

TEXAS TRANSPORTATION COMMISSION

ALL Counties

MINUTE ORDER

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ALL Districts

Government Code, Chapter 2256 (Public Funds Investment Act) authorizes the Texas Transportation Commission (commission) to purchase, sell, and invest its funds and funds under its control in accordance with investment policies approved by the commission.

Government Code, §2256.005 requires the commission to adopt a written investment policy regarding the investment of its funds and funds under its control, including a separate written investment strategy for each of the funds or group of funds.

Pursuant to this legislation, in Minute Order 108970, dated July 25, 2002, the commission approved and adopted a written investment policy applicable to funds of the commission held by Bank One, N.A., (in such capacity with its successors, currently *JP Morgan Trust Company, N.A.*), as Trustee under the Indenture of Trust dated July 15, 2002 between the commission and the trustee.

Government Code, §2256.005(e) and Section 17.0 of the investment policy require the commission to review the investment policy and investment strategy on an annual basis, and to approve by order any modifications to the investment policy and investment strategy. The investment policy and investment strategy of the commission were revised by minute orders 109963, 110087, and 110145 adopted by the commission on February 24, 2005, May 25, 2005 and July 28, 2005, respectively, to update the investment policy and strategies to make it applicable to all funds under the control of the commission and not otherwise required to be invested by the Comptroller of Public Accounts (comptroller) including the Texas Mobility Fund and proceeds from the Lease with Option to Purchase relating to the Houston District Headquarters Complex Project.

The delegation of authority provision for the policy has been amended to authorize the Debt Management Director to perform the duties and responsibilities of the Investment Officer in their absence.

The investment policy and investment strategies are attached as Exhibit A.

IT IS THEREFORE ORDERED by the commission that the investment policy and investment strategies applicable to all funds of the commission not otherwise required to be invested by the comptroller, attached as Exhibit A, has been reviewed and is hereby approved in accordance with Government Code Section §2256.005(e) and Section 17.0 of the investment policy.

Submitted and reviewed by:

*James M. Bass*  
Chief Financial Officer

Recommended by:

*m. w. Behrens*  
Executive Director

**110617 JUL 27 06**

Minute Number      Date Passed

# TEXAS TRANSPORTATION COMMISSION

## INVESTMENT POLICY

## TEXAS TRANSPORTATION COMMISSION INVESTMENT POLICY

### 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 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, Supplemental Indentures, Resolutions or Minute Orders (collectively, the "Bond Documents") related to a particular series of outstanding bonds, notes or other obligations (collectively, the "obligations") issued by the Commission and to all statutes governing the investment of the Commission's funds not otherwise required by law to be invested by 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").

### 2.0 SCOPE

The Commission will endeavor to earn a return on funds invested at the highest investment return possible after taking into account the primary goals of preservation of principal and liquidity of funds invested. A separate portfolio of investments is created for each investment strategy and each portfolio is managed in a manner consistent with the policy and applicable strategy objectives described below. This Investment 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. All other funds of the Commission are invested as provided by law including, without limitation the State Highway Fund, 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 officials shall be the "prudent person" standard and shall be applied in

the context of managing an overall portfolio. Investment officers acting in accordance with written procedures, the investment policy, the investment strategy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. In determining whether an investment official has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the official had responsibility rather than consideration as to the prudence of a single investment and, whether the investment decision was consistent with this Investment Policy, the applicable Investment Strategy and written investment procedures.

#### 4.0 OBJECTIVES

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

- (a) 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 in order to minimize potential losses on the portfolio.
- (b) Liquidity: The investment portfolios will remain sufficiently liquid to enable the Commission to meet all requisite operating requirements, which might be reasonably anticipated.
- ~~(c) Return on Investments Yield~~: The investment portfolios shall be designed with the objective of 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. It is recognized that in diversifying the portfolio,
- (c) 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(f)-(h). Management responsibility for the investment program is hereby delegated to the Commission's Texas Department of Transportation, ~~Director of Finance~~ Chief Financial Officer, who for purposes of this Investment Policy, shall be referred to herein as the Investment Officer. The Investment Officer shall establish written procedures for the operations of the investment program consistent with this

Investment Policy and if applicable, the provisions of the Bond Documents. Procedures should include references to: safekeeping, Public Securities Association repurchase agreements, wire transfer agreements, collateral/depository agreements and banking services contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy, the procedures established by the Investment Officer and the provisions of the Bond Documents. Other than pursuant to Bond Documents which require that certain funds be invested by a Trustee, the Comptroller or other applicable entity, upon direction of the Commission, or pursuant to a contract with an Investment Advisor, the Investment Officer will be responsible for all transactions undertaken under this Investment Policy. The Investment Officer shall establish a system of controls to regulate the investment activities of parties holding funds pursuant to the Bond Documents as well as Investment Advisors and subordinate officials. In the absence of the Investment Officer, the Deputy Director of Finance or the Debt Management Director shall perform the duties and responsibilities of the Investment Officer, and such person shall also be considered as an investment officer as described in the *Act*.

## **6.0 TRAINING**

Each member of the Commission and the Investment Officer 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 Officer shall attend an investment training session not less than once in a two-year period and receive training from any independent source approved by the Commission.

Training to be received by the persons named above 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 Officer in carrying out the investment program and complying with the requirements of the *Act*.

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

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

abide by this section of the Investment Policy and affirming no known conflicts of interest.

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

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

~~i.~~• the officer or employee owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;

~~ii.~~• funds received by the officer or employee from the business organization exceed 10 percent of his/her gross income for the previous year; or

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

## 9.0 REPORTING

The Investment Officer shall prepare and submit to each member of the Commission and the Executive Director an investment report no less than on a quarterly basis. In addition to the information required by the Act, ~~t~~The report shall contain sufficient information to provide for a comprehensive review of investment activity, current investment instruments and performance for that period, and shall include, at a minimum:

- the book value (as defined in the *Act*) and market value (as defined in the *Act*) for each investment at the beginning and end of the reporting period;
- if funds are pooled and invested, a summary statement, prepared in accordance with generally accepted accounting principles, presenting the beginning market value of the pool portfolio, changes in the market value during the reporting periods, the

ending market value of the portfolio and fully accrued interest for the reporting period;

- the maturity date of each investment, if applicable;
- a statement of intent if some or all securities are intended to be held to maturity;
- any variations from the investment strategy of the Commission;
- recommended amendments to current specific investment strategies; and
- an analysis of current market conditions.

Data will be available upon request, and kept on file, of all transactions to record and document all investment activity. It is recognized that there may be fluctuations in value during and in comparative reporting periods.

The investment report shall be prepared jointly and signed by all individuals authorized to serve as Investment Officer.

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 ~~March~~ 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 DEALERS**

The Investment Officer will maintain a list of qualified financial institutions authorized to provide investment services. The Investment Officer may request the assistance and accept the recommendations of the Financial Advisor or Investment Advisor in establishing and maintaining such a list. At least annually, the Commission shall review, revise and adopt the list of qualified financial institutions authorized to engage in investment transactions with the Commission. Criteria shall include credit and financial

stability, investment product availability, transaction execution expertise and investment advice.

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 Department of Securities, the Securities Exchange Commission, the National Association of Securities Dealers, 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.

The Commission may not enter into long term investment agreements or other ongoing investment transactions with a final maturity or termination date of longer than six months with any financial institution that initially has a long term rating of less than "AA" by a nationally recognized investment rating firm.

Before the settlement date of an initial investment transaction with a qualified financial institution, the Investment Officer shall have received from such firm an executed Investment Certification substantially in the form attached to this Investment Policy. The Commission's investments represented by overnight sweep transactions shall be exempt from this certification requirement.

#### **11.0 SAFEKEEPING**

All securities purchased by the Commission under this Investment Policy shall be designated as assets of the Commission, shall be conducted on a delivery-versus-payment (DVP) basis (except for investment pool funds and mutual funds), and shall be protected through the use of a third-party custody/safekeeping agent, which may be a Trustee.

#### **12.0 DIVERSIFICATION**

It is the policy of the Commission to diversify its investment portfolios. Assets held in particular funds 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 Officer for all funds. 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.

- (c) Disbursement dates shall be covered through maturing investments and cash equivalent instruments such as money market mutual funds designated under the *Act* and this Investment Policy as an eligible investment.
- (d) No investment shall have maturity in excess of the shorter of the maximum maturity permitted by the Bond Documents or limits specified by Type of Funds in the applicable Investment Strategy Statement.
- (e) If rating restrictions on Securities (defined in Sections 13 and 14 of this Investment Policy) are breached, prudent action must be taken, consistent with this Investment Policy 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 Investment Policy as provided in Section 2.0 of this Investment Policy:

(a) Obligations of or Guaranteed by Governmental Entities

~~(e)~~(i) Obligations, including letters of credit, of the United States or its agencies and instrumentalities.

~~(d)~~(ii) Direct obligations of the State of Texas or its agencies and instrumentalities rated as to investment quality by a nationally recognized investment firm of not less than A.

~~(e)~~(iii) Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States. Such transactions shall not exceed 10% of the total of each investment portfolio under this Investment Policy.

~~(f)~~(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 United States or their respective agencies and instrumentalities.

~~(g)~~(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 AA or its equivalent. Such transactions shall

not exceed 10% of the total of each investment portfolio under this Investment 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 Investment Policy are not authorized investments under clauses (i)-(vi) above.

(b) Certificates of Deposit and Share Certificates

A certificate of deposit or share certificate issued by a depository institution that has its main office or a branch office state or national bank domiciled in the State of Texas or a savings bank domiciled in the State of Texas or a state or federal credit union domiciled in the State of Texas, that is (1) guaranteed or insured by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or their successors; (2) secured by obligations described in clause (a) above, including mortgage-backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage-backed securities listed in Section 15 of this Investment Policy; or (3) secured in any other manner and amount provided by law for deposits of the investing entity.

In addition to the authority to invest funds in certificates of deposit described above, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this Investment Policy:

- i. The funds are invested by the Commission through a depository institution that has its main office or a branch office in the State of Texas and that is selected by the Commission;
- ii. The depository institution selected by the Commission under (i) above arranges for the deposit of the funds in certificates of deposit 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 of each of the certificates of deposit is insured by the United States or an instrumentality of the United States;
- iv. The depository institution selected by the Commission under (i) above acts as custodian for the Commission with respect to the certificates of deposit issued for the account of the Commission; and
- v. At the same time that the funds are deposited and the certificates of deposit are issued for the account of the Commission, the depository institution selected by the Commission under (i) above receives an amount of deposits

from customers of other federally insured depository institutions, wherever located, that is equal to or great than the amount of the funds invested by the Commission through the depository institution selected under (i) above.

Such transactions shall not exceed 20% of the total of each investment portfolio under this Investment Policy.

(c) Repurchase Agreements

A fully collateralized repurchase agreement that (1) has a defined termination date; (2) is secured by obligations described in clause (a)(i) above; (3) requires the securities being purchased by the Commission to be pledged to the Commission, held in the Commission's name, and deposited at the time the investment is made with the Commission or with a third party selected and approved by the Commission; and (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. "Repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described in clause (a)(i) above, 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.

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.

(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 United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency. Such transactions shall not exceed 5% of the total of each investment portfolio under this Investment Policy, and all such endorsing banks shall come only from a list of entities that are constantly monitored as to financial solvency.

(e) Commercial Paper

Commercial Paper that (1) has a stated maturity of 270 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 United States or any State. Such transactions shall not exceed 15% of the total of each investment portfolio under this Investment Policy with no more than 5% in any one name.

(f) Mutual Funds

- (i) A no-load money market mutual fund that (A) is registered with and regulated by the Securities and Exchange Commission; (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) has a dollar-weighted average stated maturity of 90 days or fewer; and (D) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.
- (ii) A no-load mutual fund that (A) is registered with the Securities and Exchange Commission; (B) has an average weighted maturity of less than two years; (C) is invested exclusively in obligations described in this Section 13.0 of this Investment Policy; (D) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and (E) conforms to the requirements set forth in Sections 2256.016(b) and (c), Government Code, relating to the eligibility of investment pools to receive and invest funds of investing entities.

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 or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Section 13.0(f)(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 eligible investment pool if the Commission by official action authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in

authorized investments permitted by the Act. The Commission may invest its funds through an eligible investment pool if the pool provides to the Investment Officer an offering circular or other similar disclosure document that contains, at a minimum, the following information:

- ~~(i)~~• the types of investments in which money is allowed to be invested;
  - ~~(ii)~~• the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
  - ~~(iii)~~• the maximum stated maturity date of any investment security within the portfolio;
  - ~~(iv)~~• the objectives of the pool;
  - ~~(v)~~• the size of the pool;
  - ~~(vi)~~• the names of the members of the advisory board of the pool and the dates their terms expire;
  - ~~(vii)~~• the custodian bank that will safe-keep the pool's assets;
  - ~~(viii)~~• whether the intent of the pool is to maintain a net asset value of \$1 and the risk of market price fluctuation;
  - ~~(ix)~~• whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
  - ~~(x)~~• the name and address of the independent auditor of the pool;
- the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and
  - the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

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 AAA-m or at an equivalent rating of at least one nationally recognized rating service and must furnish to the Investment Officer:

- Investment transaction confirmations;
- A monthly report that contains, at a minimum, the following information:
  - (1) the types and percentage breakdown of securities in which the pool has invested;
  - (2) the current average dollar-weighted maturity, based on the stated maturity date of pool;
  - (3) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
  - (4) the book value versus the market value of the pool's portfolio, using amortized cost valuation;
  - (5) the size of the pool;
  - (6) the number of participants in the pool;
  - (7) the custodian bank that is safekeeping the assets of the pool;
  - (8) a listing of daily transaction activity of the Commission;
  - (9) the yield and expense ratio of the pool;
  - (10) the portfolio managers of the pool; and
  - (11) any changes or addenda to the offering circular.

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

For purposes of investment in an investment pool, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the *Investment Company Act of 1940*, as promulgated from time to time by the federal Securities and Exchange Commission.

To be eligible to receive funds from and invest funds on behalf of the Commission, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1

net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

To be eligible to receive funds from and invest funds on behalf of the Commission, a public funds investment pool must have an advisory board composed:

- Equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791, Government Code, and managed by a state agency; or
- Of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

(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 Investment 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 the ~~investment~~bonds.

To be eligible as an authorized investment:

- the Commission must specifically authorize guaranteed investment contracts as an eligible investment in the ~~dBond Documents~~ authorizing the bonds;
- 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 take into account 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) State of Israel Bonds.~~

(ij) Forward Purchase Contracts.

The Commission may invest in forward purchase agreements which provide the purchase of short-term securities at specified intervals at a predetermined price on a delivery versus payment basis.

The Commission may invest bond proceeds in a forward purchase agreement if:

- the Commission specifically authorizes forward purchase agreements as an eligible investment in the Bond Documents;
- the Commission receives bids from at least three separate providers;
- the Commission purchases the highest yielding agreement for which a qualifying bid is received;
- the price of the forward purchase agreements must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested;
- the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the forward purchase agreements;
- the agreement has a defined termination date;
- the obligations delivered under the agreement are limited to those securities described in 13.0(a)(i), 13.0(a)(ii) or 13.0(e) of this Investment Policy but excluding those securities listed in Section 15.0 of this Investment Policy; and
- the obligations are delivered to the Commission or a Trustee.

The term of any forward purchase agreement will comply in all respects with the limits described in the applicable Investment Strategy for each fund type.

(jk) 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 (a) or (i)~~; (2) pledged irrevocable letters of credit issued by a bank that is organized and existing under the laws of the ~~US~~ United States 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 (a), (e), (f), ~~(g)~~, or (i).
- the terms of a loan made under the program must require that the securities being held as collateral be pledged to the ~~investing entity~~ Commission, be held in the ~~investing entity~~ Commissions name, and be deposited at the time the investment is made;
- 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 Investment 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 Investment Policy.

#### 15.0 NON-AUTHORIZED INVESTMENTS

The following are not authorized investments under this Investment 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);
- bond proceeds may not be invested in no-load mutual funds described in Section 13.0(f)(ii) of this Investment Policy; and
- investments of any type which are denominated in a foreign currency.

#### **16.0 ADVISORY COMMITTEE**

Upon the recommendation of the Investment Officer, the Commission may establish an investment advisory committee to give advice to the Investment Officer on matters described in Section 6.0 and 10.0 of this Investment Policy.

#### **17.0 INVESTMENT POLICY ADOPTION**

This Investment Policy has been adopted by minute order of the Commission. The Commission will adopt Investment Strategy Statements for each financing program as appropriate. This Investment Policy and each current Investment Strategy Statement shall be reviewed on an annual basis by the Commission. Any modifications to the Investment Policy and Investment Strategy Statements must be approved by the Commission.

**COMMISSION  
INVESTMENT CERTIFICATION**

This acknowledgment and certification is executed on behalf of the \_\_\_\_\_ (the "Financial Institution") 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 Financial Institution.

Representations by Financial Institution

The undersigned Representative of the Financial Institution hereby acknowledges and represents that:

- 1) The Representative is an authorized officer of the Financial Institution.
- 2) The Financial Institution has received and reviewed the Investment Policy of the Commission and the Financial Institution has determined that it is a qualified financial institution under the Investment Policy.
- 3) The Financial Institution has implemented reasonable procedures and control 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 is dependent on an analysis of the makeup of the Commission's entire portfolio or requires an interpretation of subjective investment standards.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name (Printed)

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

**TEXAS TRANSPORTATION COMMISSION**  
**Investment Policy**  
**Qualified Financial Institutions**

The following Qualified Financial Institutions are authorized to engage in investment transactions with the Commission:

ABN Amro	Lehman Brothers
AIG	MBIA
AMBAC	Merrill Lynch
<del>Bank One</del>	Mizuho Securities
Bank of America	Monumental Life Insurance
Bayerische Landesbank Giorzentrale	Morgan Stanley
Bear Stearns	Nomura Securities
Barclays Capital	<u>Northern Trust</u>
BNP Paribas	Pallas Capital
<u>Cantor Fitzgerald</u>	Pacific Life Insurance
CIBC World Markets	Rabobank
Citigroup	SMBC Capital Markets
Credit Suisse First Boston	<del>Societe Generale</del>
Daiwa Securities America	Sumitomo
<u>Depfa</u>	Sun Trust Bank
Deutsche Bank Securities	<u>Texas Safekeeping Trust Company</u>
Dresdner Kleinwort Wasserstein Securities	Transamerica Occidental
Frost Bank	Transamerica Life Insurance and Annuity
Goldman Sachs	Trinity Funding
Greenwich Capital Markets	Trinity Plus Funding
FGIC CMS	UBS
FSA	Wachovia Bank
GE Capital Markets	Wells Fargo
<del>Grand Central Funding Corp</del>	Westdeutsche Landesbank Giorzentrale
HI Capital Markets	XL CXL Asset Funding Company
HSBC Securities Inc.	XL Capital Assurance, Inc.
Hypo R/E International	
Hypo Vereinsbank	
IXIS Funding	
J.P. Morgan Chase	

**TEXAS TRANSPORTATION COMMISSION**  
**Investment Training**  
**Independent Sources**

Any Training Sessions provided by or sponsored by the following organizations  
are authorized:

Texas Higher Education Coordinating Board

Government Finance Officers Association of Texas

Government Treasurers Organization of Texas

Texas Municipal League

# **TEXAS TRANSPORTATION COMMISSION**

## **INVESTMENT STRATEGY**

**Relating to**

### **Texas Turnpike Authority Central Texas Turnpike System Series 2002 Obligations**

## 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 subject to the Trust Indenture dated July 15, 2002, the First Supplemental Indenture of Trust dated July 15, 2002, the Second Supplemental Indenture of Trust dated August 1, 2002, the Third Supplemental Indenture of Trust dated August 1, 2002 and the Fourth Supplemental Indenture of Trust dated August 1, 2002 and any additional supplements thereto (collectively, the "Trust Indenture") shall be invested in conformance with State and Federal Regulations, the Trust Indenture or related bond document requirements, adopted Investment Policy and adopted Investment Strategy.

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

### INVESTMENT STRATEGY STATEMENT

- 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 Officer 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 Indenture shall be analyzed and invested according to the following major fund types:

- a. Type I Funds: Funds in the Revenue Fund, General Reserve Fund and Debt Service Funds, other than Capitalized Interest funds
- b. Type II Funds: Funds in the Rate Stabilization Fund
- c. Type III Funds: Funds in the Construction Fund and Capitalized Interest funds

## d. Type IV Funds: Funds in Debt Service Reserve Funds

**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:

**a. Type I Funds: Revenue Fund, General Reserve Fund and Debt Service Fund (excluding Capitalized Interest Funds)**

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 securities with no perceived default risk. 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 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 - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer 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. Market cycle risk will be reduced by diversifying the appropriate maturity structure out to one year. 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 equally weighted, rolling three-month Treasury bill portfolio shall be the minimum yield objective.

**b. Type II Funds: Rate Stabilization Fund**

Suitability - Any investment eligible in the Investment Policy is suitable for the Type II 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 securities with no perceived default risk. The allowable maximum maturity is 3 years.

Liquidity - Type II 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 active and efficient secondary markets, including securities less active than securities purchased with Type I Funds, are acceptable for Type II Funds.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for Type II 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 - Achieving a positive spread to the applicable arbitrage yield while complying with the priorities established in this strategy is the desired objective. Negative arbitrage Type II Fund portfolio management shall operate to the limit of the Investment Policy's risk constraints. Positive arbitrage portfolio management will allow tighter constraints than allowed by the Investment Policy.

**c. Type III Funds: Construction Fund and Capitalized Interest Fund**

Suitability - Any investment eligible in the Investment Policy is suitable for investment of Type III 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 securities with no perceived default risk. Market price fluctuations will occur, however, the market risk of the overall portfolio will be minimized by managing the Type III Fund's portfolio to match the anticipated expenditure schedule. The maximum allowable maturity of investments for Type III Funds may not exceed the final draw date for capitalized interest payments or estimated construction draws, whichever is longer.

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

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer 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 III 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 larger 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 III 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. For Type III 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. Negative arbitrage Type III Fund portfolio management shall operate to the limit of the Investment Policy's risk constraints. Positive arbitrage portfolio management will result in tighter constraints than allowed by the Investment Policy.

**d. Type IV Funds: Debt Service 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 securities with no perceived default risk. Market price fluctuations will occur, and 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. In no case shall any investment maturity exceed the lesser of final maturity of the bond issue or 20 years. 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 IV Funds have no anticipated expenditures of principal. The funds are deposited to provide annual debt service payment protection to the Commission's bondholders. The funds are "returned" to the Commission at the final debt service payment or earlier if bonds are defeased or redeemed. 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 than those required for Type I, Type II or Type III Funds 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 – Achieving a positive spread to the applicable arbitrage yield is the desired objective. Negative arbitrage Type IV Fund portfolio management shall operate to the limit of the Investment Policy's risk constraints. Positive arbitrage portfolio management will allow tighter constraints than allowed by the Investment Policy.

# **TEXAS TRANSPORTATION COMMISSION**

## **INVESTMENT STRATEGY**

**Relating to the**

### **Mobility Fund Revenue Financing Program**

## 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 deposited into the Texas Mobility Fund (TxMF) held by the Comptroller shall be invested in conformance with State and Federal Regulations (including particularly investments permitted by law for the investment of money on deposit in the State Highway Fund which are currently set forth in Section 404.024 of the Government Code, as amended,) ("Section 404.024"), the Master Resolution dated May 4, 2005, any Supplemental Resolutions including the First Supplemental Resolution dated May 4, 2005, the Second Supplemental Resolution dated February 24, 2005 (collectively, the "Resolutions"), the Administration Agreement between the Commission and the Comptroller dated May 1, 2005, adopted Investment Policy and this adopted Investment Strategy. This Investment Strategy applies to all revenues pledged and deposited in the TxMF, including the Pledged Revenues and the proceeds of any obligations issued under the Resolutions relating to the Mobility Fund Revenue Financing Program.~~

It is the policy of the Texas Transportation Commission (the "Commission") that, giving due regard to the safety and risk of investment, all funds deposited into the Texas Mobility Fund (TxMF) shall be invested in conformance with the following:

- (i) State and Federal Regulations, in particular Section 404.024 of the Government Code, as amended, which directs the investment of money on deposit in the State Highway Fund ("Section 404.024");
- (ii) the Master Resolution dated May 4, 2005;
- (iii) any Supplemental Resolutions including the First Supplemental Resolution dated May 4, 2005, the Second Supplemental Resolution dated February 24, 2005, the Third Supplemental Resolution dated May 25, 2006 (collectively, the "Resolutions");
- (iv) the Administration Agreement between the Commission and the Comptroller dated May 1, 2005;
- (v) the Investment Agreement between the Commission and the Comptroller executed on June 2, 2006 and June 7, 2006;
- (vi) the adopted Investment Policy; and
- (vii) this adopted Investment Strategy.

A list of permitted investments is included as Schedule 1 to this Investment Strategy. This Investment Strategy applies to all revenues pledged and deposited in the TxMF, including the Pledged Revenues and the proceeds of any obligations issued under the Resolutions relating to the Mobility Fund Revenue Financing Program.

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

## INVESTMENT STRATEGY STATEMENT

- 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 Officer shall incorporate current and future market information from reliable sources as well as anticipated TxMF 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 Resolutions.

Accounts held by the Comptroller under the Resolutions shall be analyzed and invested according to the following major fund types:

- a. Type I Funds: Funds in the General Account and the Interest and Sinking Account
- b. Type II Funds: Funds in the Bond Proceeds Account
- c. Type III Funds: Funds in the Debt Service Reserve Account, if any
- d. Type IV Funds: Funds in the Rebate Account

The Commission reserves the right to establish additional funds and accounts under the Resolutions and as appropriate, this Strategy may be amended to properly address the investment characteristics of such additional funds and accounts.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the 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:

- a. **Type I Funds: General Account and Interest and Sinking Account**

Suitability - Any investment eligible in the Investment Policy and in compliance with Section 404.024 is suitable for Type I Funds (see Schedule I).

Safety of Principal and Maximum Maturity - All investments shall be of high quality securities with no perceived default risk. 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 and will be expended for debt service payments or other qualified annual expenditures. Short-term investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer 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 expenditures from the fund. Market cycle risk will be reduced by diversifying the appropriate maturity structure out to one year. 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 equally weighted, rolling three-month Treasury bill portfolio shall be the minimum yield objective.

**b. Type II Funds: Bond Proceeds Account**

Suitability - Any investment eligible in the Investment Policy and in compliance with Section 404.024 is suitable for the Type II Funds (see Schedule I). 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 securities with no perceived default risk. Market price fluctuations may occur, however, 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 estimated final draw date.

Liquidity - Type II Funds may have reasonably predictable draw down schedules. Therefore investment maturities shall generally follow the anticipated cash flow requirements. Investment pools and money market mutual funds shall provide readily available funds generally equal to one month's anticipated

cash flow needs, or a competitive yield alternative for short term fixed maturity investments. Investment agreements may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request.

Marketability – Securities with active and efficient secondary markets, including securities less active than securities purchased with Type I Funds, are acceptable for Type II Funds and 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 larger 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 - Achieving a positive spread to the applicable arbitrage yield while complying with the priorities established in this strategy is the desired objective. Negative arbitrage Type II Fund portfolio management shall operate to the limit of the Investment Policy's risk constraints. Positive arbitrage portfolio management will allow tighter constraints than allowed by the Investment Policy.

**c. Type III Funds: Debt Service Reserve Account (if any)**

Suitability - Any investment eligible in the Investment Policy and in compliance with Section 404.024 is suitable for the Type III Funds (see Schedule I). 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 securities with no perceived default risk. Market price fluctuations will occur, therefore Type III Fund portfolio maturities should be managed to reduce market risk in the event obligations are defeased and the reserve fund liquidated. In no case shall any investment maturity exceed the lesser of final maturity of the bond issue or 20 years. Annual mark-to-market requirements or specific maturity and average life limitations within the Bond Documents will influence the attractiveness of market risk and reduce the opportunity for maturity extension.

Liquidity - Type III Funds have no anticipated expenditures of principal. Bond proceeds are deposited to provide annual debt service payment protection to the Commission's bondholders. The funds are "returned" to the Commission at the final debt service payment or earlier if bonds are defeased or redeemed. 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 secondary markets less active and efficient than those required for Type I and Type II Funds are acceptable for Type III Funds. These marketability requirements do not apply to investment agreements.

Diversification - Market conditions and 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 - Achieving a positive spread to the applicable arbitrage yield is the desired objective. Negative arbitrage Type III Fund portfolio management shall operate to the limit of the Investment Policy's risk constraints. Positive arbitrage portfolio management will allow tighter constraints than allowed by the Investment Policy.

**d. Type Fund IV Funds: Rebate Account**

Suitability - Any investment eligible in the Investment Policy and in compliance with Section 404.024 is suitable for the Type IV Funds (see Schedule I).

Safety of Principal and Maximum Maturity - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations may occur, however, the market risk of the overall portfolio will be minimized by managing the Type IV Fund's portfolio to match rebate payment date requirements as prescribed by federal tax law. The maximum allowable maturity of investments for Type IV Funds may not exceed the date on which rebate requirements are due.

Liquidity - Type IV Funds have a predictable draw schedule and will not be expended prior to the rebate payment date for each applicable series of obligations. Therefore, investments for this fund type do not need a high level of liquidity.

Marketability - Securities with secondary markets less active and efficient than those required for Type I and Type II Funds, 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 rebate payment date of the applicable bond issue in an attempt to increase yield.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective.

SCHEDULE 1TEXAS MOBILITY FUND  
PERMITTED INVESTMENTS

- (i) Direct obligations of the United States or its agencies and instrumentalities;
- (ii) Direct obligations of the State or its agencies and instrumentalities rated as to investment quality by a nationally-recognized investment firm of not less than "A;"
- (iii) Collateralized mortgage obligations that have a stated maturity of 10 years or less directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States (such transactions not to exceed 10% of the total of each investment portfolio under the Investment Policy);
- (iv) Other obligations, the principal and interest of which are unconditionally guaranteed by the State or the United States or their respective agencies and instrumentalities;
- (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 "AA" or its equivalent (such transactions not to exceed 10% of the total of each investment portfolio under the Investment Policy);
- (vi) Certificates of deposit issued by a state or national bank designated as a State depository that is (a) guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration or their successors; (b) secured by obligations described in clauses (i) through (v) above; or (c) secured in any other manner and amount provided by law for deposits of the investing entity. Investment in certificates of deposit may not exceed 20% of the total investment portfolio.
- (vii) A fully collateralized repurchase agreement that has a defined termination date, is secured by obligations described in (i) through (v) above; requires the securities purchased by the Commission to be pledged to the Commission, held in the Commission's name, and deposited at the time the investment is made with the Commission or with a third party selected and approved by the Commission; and is placed through a primary government securities dealer or financial institutions doing business in the State;
- (viii) Certain bankers acceptances with a stated maturity of 270 days or fewer from the date of issuance, if liquidated in full at maturity, eligible for collateral for borrowing from a Federal Reserve Bank, and accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank are rated not less than "A-1" or "P-1" or an equivalent rating by at least one nationally recognized credit rating agency (such transactions not to exceed 5% of the total Commission investment portfolio under the Investment Policy);
- (ix) Commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1," or the equivalent, by at least (a) two nationally-recognized rating agencies or (b) one nationally-

recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state;

- (x) With certain restrictions, a no-load money market mutual fund that is registered with and regulated by the SEC and (a) provides the Commission with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, has a dollar-weighted average stated maturity of 90 days or fewer, and includes in its investment objectives the maintenance of a stable net asset value of \$1.00 for each share; or (b) has an average weighted maturity of less than two years, is invested exclusively in obligations permitted for investment under the Investment Policy (and described herein), is continuously rated as investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent, and conforms to State law relating to the eligibility of investment pools to receive and invest funds of investing entities;
- (xi) Bonds issued, assumed, or guaranteed by the State of Israel
- (xii) Certain securities lending programs.
- (xiii) An eligible investment pool that is established by the Texas Treasury Safekeeping Trust Company and invests solely in such obligations authorized under State law provided that the pool is rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally-recognized rating service, operates like a mutual fund, has a portfolio consisting only of dollar denominated securities, and operates under a qualified advisory board.

# **TEXAS TRANSPORTATION COMMISSION**

## **INVESTMENT STRATEGY**

**Relating to the**

### **Lease With An Option to Purchase Houston District Headquarters Complex Project**

## 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 deposited into the accounts established by the Trust Agreement between GP DOT Houston Holdings, LP and the Trustee (the "Trust Agreement") in connection with certification of lease payments pursuant to the Lease With An Option to Purchase Relating to Texas Department of Transportation Houston District Headquarters Complex Project (the "Lease") shall be invested in conformance with State and Federal Regulations, the Trust Agreement, adopted Investment Policy and this adopted Investment Strategy.

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

### INVESTMENT STRATEGY STATEMENT

- 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 Officer shall incorporate current and future market information from reliable sources as well as anticipated project cash flows 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.

Accounts held by the Trustee under the Trust Agreement shall be analyzed and invested according to the following major fund types:

- a. Type I Funds: Funds in the Certificate Payment Account, including any sub-accounts created thereunder
- b. Type II Funds: Funds in the Project Development Account
- c. Type III Funds: Funds in the Rebate Account

The Trustee reserves the right to establish additional funds and accounts under the Trust Agreement and as appropriate, this Strategy may be amended to properly address the investment characteristics of such additional funds and accounts.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore, specific strategies shall be implemented considering the 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:

#### **a. Type I Funds: Certificate Payment Account**

Suitability - Any investment eligible in the Investment Policy, except (h) Guaranteed Investment Contracts, is suitable for Type I Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality securities with no perceived default risk. 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 and will be expended for lease payments or other qualified annual expenditures such as Lease prepayments or maintenance costs of the Project. Short-term investment pools and money market mutual funds shall provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Marketability - Securities with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement. Historical market "spreads" between the bid and offer 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 expenditures from the fund. Market cycle risk will be reduced by diversifying the appropriate maturity structure out to one year. 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.

**b. Type II Funds: Project Development Account**

Suitability - Any investment eligible in the Investment Policy, except (h) Guaranteed Investment Contracts, is suitable for Type II Funds. Trust Agreement 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 securities with no perceived default risk. Market price fluctuations may occur, however, 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 estimated final draw date.

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

Marketability - Securities with active and efficient secondary markets, including securities less active than securities purchased with Type I Funds, are acceptable for Type II Funds and 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, 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 larger maturities. At no time shall the investment maturities exceed the anticipated expenditure schedule in an attempt to boost yield. Adhering to the Investment Policy's maximum investment-type limits shall restrict the exposure of the fund to any one-market sector.

Yield - Achieving a positive spread to the applicable arbitrage yield while complying with the priorities established in this strategy is the desired objective. Negative arbitrage Type II Fund portfolio management shall operate to the limit of the Investment Policy's risk constraints. Positive arbitrage portfolio management will allow tighter constraints than allowed by the Investment Policy.

**c. Type III Funds: Rebate Account**

Suitability - Any investment eligible in the Investment Policy, except (h) Guaranteed Investment Contracts, is suitable for Type III Funds.

Safety of Principal and Maximum Maturity - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations may occur, however, the market risk of the overall portfolio will be minimized by managing the Type III Fund's portfolio to match rebate payment date requirements as prescribed by federal tax law. The maximum allowable maturity of investments for Type III Funds may not exceed the date on which rebate requirements are due.

Liquidity - Type III Funds have a predictable draw schedule and will not be expended prior to the rebate payment date for each applicable series of obligations. Therefore, investments for this fund type do not need a high level of liquidity.

Marketability – Securities with secondary markets less active and efficient than those required for Type I and Type II Funds, are acceptable for Type III Funds.

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 rebate payment date pursuant to the Lease in an attempt to boost yield.

Yield - Attaining a competitive market yield for comparable security-types and portfolio restrictions is the desired objective.