LUFKIN ECONOMIC DEVELOPMENT CORPORATION, TEXAS

INVESTMENT POLICY

Adopted November 05, 2019

I. <u>SCOPE</u>

The Investment Policy applies to the investment activities of the Lufkin Economic Development Corporation "LEDC". These policies serve to satisfy the statutory requirement of the Public Finds Investment Act Chapter 2256, Texas Government Code (the "Act"), to define and approve a formal investment policy.

Funds Included. All financial assets of LEDC shall be administered in accordance with the provisions of these policies.

Funds Excluded. The Act specifically excludes deferred compensation plans.

II. <u>OBJECTIVES</u>

Safety. Safety of principal is the foremost objective of the LEDC. Investments of the LEDC shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Liquidity. LEDC's investment portfolio will remain sufficiently liquid to enable the LEDC to meet operating requirements that might be reasonably anticipated.

Yield. The yield on investment instruments shall reflect market conditions at time of execution and will achieve the best allowable yield commensurate with the risk criteria of this Policy.

III. <u>RESPONSIBILITY AND CONTROL</u>

Delegation. Management responsibility for the investment program is hereby delegated to the City Manager.

Finance Committee. A Finance Committee consisting of the City Manager, Assistant City Manager, Director of Finance, Senior Accountant, and three Council members (appointed by the Mayor) shall monitor the investment activities of the LEDC, select independent training sources, authorize broker/dealer firm, and assist in the development of the investment policies and strategies. The City's Independent Auditor and Investment Advisor shall be non-voting members of the Finance Committee.

Investment Officers. The City Manager, Assistant City Manager, Director of Finance, and Senior Accountant are the "Investment Officers" of the LEDC. As Investment Officers they are authorized to deposit, withdraw, invest, transfer, execute documentation, and otherwise manage the LEDC funds according to this Policy.

In order to ensure qualified and capable investment management, the Investment Officers shall attend training, sponsored by an independent source approved by the Finance Committee, receiving not less than 10 hours within twelve months of assuming investment responsibilities, and thereafter, receiving not less than 8 hours during a two-year period that begins on the first day of the LEDC's fiscal year and consists of the two consecutive fiscal years after that date.

Management and Internal Controls. The following system of internal controls shall govern all investment transactions. The Finance Committee, City Manager, and the Independent Auditor shall review the internal controls. The controls are designed to reasonably prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the LEDC.

Internal Controls System:

1. Documentation from the Investment Advisor or investment provider;
2. Two Investment Officer Signatures required on all investment transactions;
3. City Manager review of all investment transactions; and
4. Full and complete documentation of investment transactions.

Transaction Authority. Certain signatory responsibilities are required to transact investments. The Investment Officers shall be authorized as depository signatories within guidelines established by the City Manager.

Upon receiving written confirmation from the Investment Advisor or investment provider, the Investment Officers are authorized to transact wire transfers, buy/sell, and trade investments in accord with the goals and objectives of the LEDC's investment strategy and this Policy.

Bonding of all individuals authorized to place, purchase, or sell investment instruments shall be required.

Prudence. Investments shall be made with the exercise of due care, 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 own capital as well as the probable income to be derived.

Investment Officers acting in accordance with written procedures and exercising prudence shall be relieved of personal responsibility for an individual instrument's credit risk or market price dangers, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. The investment portfolio as a whole, and not just a single investment, shall be reviewed when determining whether or not the actions of an Investment Officer are considered prudent.

IV. ETHICS

Conflicts of Interest. Investment 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.

Disclosure. Investment Officers shall disclose to the Board of Directors and the Texas Ethics Commission any financial interests in financial institutions or any relationship within the second degree by affinity or consanguinity to an individual that conducts business with the LEDC. All Investment Officers shall further disclose any large personal financial investment positions that could be related to the performance of the LEDC's portfolio. Investment Officers and employees involved in the investment process shall subordinate their personal investment transactions to those of this jurisdiction, particularly with regard to the timing of purchases and sales.

V. REPORTING

Quarterly Reports. The Investment Officers and the Investment Advisor shall submit quarterly to the Board of Directors
an investment report that:

1. Summarizes current strategies and possible risks,

2. Explains recent results by investment category,

3. Discloses the quarter's fully accrued interest and compares the interest with budgetary expectations when applicable,

4. Describes in detail the investment position of the LEDC,

5. States the reporting period beginning book and market values and ending book and market values for the period of each pooled fund group,

6. States the reporting period ending book and market value for each investment by asset type and fund type,

7. States the final maturity date of each investment,

8. States the fund for which each investment was purchased, and

9. States the compliance of the investment portfolio with the LEDC's Investment Policy, Investment Strategy Statement and the Public Funds Investment Act.

The market valuations obtained by the LEDC or the LEDC's Investment Advisor shall be from sources believed to be accurate and representative of the investments' true value. This report shall be prepared jointly by all of the Investment Officers, and each Investment Officer shall sign the report.

Annual Report. Within sixty (60) days of the end of the fiscal year, the Investment Officers and the Investment Advisor shall present an annual report on the investment program activity to the Finance Committee for review by the City Council. The annual report may be incorporated into the fourth quarter report and shall include twelve (12) month performance information and shall suggest improvements that might be made in the investment program.

This Investment Policy establishes "weighted average yield to maturity" as the standard portfolio performance measurement.

the LEDC, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the LEDC's Investment Policy and Investment Strategy Statements.

Additionally, the LEDC's Independent Auditor shall formally review each quarterly report and that Auditor shall report the result of the review to the City Council or Board of Directors as appropriate.

VI. INVESTMENTS

Active Portfolio Management. LEDC intends to pursue active versus passive portfolio management philosophy. That is, investments may be sold before they mature if market conditions present an opportunity for LEDC to benefit from the trade. A competitive yield environment shall be achieved by soliciting quotes from multiple investment providers, monitoring comparable investment alternatives, and reviewing general market conditions

Authorized Investments. Financial assets of the government of LEDC may be invested in:

A. U. S. Treasury securities;

B. Obligations of U. S. Government Agencies and Instruments, including the Federal Home Loan Banks, 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 or its agencies and instrumentalities, and obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation "LEDC" or by the explicit full faith and credit of the United States, but excluding principal-only and interest-only mortgage backed securities, collateralized mortgage obligations and real estate mortgage investment conduits;

C. Obligations of the State of Texas or its agencies and instrumentalities, and obligations of counties, cities, and other political subdivisions of this State rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;

D. Fully insured or collateralized deposits at eligible depositories placed in compliance with this Policy and the Act;

E. Repurchase agreements structured in compliance with the Act. The term includes direct security repurchase agreements entered into by LEDC and reverse repurchase agreements only obtained in connection with investment by LEDC in an Eligible Investment Pool or Money Market Mutual Fund. All LEDC repurchase agreement transactions shall be governed in accordance with a written repurchase agreement;

F. Money Market Mutual Funds registered with and regulated by the Securities & Exchange Commission; that fully invest dollar-for-dollar all LEDC funds without sales commissions or loads; that are categorized as a "Treasury" or "Government" money market fund; and, whose investment objectives include seeking to maintain a stable net asset value of $1.0000 per share. LEDC may not invest funds under its control in an amount that exceeds 10% of the total assets of any individual money market fund,

G. Eligible Investment Pools as defined by and in compliance with the Act, that have been authorized by the Board of Directors, maintain a rating of a least AAA or AAAm, and whose investment philosophy and strategy seek to maintain a stable net asset value of $1.00.

Investment Maturity Limitations. In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the Funds. Stated final maturity guidelines by Fund are as follows:

A. **Operating Funds.** The weighted average days to maturity for the operating fund portfolio shall be less than 300 days and the maximum allowable maturity shall be two years.

B. **Construction, Bond and Loan Funds.** The investment maturity of construction, bond and loan funds (excluding reserve and debt service funds) shall be limited to the anticipated cash flow requirements of the projects or the "temporary period," as defined by Federal Tax Law, whichever is shorter.

C. **Debt Service Funds.** Debt Service Funds shall be invested in such a manner as not to exceed an "unfunded" debt service date with the maturity of any investment. An unfunded debt service date is defined as a coupon or principal payment date that does not have cash or maturing investment available to satisfy said payment.

D. **Bond Reserve Funds.** Bond Reserve Fund maturity shall generally not exceed the call provisions of the Bond Resolution, Loan Covenants or Insurance Policy restrictions and shall not exceed the final maturity of the bond issue or five years, whichever is shorter.

E. **LEDC Internal Investment Pool.** The maximum average days to maturity for the internal investment pool shall be 300 days and the maximum allowable maturity shall be two years.

F. Depreciation Funds. The investment maturity of depreciation funds shall be limited to the anticipated cash flow requirements of the plant or equipment being depreciated, replaced or repaired.

G. Economic Development Corporation "LEDC" Funds. EDC Funds will be segregated from the Internal Investment Pool and invested as a "non-public unit" as defined by the FDIC. Maturity shall be limited to the anticipated cash flow requirements the Fund.

Investments purchased prior to this Policy's revision that do not meet the revised requirements of this Policy are not required to be liquidated. The Finance Committee shall monitor each investment's status to determine whether it is in the best interest of LEDC to hold or liquidate the investment.

Any Authorized Investment that requires a minimum rating does not qualify during the period the investment does not have the minimum rating. LEDC shall monitor the rating of each issuer, as applicable, at least quarterly, and take all prudent measures that are consistent with this Policy to liquidate an investment that does not have the minimum rating.

VII. SELECTION OF DEPOSITORIES AND DEALERS

Bidding Process. A Primary Depository shall be selected through the City's banking services procurement process, which shall include a formal Request for Application (RFA) issued in compliance with applicable State law. This contract can be extended as per the RFA specifications. In selecting a Primary Depository, the credit worthiness of institutions shall be considered, and the Director of Finance shall conduct a comprehensive review of prospective depository's credit characteristics and financial history.

Insurability. Depositories seeking to establish eligibility for the LEDC's competitive certificate of deposit and interest bearing account purchase program shall submit financial statements, evidence of federal deposit insurance, and any other information as required by the Director of Finance.

Collateralized Deposits. All depository deposits shall be insured or collateralized in compliance with applicable State law. Ledger Balance shall be used to determine the appropriate insurance or collateral level. LEDC reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards depository deposits. Financial institutions serving as LEDC Depositories will be required to sign a Depository Agreement with LEDC. The collateralized deposit portion of the Agreement shall define the LEDC's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- the Agreement must be in writing;

- the Agreement has to be executed by the Depository and LEDC contemporaneously with the acquisition of the asset;

- the Agreement must be approved by the Board of Directors or Designated Committee of the Depository and a copy of the meeting minutes must be delivered to LEDC; and

- the Agreement must be part of the Depository's "official record" continuously since its execution.

Investment Advisors and Broker/Dealers. Investment Advisors shall adhere to the spirit, philosophy and specific term of this Policy and shall invest within the same "Standard of Care". Investment Broker/Dealers shall adhere to the spirit and philosophy of this Policy and shall avoid recommending or suggesting transactions outside that "Standard of Care".

The Finance Committee shall perform selection of Investment Advisors and Broker/Dealers. The Investment Officers shall establish criteria to evaluate Investment Advisors and Broker/Dealers, including:

A. Adherence to LEDC's policies and strategies;

B. Investment performance and transaction pricing within accepted risk constraints;

C. Responsiveness to LEDC's request for services, information and open communication;

D. Understanding of the inherent fiduciary responsibility of investing public funds; and

E. Similarity in philosophy and strategy with the LEDC's objectives.

Selected Investment Advisors and Broker/Dealers shall provide timely transaction confirmations and monthly activity reports.

Selected Investment Advisors must be registered under the Investment Advisors Act of 1940 or with the State Securities Board. A contract with an Investment Advisor may not be for a term longer than two years and the City Council must approve any renewal or extension.

Primary Broker/Dealers and Approved List. For Brokers/Dealers of government securities, selection shall be made only from those Broker/Dealers reporting to the Market Reports Division of the Federal Reserve Bank of New York, also known as the "Primary Government Securities Dealers," unless a Broker/Dealer questionnaire and certification reveals that other firms are adequately financed to conduct public business.

The Finance Committee shall review, revise, and adopt a list of qualified Brokers/Dealers at least annually.

Eligible Business Organizations. Business organizations, as defined by the Act, eligible to transact investment business with the LEDC shall be presented a written copy of this Investment Policy. Additionally, the qualified representative of the business organization seeking to transact investment business shall execute a written instrument substantially to the effect that the qualified representative has:

1. Received and thoroughly reviewed this Investment Policy, and

2. Acknowledged that the organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between
3. LEDC and the organization that are not authorized by LEDC's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of LEDC's entire portfolio, requires an interpretation of subjective investment standards, or relates to investment transactions of LEDC that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

the LEDC shall not enter into an investment transaction with a business organization prior to receiving the written instrument described above.

VIII. SAFEKEEPING AND CUSTODY

Insurance, Pledged Collateral or Purchased Securities. All deposits of LEDC funds with eligible depositories shall be secured by pledged collateral with a market value equal to or greater than 102% of the deposits plus accrued interest, less any amount insured by the FDIC. Repurchase agreements shall be documented by a specific agreement noting the "purchased securities" in each agreement. Collateral pledged and purchased securities shall be reviewed at least monthly to assure the market value equals or exceeds the related the LEDC investment.

Eligible Securities for Pledged Collateral or Purchased Securities. the LEDC shall accept only the following securities as pledged collateral or purchased securities:

A. U. S. Treasury securities;

B. Obligations of U. S. Government Agencies and Instrumentalities, including letters of credit, but excluding principal-only and interest-only mortgage backed securities;

C. Federal Deposit Insurance Corporation "LEDC" (FDIC) coverage;

D. Direct or unconditionally guaranteed obligations of the State of Texas;

E. States, agencies, counties, cities, or political subdivisions naturally rated "A" or higher.

A letter of credit of the United States or its agencies or instrumentalities issued to LEDC with a value equal to or greater than 102% of the deposits plus accrued interest, less any amount insured by the FDIC, and with an expiration date greater than the anticipated term of the deposit is also acceptable to enhance eligible depository deposits.

Subject to Audit. All collateral shall be subject to inspection and audit by the Director of Finance or the LEDC's Independent Auditors.

Delivery Versus Payments. All repurchase agreements and investment security transactions shall be purchased using the Delivery Versus Payment (DVP) method. That is, funds shall not be wired or paid until verification has been made that LEDC's Agent or Trustee received the security or collateral. The security or collateral shall be held in the account of the LEDC. The Trustee or Agent's records shall assure the notation of LEDC's ownership of or explicit claim on the security or collateral. The original copy of all safekeeping receipts shall be delivered to LEDC.

Investment Strategy. The LEDC Council shall adopt an Investment Strategy Statement for each of the LEDC's fund-types and internal investment pools. The Investment Strategy Statement must describe the investment objectives for each particular fund according to the following priorities:

1. Investment suitability,
2. Preservation and safety of principal,
3. Liquidity,
4. Marketability prior to maturity of each investment,
5. Diversification, and
6. Yield.

- **Review and Amendment**. The Board of Directorsshall review the Investment Policy and Investment Strategy Statements annually. Amendments must be approved by the Finance Committee and adopted by the LEDC Council. The LEDC Council shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed or changed the investment policy and investment strategies.

[redacted]

Mayor [redacted]

LEDC Manager [redacted]

[redacted]

Date

[redacted]

Date

LUFKIN ECONOMIC DEVELOPMENT CORPORATION "LEDC"

INVESTMENT STRATEGY STATEMENT

PREFACE

The Investment Strategy applies to the investment activities of the Lufkin Economic Development Corporation "LEDC". These strategies serve to satisfy the statutory requirement of chapter 2256, Texas Government Code ("the Public Finds Investment Act"), to define and approve investment strategies.

It is the policy of the LEDC that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State and Federal Regulation, applicable Loan documentation and Bond resolution requirements, adopted Investment Policy and adopted Investment Strategy.

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

- Understanding the suitability of the investment to the financial requirements of the LEDC;
- Preservation and safety of principal;
- Liquidity;
- Marketability of the investment if the need arises to liquidate the investment prior to maturity;
- Diversification of the investment portfolio; and
- Yield.

Effective investment strategy development coordinates the primary objectives of the LEDC's Investment Policy and cash management procedures. Aggressive cash management to increase the available "investment period" will enhance the ability of the LEDC to earn interest income. Maturity selections shall be based on cash flow and market conditions to take advantage of interest rate cycles as viable and material revenue to all the LEDC funds. the LEDC's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with the Investment Policy.

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

A. Operating Funds
B. Construction, Bond and Loan Funds
C. Debt Service Funds
D. Bond Reserve Funds

E. Internal Investment Pool
F. Depreciation Funds

INVESTMENT STRATEGY

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

A. Operating Funds

Suitability - Any investment eligible in the Investment Policy is suitable for Operating Funds.

Safety of Principal - All investments shall be high quality with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average days to maturity for the Operating Fund's portfolio to less than 300 days and restricting the maximum allowable maturity to two years will minimize the price volatility of the overall portfolio.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.

Liquidity - The Operating Fund requires the greatest short-term liquidity of any of the Fund types. Short-term deposits, investment pools, and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of LEDC. Diversifying the appropriate maturity structure out through two years will reduce market cycle risk.

Yield - Attaining a competitive market yield for comparable investment-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury Bill portfolio will be the minimum yield objective.

B. **Construction, Bond and Loan Funds**

Suitability - Any investment eligible in the Investment Policy is suitable for Construction, Bond and Loan Funds.

Safety of Principal - All investments will be high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Construction, Bond and Loan Funds to not exceed the anticipated expenditure schedule the market risk of the overall portfolio will be minimized.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.

Liquidity - Construction, Bond and Loan Funds used for capital improvements programs have reasonably predictable draw down schedules. Therefore investment maturities should generally follow the anticipated cash flow requirements. Short-term deposits, investment pools, and money market mutual funds will provide readily available funds generally equal to at least one month's anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.

Diversification - Market conditions and arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for construction, loan and bond proceeds. Generally, when investment rates exceed the applicable cost of borrowing, the LEDC is best served by locking in most investments. If the cost of borrowing cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger amounts. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield.

Yield - Achieving a positive spread to the cost of borrowing is the desired objective, within the limits of the Investment Policy's risk constraints. The yield of an equally weighted, rolling six-month Treasury Bill portfolio will be the minimum yield objective for non-borrowed funds.

C. **Debt Service Funds**

Suitability - Any investment eligible in the Investment Policy is suitable for the Debt Service Fund.

Safety of Principal - All investments shall be high quality with no perceived default risk. Market price fluctuations will occur. However, by managing Debt Service Funds to not exceed the debt service payment schedule the market risk of the overall portfolio will be minimized.

Marketability - Investments with active and efficient secondary markets are not necessary as the event of an unanticipated cash flow requirement is not probable.

Liquidity - Debt Service Funds have predictable payment schedules. Therefore investment maturities should not exceed the anticipated cash flow requirements. Short-term deposits, investments pools and money market mutual funds may provide a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any debt service payment. This investment structure is commonly referred to as a flexible repurchase agreement.

Diversification - Market conditions influence the attractiveness of fully extending maturity to the next "unfunded" payment date. Generally, if investment rates are anticipated to decrease over time, the LEDC is best served by locking in most investments. If the interest rates are potentially rising, then investing in shorter and larger amounts may provide advantage. At no time shall the debt service schedule be exceeded in an attempt to bolster yield.

Yield - Attaining a competitive market yield for comparable investment-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury Bill portfolio shall be the minimum yield objective.

D. **Debt Service Reserve Funds**

Suitability - Any investment eligible in the Investment Policy is suitable for Debt Service Reserve Funds. Bond resolution and loan documentation constraints and insurance company restrictions may create specific considerations in addition to the Investment Policy.

Safety of Principal - All investments shall be high quality with no perceived default risk. Market price fluctuations will occur. However, managing Debt Service Reserve Fund maturities to not exceed the call provisions of the borrowing reduces the investment's market risk if the LEDC's debt is redeemed and the Reserve Fund liquidated. No stated final investment maturity shall exceed the shorter of the final maturity of the borrowing or five years. Annual mark-to-market requirements or specific maturity and average life limitations within the borrowing's documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

Marketability - Securities with less active and efficient secondary markets are acceptable for Debt Service Reserve Funds.

Liquidity – Debt Service Reserve Funds have no anticipated expenditures. The Funds are deposited to provide annual debt service payment protection to LEDC's debt holders. The funds are "returned" to LEDC at the final debt service payment. Market conditions and arbitrage regulation compliance determine the advantage of investment diversification and liquidity. Generally, if investment rates exceed the cost of borrowing, locking in investment maturities and reducing liquidity best serve LEDC. If the borrowing cost cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Debt Service Reserve Funds. At no time shall the final debt service payment date of the bond issue be exceeded in an attempt to bolster yield.

Yield - Achieving a positive spread to the applicable borrowing cost is the desired objective. Debt Service Reserve Fund portfolio management shall at all times operate within the limits of the Investment Policy's risk constraints.

E. **Internal Investment Pool**

Suitability - Any investment eligible in the Investment Policy is suitable for the Internal Investment Pool.

Safety of Principal - All investments shall be high quality with no perceived default risk. Market price fluctuations will occur. However, by managing weighted average days to maturity for the Investment Pool to less than 300 days and restricting the maximum allowable maturity to two years, the price volatility of the overall portfolio will be minimized.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash flow requirement. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market.

Liquidity – The Internal Investment Pool has moderate liquidity needs. Short-term deposits, investment pools, and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Diversification - Investment maturities should be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of LEDC. Diversifying the appropriate maturity structure out through two years will reduce market cycle risk.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling three-month Treasury Bill portfolio will be the minimum yield objective.

F. **Depreciation Funds**

Suitability - Any investment eligible in the Investment Policy is suitable for Depreciation Funds.

Safety of Principal – All investments will be high quality with no perceived default risk. Market fluctuations will occur. However, by managing Depreciation Funds to balance the short term and long term anticipated cash flow requirements of the plant or equipment being depreciated, replaced or repaired, the market risk of the Depreciation Fund portfolio will be minimized.

Marketability - The balancing of short-term and long-term cash flow needs requires the short-term portion of the Depreciation Funds portfolio to have securities with active and efficient secondary markets. Historical market "spreads" between the bid and offer prices of a particular security-type of less than a quarter of a percentage point will define an efficient secondary market. Securities with less active and efficient secondary markets are acceptable for the long-term portion of the portfolio.

Liquidity - Depreciation Funds used as part of a CIP plan or scheduled repair and replacement program are reasonably predictable. However unanticipated needs or emergencies may arise. Selecting investment maturities that provide greater cash flow than the anticipated needs will reduce the liquidity risk of unanticipated expenditures.

Diversification - Investment maturities should blend the short-term and long-term cash flow needs to provide adequate liquidity and yield enhancement and stability. A "barbell" maturity ladder may be appropriate.

Yield - Attaining a competitive market yield for comparable investment-types and portfolio structures is the desired objective. The yield of an equally weighted, rolling six-month Treasury Bill portfolio will be the minimum yield objective.

[redacted]
Mayor

[redacted]
Date

[redacted]
LEDC [redacted]

[redacted]
Date