



# Texas Transportation Commission Investment Policy

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## **1.0 POLICY**

It is the policy of the Texas Transportation Commission (the "Commission") to invest funds that are the subject of this Investment Policy (the "Policy") in a manner that will preserve the principal of funds invested while meeting the daily cash flow demands of the Commission and conforming to the applicable trust indenture or agreement, supplemental indentures or agreements, resolutions, loan agreements, minute orders or other pertinent financing documents (collectively, the "Bond Documents") related to a financing program or particular series of outstanding bonds, notes or other obligations (collectively, the "Obligations") issued by the Commission; and conform to all statutes governing the investment of Commission funds not otherwise required by law to be invested by the Texas Comptroller of Public Accounts (the "Comptroller") or other parties, whether held by a trustee, the Comptroller or other applicable entity under the Bond Documents including, but not limited to, the *Public Funds Investment Act*, Chapter 2256, Texas Government Code (the "Act") and the *Public Funds Collateral Act*, Chapter 2257, Texas Government Code.

## **2.0 SCOPE**

The Commission will endeavor to earn a return on funds invested at the optimum investment return after considering the primary goals of preservation of principal and liquidity of funds invested. A separate portfolio of investments may be created for each investment strategy (as described in Exhibits F.1 through F.4) and each portfolio will be managed in a manner consistent with the Policy and applicable strategy objectives described below. This Policy applies solely to funds of the Commission not otherwise required by law to be invested by the Comptroller or other parties, which currently include funds held by a trustee, the Comptroller or other applicable entity pursuant to the Bond Documents securing any outstanding Obligations. Funds of the Commission include bond proceeds or pledged revenue, which may be invested only to the extent permitted by the Act, in accordance with statutory provisions governing the debt issuance or the obligation under a lease, installment sale, or other agreement, as applicable, and this Policy. Pledged revenue means money pledged to the payment of or as security for: (1) bonds or other indebtedness issued by the Commission; (2) obligations under a lease, installment sale, or other agreement of the Commission; or (3) certificates of participation in a debt or obligation described by (1) or (2) above. All other funds of the Commission are invested as provided by law including, without limitation, the State Highway Fund (including the State Infrastructure Bank), general obligation bond proceeds, and any operating accounts, maintenance accounts or reserve maintenance accounts which are not subject to the provisions of the Bond Documents.

### **3.0 PRUDENCE**

Investments shall be made with judgment and care under circumstances then prevailing that 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. The standard of prudence to be used by Investment Officers 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, this Policy, any applicable investment strategies, and exercising due diligence, shall be relieved of personal responsibility for an individual instrument’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. In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the Investment Officer had responsibility rather than consideration as to the prudence of a single investment and whether the investment decision was consistent with this Policy, the applicable investment strategy and written investment procedures.

### **4.0 OBJECTIVES**

The primary objectives of the Commission’s investment activities pursuant to this Policy, in priority order shall be:

Preservation and Safety of Principal: Investments of the Commission shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio. To attain this objective, diversification along credit and maturity lines is required to minimize potential losses on the portfolio.

Liquidity: The investment portfolios will remain sufficiently liquid to enable the Commission to meet all requisite operating requirements, which might be reasonably anticipated.

Yield: The investment portfolios shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, considering the investment risk constraints and the cashflow characteristics of the portfolio. It is recognized that in diversifying the portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio’s investment return, provided that adequate diversification has been implemented.

## **5.0 DELEGATION OF AUTHORITY**

Authority to manage the investment program is derived from the Act, specifically, Section 2256.005. Management responsibility for the investment program is hereby delegated to the Chief Financial Officer and the Director, Project Finance, Debt and Strategic Contracts Division of the Texas Department of Transportation (the "Department"), who for purposes of this Policy, shall be referred to herein as the "Investment Officers". The Chief Financial Officer shall establish written procedures for the operations of the investment program consistent with this Policy and, if applicable, the provisions of the Bond Documents. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions, including a system of controls to regulate (1) the investment activities of parties holding funds pursuant to the Bond Documents, (2) Investment Advisors and (3) designees of the Investment Officers. The procedures shall include methods to monitor market price and credit rating changes of investments held, where applicable, and liquidation procedures. No person may engage in an investment transaction except as provided under the terms of this Policy, the procedures established by the Chief Financial Officer and the provisions of the Bond Documents. The Investment Officers will be responsible for all transactions undertaken under this Policy. The Chief Financial Officer is primarily responsible for the execution of investment strategy and activities on a daily basis. However, in his/her absence or upon his/her delegation, the Department's Project Finance, Debt and Strategic Contracts Division Director, or a designee of any of the Investment Officers (as evidenced in a delegation memorandum, a form of which is attached hereto as Exhibit E) shall perform these duties and responsibilities.

## **6.0 TRAINING**

To ensure qualified and capable investment management, each member of the Commission and the Investment Officers shall attend at least one training session relating to the person's responsibilities under the Act within six months after taking office or assuming duties. The Investment Officers shall attend an investment training session not less than once each state fiscal biennium and may receive training from any independent source approved by the Commission as listed in Exhibit C of the Policy.

Training to be received by the Investment Officers must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio assets, and compliance with the Act.

## **7.0 INVESTMENT ADVISOR**

The Commission may from time to time employ qualified representatives or firms as an Investment Advisor to assist the Investment Officers in carrying out the investment program

and complying with the requirements of the Act. Any investment manager hired by the Commission must qualify under the Act and under Texas Government Code, Section 1371.154, where applicable, be a Registered Investment Advisor, and provide evidence of adequate coverage through a current "errors and omissions" policy. The investment management contract, and any extensions or renewals, may not be for a term greater than two years and must be approved by the Commission.

## **8.0 ETHICS AND CONFLICTS OF INTEREST**

Investment Officers involved in the investment process shall refrain from personal business or investment activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Investment Officers involved in the investment process shall sign annual statements agreeing to abide by this section of the Policy and affirming no known conflicts of interest. Newly designated Investment Officers shall sign a conflict of interest certification within 60 days of such designation (as evidenced in a conflict of interest certification, a form of which is attached hereto as Exhibit F).

Investment Officers must file a disclosure statement with the Texas Ethics Commission and the Commission if:

- a) the Investment Officer has a personal business relationship with a business organization offering to engage in an investment transaction with the Commission; or
- b) the Investment Officer 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 Commission. An Investment Officer involved in the investment process has a personal business relationship with a business organization if:
  - the Investment Officer owns 10% 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;
  - funds received by the Investment Officer from the business organization exceed 10% of his/her gross income for the previous year; or
  - the Investment Officer 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.

## **9.0 REPORTING**

The Investment Officers shall prepare and submit to the Commission and the Executive Director an investment report no less frequently than quarterly. The report shall contain sufficient information to provide for a comprehensive review of investment activity and performance for the period, and shall include, at a minimum:

- for each individual investment:
  - the book value and market value at the end of the reporting period;

- the maturity date of each investment, if applicable; and
- the account or fund or pooled group for which it was acquired;
- a statement of intent if some or all securities are intended to be held to maturity;
- a statement of compliance with the Act, this Policy or the investment strategies of the Commission;
- an analysis of current market conditions; and
- if funds are pooled and invested, a summary statement identifying the fund or account for which the investment was acquired and presenting the beginning and ending market value of the pool portfolio and the fully accrued interest for the reporting period.

“Weighted average yield to maturity” shall be the portfolio performance measurement standard.

Data will be available upon request, and kept on file, of all transactions to record and document all investment activity.

The investment report shall be prepared jointly and signed by all Investment Officers.

Investment reports shall be formally reviewed at least annually by an independent auditor, and the results of the review shall be reported to the Commission by that auditor.

At least once every two years, the Commission shall perform a compliance audit of management controls on investments and adherence to the established investment policies as set forth in this document. Not later than January 1 of each even-numbered year, the Commission shall report the results of the most recent compliance audit to the State Auditor. Subject to a risk assessment and to the Legislative Audit Committee’s approval of a review by the State Auditor in the audit plan, the State Auditor may review this report. If review by the State Auditor is approved by the Legislative Audit Committee, the State Auditor may, based on its review, require the Commission to also report to the State Auditor other information the State Auditor determines necessary to assess compliance with laws and policies applicable to the Commission’s investments. Such report shall be prepared in a manner the State Auditor prescribes.

## **10.0 AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS**

The Investment Officers will maintain a list of financial institutions authorized to engage in investment transactions. The Investment Officers may request the assistance and accept the recommendations of the Financial Advisor or Investment Advisor in establishing and maintaining such a list. Qualified financial institutions shall include only banks, broker/dealers, primary dealers, insurance companies and other financial institutions doing business in the State of Texas and who are licensed or otherwise registered and in good standing, as applicable, with the Texas State Securities Board, the Securities and Exchange Commission (the “SEC”), the Financial Industry Regulatory Authority, or other applicable state or national banking or insurance regulatory organizations. If otherwise acceptable, a wholly-owned subsidiary or affiliated company of such regulated financial institutions shall be deemed qualified.

Prior to the settlement date of an initial investment transaction with a business organization, the Investment Officers shall have received from such business organization an executed Investment Certification substantially in the form attached to this Policy as Exhibit A.

In addition, at least annually, the Commission shall review, revise and adopt a list of broker/dealers authorized to engage in investment transactions with the Commission. The list of approved broker/dealers is attached as Exhibit B.

The Investment Officers shall create a competitive investment environment by soliciting quotations from multiple investment providers, monitoring investment pool and mutual fund performance, and comparing banking service availability and pricing, where appropriate.

## **11.0 SAFEKEEPING**

All securities purchased by the Commission under this Policy shall be designated as assets of the Commission, shall be conducted on a delivery-versus-payment (“DVP”) basis, and shall be protected through the use of a third-party custodian/safekeeping agent, which may be a trustee.

## **12.0 DIVERSIFICATION**

It is the policy of the Commission to diversify its investment portfolios. Assets shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically by the Investment Officers. In establishing specific diversification strategies, the following general policies and constraints shall apply:

- a) Portfolio maturities shall be matched versus liabilities to avoid undue market risk.
- b) Investments selected shall provide for stability of income and liquidity as long as there is preservation and safety of principal.
- c) Disbursement dates shall be covered through maturing investments and cash equivalent instruments such as local government investment pools, financial institution deposits, and money market mutual funds designated under the Act and this Policy as eligible investments.
- d) No investment shall have a maturity in excess of the shorter of the maximum maturity permitted by the Bond Documents or limits specified in the applicable investment strategy.
- e) If rating requirements on authorized investments (defined in Sections 13.0 and 14.0 of this Policy) cannot be met with respect to investments held in the portfolio, prudent action must be taken, consistent with this Policy as described in Section 17.0 and the Act, to rectify the situation.



**13.0 AUTHORIZED INVESTMENTS**

In accordance with authorizing federal and state laws, the Bond Documents and appropriate approved collateral provisions, the Commission may utilize the following investments for the investment of Commission funds subject to this Policy as provided in Section 2.0 of this Policy:

- a) Obligations of or Guaranteed by Governmental Entities
  - i. Obligations, including letters of credit, of the United States (the "US") or its agencies and instrumentalities, including the Federal Home Loan Banks.
  - ii. Direct obligations of the State of Texas or its agencies and instrumentalities rated as to investment quality by a nationally recognized investment firm.
  - iii. Collateralized mortgage obligations issued by a federal agency or instrumentality of the US, the underlying security for which is guaranteed by an agency or instrumentality of the US. Such transactions shall not exceed 10% of the total of each investment portfolio under this Policy.
  - iv. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the US or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by the explicit full faith and credit of the US.
  - v. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. Such transactions shall not exceed 10% of the total of each investment portfolio under this Policy.
  - vi. Bonds issued, assumed, or guaranteed by the State of Israel.

However, in accordance with the provisions of Section 2256.009(b), Government Code, the obligations listed in Section 15.0 of this Policy are not authorized investments under this clause (a).

- b) Financial Institution Deposits, Certificates of Deposit and Share Certificates

A financial institution deposit, certificate of deposit or share certificate issued by a depository institution that has its main office or a branch office in the State of Texas, that is (1) guaranteed or insured by the FDIC or its successor; or, the National Credit Union Share Insurance Fund, or its successor, (2) secured by obligations described in (a) above, or (3) secured in accordance with Section 19.0 of the Policy are authorized investments.

In addition to the authority to invest funds in financial institution deposits and certificates of deposit described above, investments meeting the following conditions are authorized investments:

- i. The funds are invested (1) through a broker that has its main office or a branch office in the State of Texas and is selected from a list of broker/dealers approved by the Commission, or (2) a financial institution with a main office or branch in the State of Texas selected by an Investment Officer as described in Section 10.0 of this Policy;

- ii. The authorized broker or depository institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the Commission;
- iii. The full amount of the principal and accrued interest is insured by the US or an instrumentality of the US; and
- iv. The Commission appoints as custodian the depository institution selected under (i) with respect to the certificates of deposit issued for the account of the Commission or a clearing broker/dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).

c) Repurchase Agreements

A fully collateralized repurchase agreement that (1) has a defined termination date; (2) is secured by a combination of cash and/or obligations described in 2256.009(a)(1) or 2256.013, Texas Government Code; (3) requires the securities being purchased by the Commission or cash held by the Commission to be pledged to the Commission, held in the Commission's name either directly or through a joint account maintained by a custodian bank and established on behalf of the Commission and one or more other parties to engage in aggregate repurchase agreement transactions, and deposited at the time the investment is made with the Commission or with a third party selected and approved by the Commission; (4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas; and (5) collateralized in accordance with Section 19.0 of this Policy. "Repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described in 2256.009(a)(1) or 2256.013, Texas Government Code, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and reverse security repurchase agreement. A repurchase agreement may be submitted for clearing and settlement to a covered clearing agency, as defined by the Securities and Exchange Commission in Rule 17Ad-22 (17 C.F.R. Section 240.17Ad-22).

Any contract made by the Commission with an investment management firm under Texas Government Code Section 2256.003(b) may authorize the firm to invest the Commission's public funds or other funds under the Commission's control in repurchase agreements using a joint account, provided that any investment management firm responsible for managing a repurchase agreement transaction using a joint account on behalf of the Commission must ensure that:

- i. accounting and control procedures are implemented to document the Commission's aggregate daily investment and pro rata share in the joint account;
- ii. each party participating in the joint account retains the sole rights of ownership to the party's pro rata share of assets invested in the joint account, including investment earnings on those assets; and
- iii. policies and procedures are implemented to prevent a party participating in the joint account from using any part of a balance of the joint account that is credited to another party.

Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered. Money received by the Commission under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement. Section 1371.059(c), Government Code, applies to the execution of a repurchase agreement by the Commission.

d) Banker's Acceptance

A bankers' acceptance that (1) has a stated maturity of 270 days or fewer from the date of its issuance; (2) will be, in accordance with its terms, liquidated in full at maturity; (3) is eligible for collateral for borrowing from a Federal Reserve Bank; and (4) is accepted by a bank organized and existing under the laws of the US or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

e) Commercial Paper

Commercial Paper that (1) has a stated maturity of 365 days or fewer from the date of its issuance; and (2) is rated not less than A-1 or P-1 or an equivalent rating by at least (A) two nationally recognized credit rating agencies or (B) one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the US or any state.

f) Mutual Funds

- i. A no-load money market mutual fund that (A) is registered with and regulated by the SEC; (B) provides the Commission with a prospectus and other information required by the *Securities Exchange Act of 1934* or the *Investment Company Act of 1940*; (C) complies with federal SEC rule 2a-7 (17 C.F.R Section 270.2a-7), promulgated under the *Investment Company Act of 1940* (15 U.S.C. Section 80a-1 et seq.); and
- ii. A no-load mutual fund that (A) is registered with the SEC; (B) has an average weighted maturity of less than two years; and (C) either has a duration of one year or more and is invested exclusively in obligations described in this Section 13.0 of this Policy or has a duration of less than one year and the portfolio is limited to investment grade securities, excluding asset-backed securities.

The Commission is not authorized to (1) invest in the aggregate more than 15% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Section 13.0(f)(ii) above; (2) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Section 13.0(f)(ii) above; or (3) invest its funds, including bond proceeds, reserves and funds held for debt service, in any one mutual fund described in (i) or (ii) above in an amount that exceeds 10% of the total assets of the mutual fund.

g) Investment Pools

The Commission may invest its funds and funds under its control through an investment pool eligible under the Act if the Commission by official action authorizes investment in the particular pool. The Commission authorizes the investment pools named in Exhibit D. To maintain eligibility to receive funds from and invest funds on behalf of the Commission, an investment pool must be continuously rated no lower than AAA or AAAM or at an equivalent rating of at least one nationally recognized rating service.

The Commission by contract may delegate to an investment pool to hold legal title as custodian of investments purchased with its funds.

h) Guaranteed Investment Contracts

The Commission may invest its bond proceeds in a guaranteed investment contract if the guaranteed investment contract (1) has a defined termination date, (2) is secured by obligations described in 13.0(a)(i) above, but excluding those securities listed in Section 15.0 of this Policy, in an amount at least equal to the amount of bond proceeds invested under the contract, and (3) is pledged to the Commission and deposited with the Commission or with a third party selected and approved by the Commission. Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested in a guaranteed investment contract with a term of longer than 5 years from the date of issuance of the bonds.

To be eligible as an authorized investment:

- the Commission must specifically authorize guaranteed investment contracts as an eligible investment in the Bond Documents;
- the Commission must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;
- the Commission must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
- the price of the guaranteed investment contract must consider the reasonably expected drawdown schedule for the bond proceeds to be invested; and
- the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

i) Securities Lending Program

The Commission may invest in a securities lending program provided the program meets the following conditions:

- the value of securities loaned under the program must be not less than 100% collateralized, including accrued income;
- a loan made under the program must allow for termination at any time;
- a loan made under the program must be secured by (1) the pledged securities described in clause 13.0(a); (2) pledged irrevocable letters of credit issued by a bank that is organized and existing under the laws of the US or any other state and continuously rated by at least one nationally recognized investment rating firm at not less than A or

- its equivalent; or (3) cash invested in the securities described in Section 13.0(a), 13.0(e), 13.0(f), or 13.0(g);
- the terms of a loan made under the program must require that the securities being held as collateral be pledged to the Commission, be held in the Commission's name, and be deposited at the time the investment is made with a third party selected and approved by the Commission;
- a loan made under the program must be placed through a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003, or a financial institution doing business in Texas; and
- an agreement to lend securities must have a term of one year or less.

## **14.0 AUTHORIZED AND SUITABLE INVESTMENTS**

Bond proceeds may be invested in accordance with the provisions of the Bond Documents. To the extent of any inconsistency between the provisions of this Policy and the Bond Documents, the investment terms contained in the Bond Documents shall control; provided, however, that no such investment of bond proceeds shall be made in the non-authorized investments described in Section 15.0 of this Policy.

## **15.0 NON-AUTHORIZED INVESTMENT**

The following are not authorized investments under this Policy:

- obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (interest only bond);
- obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (principal only bond);
- collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index (inverse floaters);
- notwithstanding any language in this policy to the contrary, bond proceeds may not be invested in no-load mutual funds described in Section 13.0(f)(ii) of this Policy; and
- investments of any type which are denominated in a foreign currency.

## **16.0 ADVISORY COMMITTEE**

Upon the recommendation of the Chief Financial Officer, the Commission may establish an investment advisory committee to give advice to the Investment Officers on matters described in Section 10.0 of this Policy.

## **17.0 EXISTING INVESTMENTS**

Not less than quarterly, the Investment Officers will obtain, from a reliable source, the current credit rating for each investment that has a Public Fund Investment Act required minimum rating. In the event that the credit rating of any investment is publicly placed under review by the credit rating agency maintaining the rating, the Investment Officers shall closely monitor the investment and take such action as they deem prudent to protect the value of the investment.

Except as provided by Chapter 2270, Government Code, investments held on the effective date of this Policy that are no longer authorized investments under the Act and this Policy do not need to be liquidated before the final stated maturity of the investment. The Investment Officers shall take all prudent measures that are consistent with this Policy to liquidate any investment that becomes a non-authorized investment, e.g., through a rating downgrade, after the purchase of such investment.

## **18.0 PROXY VOTING**

The Investment Officers shall execute and deliver any proxies to be voted on behalf of the Commission based upon his or her judgment, as a prudent investor, as to the outcome of the voting that would be most beneficial to the Commission; provided however, that no such proxy to be voted on behalf of the Commission shall be in violation of State law.

To allow mutual fund managers to use their best professional judgment in meeting their fund's objectives, the Commission will generally support each fund's management in connection with required proxy votes, except those referendums which seek to raise fees, alter the fundamental investment objective of the fund or violate State law. In those cases, the Commission will vote negatively. Other than instances that violate State law, if there is a clear justification on the basis of its benefit to the shareholders, and that such approval is consistent with the aims and purposes for which the fund was selected under the investment strategy the Commission will generally support each fund's management in connection with required proxy votes. The investment fund managers will vote proxies for companies in their fund.

## **19.0 COLLATERAL**

Each investment containing collateralization provisions must comply with the Texas Public Funds Collateral Act. Consistent with the requirements of the Texas Public Funds Collateral Act, it is the policy of the Commission to require full collateralization of all Commission's funds on deposit with a depository bank. In order to anticipate market change and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC. At its

discretion, the Commission may reject or require a higher level of collateralization for certain pledged securities. Securities pledged as collateral shall be held by an independent third party with whom the Commission has a custodial agreement. The Investment Officers are responsible for entering into collateralization agreements with an independent third-party custodian in compliance with this Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the Commission and retained. Collateral shall be reviewed at least monthly to assure that the market value of the pledged securities is adequate.

## **20.0 INVESTMENT POLICY ADOPTION**

This Policy has been adopted by minute order of the Commission. The Commission may also adopt investment strategies for each financing program as appropriate. This Policy and each investment strategy shall be reviewed on an annual basis by the Commission. Any modifications to the Policy and investment strategies must be approved by the Commission.

## EXHIBIT A

### FORM OF COMMISSION INVESTMENT CERTIFICATION

This acknowledgment and certification is executed on behalf of \_\_\_\_\_ (the "Business Organization") pursuant to the Investment Policy (the "Investment Policy") of the Texas Transportation Commission (the "Commission") in connection with investment transactions between the Commission and the Business Organization to which the Commission may be entitled to rely upon.

#### Representations by Business Organization

The undersigned Representative of the Business Organization hereby acknowledges and represents that:

- 1) The Representative is an authorized officer of the Business Organization.
- 2) The Business Organization has received and reviewed the Investment Policy of the Commission and the Business Organization has determined that it is a qualified Business Organization under the Investment Policy.
- 3) The Business Organization will maintain compliance with State law and agrees to (i) inform the Commission, within 5 business days of receipt of any notice of noncompliance with State law from any governmental entity and (ii) provide the Commission with any certification requested by a Commission representative to confirm compliance with State law.
- 4) The Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions with the Commission that are not authorized under the Investment Policy, except to the extent that this authorization:
  - A) is dependent on an analysis of the makeup of the Commission's entire portfolio;
  - B) requires an interpretation of subjective investment standards; or
  - C) relates to investment transactions of the Commission that are not made through accounts or other contractual arrangements over which the Business Organization has accepted discretionary investment authority.

\_\_\_\_\_

Signature

\_\_\_\_\_

Name (Printed)

\_\_\_\_\_

Title



## EXHIBIT B

### QUALIFIED BROKER/DEALERS

The following Broker/Dealers are authorized to engage in investment transactions with the Commission<sup>1</sup>:

American Veterans Group, PBC (MBE)	JP Morgan Securities LLC*
AmeriVet Securities, Inc (MBE)	Key Banc Capital Markets, Inc.
ASL Capital Markets Inc*	Loop Capital Markets LLC (MBE)
Barclays Capital Inc*	Mischler Financial Group, Inc. (MBE)
Bley Investment Group (MBE)	Mizuho Securities USA LLC*
BMO Capital Markets*	Morgan Stanley & Co. LLC*
BNP Paribas Securities*	NatWest Markets Securites Inc.*
BNY Mellon Capital Markets, LLC	Nomura Securities International*
BofA Securities, Inc*	Piper Sandler & Co
Cabrera Capital Markets, LLC (MBE)	PNC Capital Markets LLC
Cantor Fitzgerald & Co*	Raymond James & Associates, Inc.
Citigroup Global Markets Inc*	RBC Capital Markets, LLC*
Daiwa Capital Markets America*	Robert W. Baird & Co, Incorporated
Deutsche Bank Securities*	SAMCO Capital Markets, Inc
Drexel Hamilton, LLC (MBE)	Samuel A Ramirez & Co., Inc. (MBE)
FHN Financial Securities	Santander US Capital Markets LLC*
Fidelity Brokerage Services LLC	Siebert Williams Shank & Co, LLC (MBE)
Frost Brokerage Services, Inc	Stephens Inc.
Goldman Sachs & Co. LLC*	Stifel Nicolaus & Co, Inc.
Hilltop Securities Inc	TD Securities (USA) LLC*
HSBC Securities (USA)*	UBS Securities LLC*
Huntington Securities Inc	UMB Financial Services, Inc.
Janney Montgomery Scott LLC	US Bancorp Investments, Inc
Jefferies LLC*	Wells Fargo Securities, LLC*

(MBE) Minority Business Enterprise and/or Service-Disabled Veteran-Owned Business

\*Primary Dealers for the Federal Reserve Bank of New York

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<sup>1</sup> Notwithstanding the authorization of qualified Broker/Dealers herein, each Broker/Dealer shall provide evidence of compliance with State law and provide the Commission with any certification requested by a Commission representative to confirm such compliance before such Broker/Dealer is authorized to engage in investment transactions with the Commission.

## **EXHIBIT C**

### **INVESTMENT TRAINING SOURCES**

The following training sources are authorized providers for providing training to Investment Officers necessary to meet the requirements of this Policy and the Public Funds Investment Act:

Government Finance Officers Association

Government Finance Officers Association of Texas

Government Treasurers Organization of Texas

North Central Texas Council of Governments

Public Financial Management, Inc.

Texas Higher Education Coordinating Board

Texas Municipal League

Texas State University

TexPool Academy

University of North Texas – Center for Public Management

## **EXHIBIT D**

### **AUTHORIZED LOCAL GOVERNMENT INVESTMENT POOLS**

The Commission may invest its funds and funds through an eligible investment pool, as described in Section 2256.016 of the Act, if the Commission by official action authorizes investment in the pool. The Commission authorizes the investment pools listed below so long as they maintain eligibility under the Act.

#### LOGIC

Lone Star Government Overnight

Lone Star Corporate Overnight

Lone Star Corporate Overnight Plus

Texas CLASS

Texas CLASS Government

Texas Term

Texas Treasury Safekeeping Trust Company

TexPool

TexPool Prime

TexStar

# EXHIBIT E

## FORM OF DESIGNATION OF INVESTMENT OFFICER

**To:** [Name/s of Financial Institutions]

**From:** [Name], Chief Financial Officer [or]  
[Name], Director, Project Finance, Debt & Strategic Contracts Division

**Subject:** Authorization and Designation of Investment Officer

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Pursuant to Government Code, Chapter 2256 (Public Funds Investment Act) and the investment policy of the Texas Transportation Commission (the "Commission") (the "Investment Policy"), this memorandum is intended to serve as evidence of authority of the person(s) named below to act as investment officer for the purpose of conducting and executing investment transactions on behalf of the Commission and the Texas Department of Transportation (the "Department").

As authorized by Section 5.0 of the Investment Policy, the undersigned hereby designates and authorizes:

<u>[Name of Department Employee]</u>	_____
[Title of Named Employee]	Signature of [Named Employee]

to serve as an investment officer and is authorized to initiate and execute investment transactions on behalf of the Commission and the Department in accordance with the Public Funds Investment Act and the Investment Policy.

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[Name], Chief Financial Officer [or]  
[Name], Director, Project Finance, Debt & Strategic Contracts Division

## EXHIBIT F

### FORM OF CONFLICT OF INTEREST

Section 8.0 of the Texas Transportation Commission's *Investment Policy* provides that Investment Officers and employees involved in the investment process shall refrain from personal business or investment activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Investment Officers must file a disclosure statement with the Texas Ethics Commission and the Texas Transportation Commission if:

- a) the Investment Officer 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 Commission; or
- b) the Investment Officer has a personal business relationship with a business organization offering to engage in an investment transaction with the Commission.

An Investment Officer involved in the investment process has a personal business relationship with a business organization if:

- the Officer 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;
- funds received by the Investment Officer from the business organization exceed 10 percent of his/her gross income for the previous year; or
- the Investment Officer 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.

I certify that I will abide by the requirements of Section 8.0 of the *Investment Policy* and affirm that I have no known conflicts of interest that could conflict with the proper execution of the investment program, or which could impair my ability to make impartial investment decisions in accordance with the *Investment Policy*.

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Name & Title

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Signature

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Date

# EXHIBIT G.1: CTTS INVESTMENT STRATEGY

INVESTMENT STRATEGY

for the

Central Texas Turnpike System Revenue Obligations

## **PREFACE**

It is the policy of the Texas Transportation Commission (the "Commission") that, giving due regard to the safety and risk of investments, all funds subject to a trust indenture, additional supplemental agreements thereto or indentures adopted in lieu thereof (collectively, the "Trust Indenture") securing obligations issued pursuant to such Trust Indenture for the Commission's Central Texas Turnpike System and any other agreements or minute orders of the Commission modifying or restricting the investment authority of such Trust Indenture (collectively, the "related agreements"), shall be invested in conformance with state and federal regulations, the Trust Indenture or the requirements of the related agreements, the adopted Investment Policy and this investment strategy.

## **INVESTMENT STRATEGY STATEMENT**

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

- Understanding of the suitability of the investment to the financial requirements of the Commission;
- 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 Commission's Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings and reduce investment risk. The Commission's Investment Officers shall incorporate current and future market information from reliable sources as well as anticipated project cashflows when prudently implementing these strategies. The Commission's portfolio shall be designed and managed in a manner responsive to the public trust, consistent with the Investment Policy and the Trust Indenture.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund's unique requirements. Funds held under the Trust Indenture shall be analyzed and invested according to the fund types below.

## **INVESTMENT STRATEGY**

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

**Type I Funds: Type I Funds have varying cash needs in support of ongoing operations and required transfers. Type I Funds generally include the Revenue Fund and the Operations, Maintenance and Reserve Maintenance Accounts.**

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

Safety of Principal and Maximum Maturity - All investments shall be of high quality. Market price fluctuations will occur, however, the price volatility of the overall portfolio will be minimized by managing the weighted average days to maturity for the Type I Fund portfolio to less than 180 days and restricting the maximum allowable maturity to one year.

Liquidity - Type I Funds require the greatest short-term liquidity of any of the fund types. Short-term financial institution deposits, investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the Commission. Adhering to the Investment Policy's maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an average rolling three-month Treasury bill portfolio shall be the minimum yield objective.

**Type II Funds: Type II Funds have cash needs dependent upon anticipated construction schedules including acquisition of right-of-way. Type II Funds have a fairly predictable cashflow schedule and may extend five years or more. Type II Funds generally include the Construction Fund.**

Suitability - Any investment eligible in the Investment Policy is suitable for investment of Type II Funds. Bond document constraints and insurance company restrictions may create bond issue-specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the market risk of the overall portfolio will be minimized by managing the Type II Fund's portfolio to match the anticipated expenditure schedule. The maximum allowable maturity of investments for Type II Funds may not exceed the final draw date for estimated construction draws, or five years, whichever is shorter.



Liquidity - Type II Funds have reasonably predictable draw down schedules. Therefore, investment maturities shall generally follow the anticipated cash flow requirements. Short-term financial institution deposits, investment pools and money market mutual funds shall provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short-term fixed maturity investments. Investment agreements may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market. These marketability requirements do not apply to investment agreements.

Diversification - Market conditions and, in some circumstances, the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type II Funds. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in most investments. If the arbitrage yield cannot be exceeded or is not applicable, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and longer maturities. At no time shall the investment maturities exceed the anticipated expenditure schedule in an attempt to increase yield. Adhering to the Investment Policy's maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - For Type II Funds that do not have an arbitrage yield, attaining a competitive market yield for comparable security-types and portfolio restrictions while complying with the priorities established in this strategy is the desired objective. The yield of the U.S. Treasury security with a maturity date that is comparable to the average weighted maturity of the Construction Fund will be the minimum yield objective for performance. For Type II Funds that have an arbitrage yield, achieving a positive spread to the applicable arbitrage yield while complying with the priorities established in this strategy is the desired objective.

**Type III Funds: Type III Funds contain funds necessary to repay debt and other obligations. Payment dates are usually certain in timing and amount and come due within one year. Type III Funds include the Debt Service Funds, Capitalized Interest Accounts and the Rebate Fund.**

Suitability - Any investment eligible in the Investment Policy is suitable for the Type III Funds. Bond document constraints and bond insurance company restrictions may create issue specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. The maximum maturity will generally be one year or less based on the timing of transfers to fund debt service payments and the date of each payment. Annual mark-to-market requirements or specific

maturity and average life limitations within the bond issues' documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

Liquidity - Type III Funds have predictable expenditures and can be invested to match debt service payment dates. Market conditions determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Marketability – Securities with active and efficient secondary markets are acceptable for Type III Funds.

Diversification – Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type III Funds. At no time shall investment maturities exceed the final debt service payment date of the bond issue in an attempt to increase yield.

Yield – Where permitted by federal tax law, achieving a positive spread to the applicable arbitrage yield is the desired objective.

**Type IV Funds: Type IV Funds are held as reserves to be used only under certain conditions that warrant the use of the funds for either operational or debt service protection. Type IV Funds generally include the Debt Service Reserve Funds, the Rate Stabilization Fund and the General Reserve Fund.**

Suitability - Any investment eligible in the Investment Policy is suitable for the Type IV Funds. Bond document constraints and insurance company restrictions may create issue specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. The allowable maximum maturity is 20 years or the final maturity of the bonds, whichever is sooner.

Liquidity - Type IV Funds may be expended for debt service payments, maintenance, and/or operation expenses. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Marketability – Securities with less active and efficient secondary markets are acceptable for Type IV Funds.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type IV Funds. At no time shall investment

maturities exceed the final debt service payment date of the bond issue in an attempt to increase yield.

Yield - Attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio shall be the objective.

## **EXHIBIT G.2: CUSTODIAL ACCOUNTS INVESTMENT STRATEGY**

INVESTMENT STRATEGY

for the accounts under the

Master Lockbox and Custodial Account Agreement

## **PREFACE**

It is the policy of the Texas Transportation Commission (the "Commission") that, giving due regard to the safety and risk of investment, all funds and accounts (the "Custodial Accounts") subject to the Master Lockbox and Custodial Account Agreement by and between the Bank of New York Trust Company, N.A., as Custodian and the Texas Department of Transportation, dated as of November 9, 2007, as amended or as superseded by a replacement agreement (the "Master Lockbox and Custodial Account Agreement") shall be invested in conformance with the terms of the Master Lockbox and Custodial Account Agreement, the adopted Investment Policy and this investment strategy.

The Master Lockbox and Custodial Account Agreement provides for lockbox accounts and custodial accounts. This investment strategy applies to the accounts identified under the Master Lockbox and Custodial Account Agreement as a custodial account (the "Custodial Account").

## **INVESTMENT STRATEGY**

- Up to 100% of Custodial Accounts may be invested in authorized investments with maturities of less than one year.
- Up to 20% of Custodial Accounts can be invested in authorized investments with a final maturity not to exceed two years from date of purchase.
- The maximum weighted average maturity for the investments may not exceed 240 days at any time.

## **AUTHORIZED INVESTMENTS**

- U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the payment of principal and interest.
- Federal Agency or U.S. government sponsored enterprises (GSE) obligations, participations or other instruments.
- Securities and Exchange Commission registered money market funds.

# **EXHIBIT G.3: I-35E INVESTMENT STRATEGY**

INVESTMENT STRATEGY

for the

I-35E Managed Lanes Project Toll Revenue Obligations

## **PREFACE**

It is the policy of the Texas Transportation Commission (the "Commission") that, giving due regard to the safety and risk of investments, all funds subject to a trust agreement, and any additional supplemental agreements thereto or indentures adopted in lieu thereof (collectively, the "Trust Agreement") securing obligations issued pursuant to such Trust Agreement for the Commission's I-35E Managed Lanes Project and any other financing agreements, loan agreements or minute orders of the Commission modifying or restricting the investment authority of such Trust Agreement (collectively, "related agreements"), shall be invested in conformance with state and federal regulations, the Trust Agreement or the requirements of the related agreements, the adopted Investment Policy and this investment strategy.

## **PERMITTED INVESTMENTS**

In addition to the restrictions set forth for Authorized Investments in Section 13.0 of the Commission's Investment Policy, all funds subject to the I-35E Trust Agreement will be further restricted to the following Permitted Investments as defined in the Trust Agreement and so long as the TIFIA Loan Agreement is outstanding.

- i. Government Obligations;
- ii. Certificates of deposit where the certificates are collaterally secured by securities of the type described in Section 13.0(a) and held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest, but this collateral is not required to the extent the certificates of deposit are insured by an agency of the Government;
- iii. Repurchase agreements, when collateralized by securities of the type described in described in 2256.009(a)(1) or 2256.013, Texas Government Code; and held by a third party as escrow agent or custodian, of a market value not less than the amount of the repurchase agreement so collateralized, including interest;
- iv. Investment agreements or guaranteed investment contracts rated, or with any financial institution whose senior long-term debt obligations are rated, or guaranteed by a financial institution whose senior long-term debt obligations are rated, at the time such agreement or contract is entered into, in one of the two highest rating categories for comparable types of obligations by any Nationally Recognized Rating Agency;
- v. Money market funds that invest solely in obligations of the United States, its agencies and instrumentalities, and having a rating by a Nationally Recognized Rating Agency equal to the then applicable rating of the United States of America by such Nationally Recognized Rating Agency;
- vi. Public funds investment pools, as described by Section 2256.016, Texas Government Code, and continuously rated no lower than "AAA" or "AAAm" or an equivalent rating by at least one Nationally Recognized Rating Agency or as otherwise provided by Section 2256.019, Texas Government Code; and
- vii. Such other Authorized Investments that may be permitted from time to time by the TIFIA Loan Agreement.

## **INVESTMENT STRATEGY STATEMENT**

In accordance with the Act, Commission investment strategies shall address the following priorities (in order of importance):

- Understanding of the suitability of the investment to the financial requirements of the Commission;
- 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 Commission's Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings and reduce investment risk. The Commission's Investment Officers shall incorporate current and future market information from reliable sources as well as anticipated project cashflows when prudently implementing these strategies. The Commission's portfolio shall be designed and managed in a manner responsive to the public trust, consistent with the Investment Policy, the Trust Agreement and the TIFIA Loan Agreement.

The portfolio's funds and accounts have been grouped into fund types based on similar cash flow requirements, liquidity needs and maximum maturity limits. However, specific strategies shall be implemented for each fund type and considering each fund's unique requirements.

### **INVESTMENT STRATEGY**

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

**Type I Funds: Type I Funds have varying cash needs in support of ongoing operations and required transfers. Type I Funds generally include the Revenue Fund, the Operations and Maintenance Fund and the Major Maintenance Fund.**

Suitability - Any Permitted Investment as defined in the Trust Agreement and the TIFIA Loan Agreement while outstanding is suitable for Type I Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. Market price fluctuations will occur, however, the price volatility of the overall portfolio will be minimized by managing the weighted average days to maturity for the Type I Fund portfolio to less than 180 days and restricting the maximum allowable maturity to one year.

Liquidity - Type I Funds require the greatest short-term liquidity of any of the fund types. Short-term financial institution deposits, investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.



Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cash flow based on the anticipated operating needs of the Commission. Adhering to the Investment Policy's maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an average rolling three-month Treasury bill portfolio shall be the minimum yield objective.

**Type II Funds: Type II Funds have cash needs dependent upon anticipated construction schedules including acquisition of right-of-way. Type II Funds have a fairly predictable cashflow schedule and may extend five years or more. Type II Funds generally include the Construction Fund.**

Suitability - Any investment eligible in the Investment Policy, subject to limitations in the Trust Agreement and TIFIA Loan Agreement while outstanding, is suitable for investment of Type II Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the market risk of the overall portfolio will be minimized by managing the Type II Fund's portfolio to match the anticipated expenditure schedule. The maximum allowable maturity of investments for Type II Funds may not exceed the final draw date for estimated construction draws. At no time shall the investment maturities exceed the anticipated expenditure schedule in an attempt to increase yield.

Liquidity - Type II Funds have reasonably predictable draw schedules. Therefore, investment maturities shall generally follow the anticipated cashflow requirements. Short-term financial institution deposits, investment pools and money market mutual funds provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short-term fixed maturity investments. Investment agreements may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market. These marketability requirements do not apply to investment agreements.

Diversification - Market conditions and, in some circumstances, the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type II Funds. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in most investments. If the arbitrage yield cannot be exceeded or is not applicable, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and longer maturities. Adhering to the Investment Policy's maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - For Type II Funds, attaining a competitive market yield for comparable security-types and portfolio restrictions while complying with the priorities established in this strategy is the desired objective. The yield of the U.S. Treasury security with a maturity date that is comparable to the average weighted maturity of the Construction Fund portfolio will be the minimum yield objective for performance.

**Type III Funds: Type III Funds contain funds necessary to repay debt and other obligations. Payment dates are usually certain in timing and amount and come due within one year. Type III Funds include the Debt Service Funds and the TIFIA Prepayment Account.**

Suitability - Any investment eligible in the Investment Policy, subject to limitations of the Trust Agreement and TIFIA Loan Agreement while outstanding, is suitable for the Type III Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. The maximum maturity will generally be one year or less based on the timing of transfers to fund debt service payments and the date of each payment.

Liquidity - Type III Funds have predictable expenditures and can be invested to match debt service payment dates. Market conditions determine the advantage of security diversification and liquidity.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

Diversification - Market conditions influence the attractiveness of staggering the maturity of fixed rate investments for Type III Funds. At no time shall investment maturities exceed the final debt service payment date of the Obligations in an attempt to increase yield.

Yield - Where permitted by federal tax law, achieving a positive spread to the applicable arbitrage yield is the desired objective.

**Type IV Funds: Type IV Funds are held as reserves to be used only under certain conditions that warrant the use of the funds for either operational or debt service protection. Type IV Funds generally include the TIFIA Reserve Fund, the Rate Stabilization Fund, the General Fund and the General Account.**

Suitability - Any investment eligible in the Investment Policy, subject to limitations in the Trust Agreement and TIFIA Loan Agreement while outstanding, is suitable for the Type IV Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. Investments must have a maturity not exceeding five years except that Permitted Investments listed in subsections (iii) and (iv) above may have a nominal maturity longer than five years so long as such investments may be drawn when needed under the Trust Agreement without penalty or payment of breakage.

Liquidity - Type IV Funds need little liquidity but may be expended for debt service payments, maintenance and operation expenses to the extent revenues and deposits are insufficient; and

capital projects under certain circumstances. Market conditions determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Marketability – Securities with less active and efficient secondary markets are acceptable for Type IV Funds.

Diversification - Market conditions influence the attractiveness of staggering the maturity of fixed rate investments for Type IV Funds. At no time shall investment maturities exceed the final debt service payment date in an attempt to increase yield.

Yield - Attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio shall be the objective.

# EXHIBIT G.4: SH 249 INVESTMENT STRATEGY

INVESTMENT STRATEGY

for the

SH 249 System Toll Revenue Obligations

## PREFACE

It is the policy of the Texas Transportation Commission (the "Commission") that, giving due regard to the safety and risk of investments, all funds subject to a master trust agreement, additional supplemental agreements thereto or indentures adopted in lieu thereof (collectively, the "Master Trust Agreement") securing obligations of the Commission's State Highway 249 System and any other agreements or minute orders of the Commission modifying or restricting the investment authority of such Master Trust Agreement (collectively, the "related agreements"), shall be invested in conformance with state and federal regulations, the Master Trust Agreement or the requirements of the related agreements, adopted Investment Policy and this investment strategy.

## INVESTMENT STRATEGY STATEMENT

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

- Understanding of the suitability of the investment to the financial requirements of the Commission;
- 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 Commission's Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings and reduce investment risk. The Commission's Investment Officers shall incorporate current and future market information from reliable sources as well as anticipated project cashflows when prudently implementing these strategies. The Commission's portfolio shall be designed and managed in a manner responsive to the public trust, consistent with the Investment Policy and the Trust Agreement.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the fund's unique requirements. Funds held under the Trust Agreement shall be analyzed and invested according to the fund types below.

## INVESTMENT STRATEGY

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

**Type I Funds: Type I Funds have varying cash needs in support of ongoing operations and required transfers. Type I Funds generally include the Revenue Fund, the Operations and Maintenance Account and the Major Maintenance Account.**

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

Safety of Principal and Maximum Maturity - All investments shall be of high quality. Market price fluctuations will occur, however, the price volatility of the overall portfolio will be minimized by managing the weighted average days to maturity for the Type I Fund portfolio to less than 180 days and restricting the maximum allowable maturity to one year.

Liquidity - Type I Funds require the greatest short-term liquidity of any of the fund types. Short-term financial institution deposits, investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market.

Diversification - Investment maturities shall be staggered throughout the budget cycle to provide cashflow based on the anticipated operating needs of the Commission. Adhering to the Investment Policy's maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective. The yield of an average rolling three-month Treasury bill portfolio shall be the minimum yield objective.

**Type II Funds: Type II Funds have cash needs dependent upon anticipated construction schedules including acquisition of right-of-way. Type II Funds have a fairly predictable cashflow schedule and may extend five years or more. Type II Funds generally include the Construction Fund.**

Suitability - Any investment eligible in the Investment Policy is suitable for investment of Type II Funds. Bond document constraints and insurance company restrictions may create bond issue-specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. As market price fluctuations occur, the market risk of the overall portfolio will be minimized by managing the Type II Fund's portfolio to match the anticipated expenditure schedule. The maximum allowable maturity of investments for Type II Funds may not exceed the final draw date for estimated construction draws.

Liquidity - Type II Funds have reasonably predictable draw down schedules. Therefore, investment maturities shall generally follow the anticipated cash flow requirements. Short-term financial institution deposits, investment pools and money market mutual funds shall provide readily available funds generally equal to one month's anticipated cash flow needs, or a competitive yield alternative for short-term fixed maturity investments. Investment agreements may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request.

Marketability – When investing in securities, active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market “spreads” between the bid and offer yields of a particular security-type of less than a quarter of a percentage point shall define an efficient secondary market. These marketability requirements do not apply to investment agreements.

Diversification - Market conditions and, in some circumstances, the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type II Funds. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in most investments. If the arbitrage yield cannot be exceeded or is not applicable, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and longer maturities. At no time shall the investment maturities exceed the anticipated expenditure schedule in an attempt to increase yield. Adhering to the Investment Policy's maximum investment-type limits shall restrict the exposure of the fund to any one market sector.

Yield - For Type II Funds that do not have an arbitrage yield, attaining a competitive market yield for comparable security-types and portfolio restrictions while complying with the priorities established in this strategy is the desired objective. The yield of the U.S. Treasury security with a maturity date that is comparable to the average weighted maturity of the Construction Fund will be the minimum yield objective for performance. For Type II Funds that have an arbitrage yield, achieving a positive spread to the applicable arbitrage yield while complying with the priorities established in this strategy is the desired objective.

**Type III Funds: Type III Funds contain funds necessary to repay debt and other obligations. Payments are usually certain in timing and amount and come due within one year. Type III Funds include the Debt Service Funds, the Capitalized Interest Accounts and the Rebate Fund.**

Suitability - Any investment eligible in the Investment Policy is suitable for the Type III Funds. Bond document constraints and bond insurance company restrictions may create issue specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. Except for Capitalized Interest Accounts which may include payments that extend several years, Type III Funds usually come due within one year and investments must mature to match debt service payment dates. Annual mark-to-market requirements or specific maturity and average life limitations within the bond issues' documentation will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

Liquidity - Type III Funds have predictable expenditures and can be invested to match debt service payment dates. Market conditions determine the advantage of security diversification and liquidity.

Marketability - Securities with active and efficient secondary markets are acceptable for Type III Funds.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type III Funds. At no time shall investment maturities exceed the final debt service payment date of the bond issue in an attempt to increase yield.

Yield - Where permitted by federal tax law, achieving a positive spread to the applicable arbitrage yield is the desired objective.

**Type IV Funds: Type IV Funds are held as reserves to be used only under certain conditions that warrant the use of the funds for either operational or debt service protection. Type IV Funds generally include the Debt Service Reserve Fund, the Rate Stabilization Fund and the General Reserve Fund.**

Suitability - Any investment eligible in the Investment Policy is suitable for the Type IV Funds. Bond document constraints and insurance company restrictions may create issue specific considerations in addition to the Investment Policy.

Safety of Principal and Maximum Maturity - All investments shall be of high quality. The allowable maximum maturity is 5 years. As market price fluctuations occur, the Type IV Fund's portfolio maturities should be managed to reduce the investment's market risk if the Commission's bonds are called and the reserve fund liquidated.

Liquidity - Type IV Funds may be expended if needed for debt service payments, maintenance, and/or operation expenses. Market conditions and arbitrage regulation compliance determine the advantage of security diversification and liquidity. Generally, if investment rates exceed the applicable arbitrage yield for a specific bond issue, the Commission is best served by locking in investment maturities and reducing liquidity. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of locking in maturities or investing shorter and anticipating future increased yields.

Marketability - Securities with less active and efficient secondary markets are acceptable for Type IV Funds.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type IV Funds. At no time shall investment maturities exceed the final debt service payment date of the bond issue in an attempt to increase yield.

Yield - Attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio shall be the objective.