

Investment Strategy Statement

The Investment Strategy applies to the investment activities of the United Independent School District (the “District”). These strategies serve to satisfy the statutory requirement of chapter 2256, Texas Government Code (“the Public Funds Investment Act”), to define and approve investment strategies.

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

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

- Understanding the suitability of the investment to the financial requirements of District;
- 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 District’s Investment Policy and cash management procedures. Aggressive cash management to increase the available “investment period” will enhance the ability of District to earn interest income. Maturity selections shall be based on cash flow and market conditions to take advantage of interest rate cycles as viable and material revenue to all District funds. District’s portfolio shall be designed and managed in a manner responsive to the public trust and consistent with the Investment Policy.

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

- A. Operating Funds
- B. Agency Funds
- C. Debt Service Funds
- D. Capital Project Funds

INVESTMENT STRATEGY

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

A. Operating Funds

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

Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, managing the weighted average days to maturity for the Operating Fund's portfolio to less than 180 days and restricting the maximum allowable maturity to one year will minimize the price volatility of the overall portfolio.

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

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

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

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

B. Agency Funds

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

Safety of Principal - All investments shall be of high quality securities with no perceived default risk. Market price fluctuations will occur. However, by managing weighted average days to maturity for the Investment Pool to less than 180 days and restricting the maximum allowable maturity to one year, the price volatility of the overall portfolio will be minimized.

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

Liquidity – Agency Funds require reasonable short-term liquidity. Short-term investment pools and money market mutual funds will provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

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

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

C. **Debt Service Funds**

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

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

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

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

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

Yield - Attaining a competitive market yield for comparable 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.

D. **Capital Project Funds**

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

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

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

Liquidity - Capital Project Fund programs have reasonably predictable draw down schedules. Therefore investment maturities should generally follow the anticipated cash flow requirements. Investment pools and money market mutual funds will 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. A singular repurchase agreement may be utilized if disbursements are allowed in the amount necessary to satisfy any expenditure request. This investment structure is commonly referred to as a flexible repurchase agreement.

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

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