the difference between the bid and asked prices in a quote. Additionally, it may also refer to additional basis points that a non-Treasury security earns over and above a Treasury with a comparable maturity date.

STRIPS: Separation of the principal and interest cash flows due from any interest-bearing securities into different financial instruments. Each coupon payment is separated from the underlying investment to create a separate security. Each individual cash flow is sold at a discount. The amount of the discount and the time until the cash flow is paid determine the investor's return.

SWAP: The trading of one asset for another. Sometimes used in active portfolio management to increase investment returns by "swapping" one type of security for another.

TOTAL RETURN: Interest income plus capital gains (or minus losses) on an investment.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury, generally having initial maturities of 3 months, 6 months, or 1 year.

TREASURY BONDS: Long-term, coupon bearing U.S. Treasury securities having initial maturities of more than 10 years.

TREASURY NOTES: Intermediate-term, coupon bearing U.S. Treasury securities having initial maturities of 2 - 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called *net capital rule* and *net capital ratio*. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD TO MATURITY (YTM): The promised return assuming all interest and principal payments are made and reinvested at the same rate taking into account price appreciation (if priced below par) or depreciation (if priced above par).