

**CITY OF MONT BELVIEU**  
**City Council Policy**

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**Re-approved By**  
**City Council:** February 27, 2012  
**Reviewed By:** Bryan Easum

**Title: Banking and Investments Policy – Investment Strategies**

The City of Mont Belvieu’s investment portfolio will be designed and managed to ensure that it will meet all the requirements established by the City of Mont Belvieu Banking and Investments Policy and the Public Funds Investment Act. The overall investment strategy outlined in the Banking and Investments Policy has been further refined in this investment strategy by the following fund types.

**I. Operating Funds and Commingled Pools Containing Operating Funds:**

Investment strategies for operating funds and commingled pools containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. At utmost importance is the preservation and safety of the investment principle. The tertiary objective for the investment strategy will be the diversification of the investment portfolio and the yield of the investment.

To achieve short-term needs, a goal of approximately seven (7) to ten (10) days cash-flow requirements will be invested primarily in the interest bearing bank depository account. Secondary investments (generally considered to be funds that are investable for periods up to ninety (90) days) may be either placed in interest bearing demand accounts (D.D.A.’s) in the local depository should safety of funds and yield be sufficient to warrant such, in approved Local Government Investment Pools (LGIP’s) or in no-load Money Market Mutual Funds (MMMF’s). Funds available for investment at tertiary levels, for cash-flow availability needs that exceed ninety (90) days but for periods less than two (2) years, generally consist of funds managed within a ladder portfolio of qualified investments other than pools and money market funds. Municipal funds will be invested in approved investments with objectives prioritized as follows, unless otherwise restricted by the City’s bank depository contract:

- 1) preservation and safety of principal;
- 2) liquidity;

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**I. Operating Funds and Commingled Pools Containing Operating Funds (continued):**

- 3) marketability of the investment if the need arises to liquidate the investment before maturity;
- 4) diversification of the investment portfolio; and
- 5) yield

Note: As noted in the Banking and Investments Policy (XII, Risk & Diversification, B. and D.), diversification is not an absolute mandate of this Banking and Investment Policy. What would otherwise be considered an over-concentration of funds in one maturity sector or one type of investment is permissible for funds held at the City's depository bank, if having excess funds placed with the depository is considered to be prudent and to the advantage of the City in all other respects, because of the additional collateral requirements set forth in our Collateralization Policy. Likewise, an over-concentration of funds is acceptable for funds placed with LGIP's because of the diversification and collateralization requirements of the pool's Banking and Investments Policy.

**II. Debt Service Funds:**

Investment strategies for debt service funds shall have the same primary, secondary and tertiary objectives as the operating account portfolio. However, assurance of investment liquidity adequate to cover the debt services obligations on the required payment dates must be achieved. Chosen investment instruments will ordinarily be instruments with maturities of six (6) to twelve (12) months, established to match the dates of debt requirements. Shorter term investments may be used to meet investment objectives if their earnings are considered to meet safety of principal.

To achieve this strategy the following objectives are prioritized to evaluate investment requirements:

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**II. Debt Service Funds (continued):**

- 1) preservation and safety of principal;
- 2) yield;
- 3) marketability of the investment if the need arises to liquidate the investment before maturity;
- 4) diversification of the investment portfolio; and
- 5) liquidity.

**III. Capital Improvement Funds:**

Bond proceeds can be invested over the life of the project. The investment objective of capital improvement funds is to schedule maturities in such a manner as to match construction draws. By matching maturities to draws, investment earnings are maximized, however, preservation of principle is still the foremost objective. As short-term needs are recognized, investment maturities will be moved into the municipal interest bearing bank depository account or into an approved investment pool(s) to meet financial requirements. Longer term needs will be invested with the following objectives as prioritized for capital improvements, however, shorter term investments may be used to meet investment objectives if their earnings are considered to be advantageous:

- 1) preservation and safety of principal;
- 2) diversification of the investment portfolio;
- 3) yield;
- 4) liquidity; and
- 5) marketability of the investment if the need arises to liquidate the investment before maturity.

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**IV. Debt Service Reserve Funds:**

Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Except as may be required by the bond ordinance specific to an individual issue, securities should be of high quality with short to intermediate-term maturities. Volatility shall be further controlled through the purchase of securities carrying the highest coupon available within the desired maturity and quality range without paying a premium if at all possible. Longer maturities for the investment of bond reserve, bond escrow, and other funds is acceptable if the maturities of such investments are expected to coincide with the expected use of the funds.

The overall investment objective for reserve funds will not rely on the interest bearing bank depository account or approved investment pools; however, the use of these investments is not prohibited. Longer term investment objectives are prioritized as follows:

- 1) diversification of the investment portfolio;
- 2) preservation and safety of principal;
- 3) yield;
- 4) liquidity; and
- 5) marketability of the investment if the need arises to liquidate the investment before maturity.

**V. Special Projects, Special Revenue, and Special Purpose Funds:**

Investment strategies for special projects, special revenue, and special purpose fund portfolios will have as their primary, secondary, and tertiary objectives as the operating

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**V. Special Projects, Special Revenue and Special Purpose Funds (continued):**

account portfolio. Funds which are required to be non-interest bearing are excepted from investment requirements.

**VI. Funds for Which This Investment Strategy Apply:**

All funds listed in the funds list, Attachment B, shall have as their investment strategy the investment strategy described in this, the investment strategy document, by their associated type or category. Investment strategies shall also apply to new funds not yet formally added to the Council approved list.