

City of Fort Worth  
Department of Finance  
Investment Policy and Strategy  
Fort Worth Permanent Fund

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**I. INTRODUCTION AND SCOPE**

It is the policy of the City of Fort Worth, Texas (the "City") that the administration and investment of all City funds shall be handled in a manner that promotes the highest public trust. The City Council has designated that certain funds obtained from mineral rights owned by the City be placed in a trust for benefit of the City, with such trust to be known as the Fort Worth Permanent Fund (the "Permanent Fund") and to be invested in accordance with this Policy. Those funds that have been obtained from mineral rights but not designated as part of the Permanent Fund will be managed as part of the City portfolio under the City's General Portfolio Investment Policy and Strategy.

This Fort Worth Permanent Fund Investment Policy and Strategy (the "Policy") sets specific investment and strategy guidelines for funds placed in the Permanent Fund and establishes controls to ensure effective and judicious fiscal and investment management. The guidelines are intended to be broad enough to allow active investment within the Policy parameters yet specific enough to adequately safeguard the assets.

**II. GOVERNING AUTHORITY**

All Permanent Fund investment activities shall be conducted in full compliance with applicable City ordinances as well as state and federal regulations. Statutory regulations generally applicable to the investment of public funds in Texas are found in the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act"), with a specific provision applicable solely to municipal funds for the management and development of mineral rights found in Sec. 2256.0202 of the Act, which incorporates by reference The Texas Trust Code (Subtitle B, Title 9, Property Code). All investments of monies in the Permanent Fund will be made in accordance with these statutes and this more restrictive Policy. Collateral requirements are established in Texas by the Public Funds Collateral Act, Chapter 2257, Texas Government Code.

**III. OBJECTIVES**

The Permanent Fund, some portion of which may be maintained as permanent funds as determined by the City, is to be managed and invested in general accordance with the Act and follow four major investment objectives: safety, liquidity, diversification and yield.

Safety of principal is the foremost objective of the City's overall investment program, and safety of principal shall be an objective with respect to the investment of the Permanent Fund as well. Investment transactions and strategies shall address and consider the preservation of capital and minimization of capital loss as well as growth. Liquidity is not critical in the Permanent Fund because these funds are not to be used for ongoing operational expenses, expenditures, or liabilities. Diversification in portfolio structure is intended to further protect the Permanent Fund from over- concentration. Growth and income will be the primary objectives for the Permanent Fund after all other objectives have been achieved.

#### **IV. STRATEGY**

The Permanent Fund is to be invested in designated sub-accounts as per the Gas-Related Revenue & Expense/Expenditure Policy. Operating within appropriately established administrative and procedural parameters, the Trustee shall pursue growth and returns within Policy parameters. Withdrawals from the Permanent Fund may be made annually pursuant to the terms of the Trust and will require coordination and planning to minimize having to recognize unrealized losses. No cash buffer is required on the portfolio.

The Permanent Fund shall be managed proactively in high credit quality investments. Securities lending may be used to add incremental income. Strategies shall utilize competitive bidding where appropriate and other controls as established by this Policy for all transactions pursuant to the terms of the Trust.

Securities may be sold or swapped if an opportunity exists to benefit from the trade. All transactions, including swaps must be documented. The Trustee will continuously monitor the contents of the portfolio, the available markets, and the relative value of competing instruments to adjust the portfolio in response to market conditions.

#### **V. STANDARD OF CARE**

The standard of care to be used shall be the "prudent person" standard as established by the Act and shall be applied in the context of managing the overall Permanent Fund. The "prudent person" standard states that:

“Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.”

In determining whether a Trustee has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration: (1) the investment of all funds, or funds under the Trustee’s control, over which the Trustee had responsibility rather than a consideration as to the prudence of a single investment; and (2) whether the investment decision was consistent with this written investment Policy.

## **VI. DELEGATION OF AUTHORITY AND RESPONSIBILITY**

### **City Council**

By law, the City Council retains ultimate fiduciary responsibility for the Permanent Fund regardless of management assignment. The Council shall receive quarterly reports and annually review and adopt this Policy. The Investment Committee designated by the City Council is responsible for reviewing and authorizing all broker/dealers.

### **Chief Financial Officer**

The Chief Financial Officer/Director of Finance (the “CFO”) is responsible for monitoring the portfolio and reports submitted by the Trustee.

### **Trustee**

The Trustee (the “Trustee”) will be responsible for monitoring and controlling the portfolio in accordance with the terms of the Trust Agreement for the Fort Worth Permanent Fund, as amended. The Trustee, with approval of the City, may engage the services of a Securities and Exchange Commission (SEC) registered Investment Adviser (registered under the Investment Advisers Act of 1940) or a National Bank exempt from registration to provide the investment management of the Permanent Fund in a manner consistent with the Policy. The Trustee and the selected Investment Adviser or National Bank may be affiliated.

The Trustee shall provide timely monthly and quarterly reports to the CFO and Investment Committee in accordance with the Act and establish internal procedures and controls for the investment process and financial counter-parties.

In managing the Permanent Fund, the Trustee’s use and acceptance of soft dollars shall be limited by the terms of this paragraph. For purposes of this paragraph “soft dollar” shall refer to non-monetary credit offered by an executing broker/dealer in connection

with a purchase or sale. Soft dollar credits may only be used and accepted by Trustee or a sub-advisor to acquire research for use in the investment decision-making process for the benefit of the Permanent Fund. As set out in Section 28(e) of the Securities Exchange Act of 1934, prior to accepting or utilizing any soft dollars the Trustee or sub-advisor receiving the soft dollar credit must have first determined in good faith that the commissions to be paid on the securities transaction are reasonable in relation to the value to the Permanent Fund of the brokerage and research provided. If the trade is executed through Trustee's selected broker/dealer, Trustee will receive the soft dollar credit. The Permanent Fund may, as a result, pay somewhat higher commissions for the securities transaction than what might have been obtainable on a non-soft dollar basis. Trustee may not utilize or accept soft dollars except in strict compliance with the foregoing terms.

The Trustee shall refrain from activity that could conflict with the proper execution and management of the Permanent Fund or that could impair their ability to make impartial investment decisions. Any business or personal relationships with investment counterparties shall be disclosed to the CFO and the Texas Ethics Commission.

### **Investment Committee**

The City's Investment Committee will perform a strategy and performance review at least semi-annually. The Committee will review and act on any potential need for refinement or revision of the Permanent Fund's policies or strategies. Annually the Committee will approve all broker/dealers in accordance with the Act.

## **VII. AUTHORIZED COUNTER PARTIES**

### **Certification**

The Act requires

(1) that a written copy of the investment policy be presented to a business organization offering to engage in an investment transaction with the Permanent Fund with "business organization" defined as "an investment pool or investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio that has accepted authority granted by the entity under the contract to exercise investment discretion in regard to the investing entity's funds."

and

(2) that the person or business organization receiving the policy provide a written Policy Certification, acceptable to both the investing entity and the business organization and executed by a representative of the business firm, substantially acknowledging that the business organization has:

- a. received and reviewed the Fort Worth Permanent Fund Investment Policy and Strategy; and
- b. implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Permanent Fund and the organization that are not authorized by the Policy.

If the City retains self-management of the Permanent Fund, copies of this Policy will be provided to all business organizations offering to engage in an investment transaction with the Permanent Fund on an annual basis, and a Policy Certification from each such business organization must be received by the City. If the City engages a corporate Trustee to serve as an investment management firm under contract, a copy of this Policy shall be provided to the corporate Trustee, and a Policy Certification will be obtained from a qualified representative of the Trustee.

No transaction (other than mutual funds) may be completed except in compliance with this section.

### **Security Broker/Dealers**

The Council appointed Investment Committee will at least annually review and adopt a list of broker/dealers which will then be authorized to engage in investment transactions concerning the Permanent Fund. If the City engages a corporate Trustee to serve as an investment management firm under contract, the investment management firm will have the responsibility to ensure all broker/dealers comply with the provisions of this policy.

No broker/dealer or independent Adviser may safe-keep Permanent Fund securities or funds. All security transactions shall be settled delivery versus payment (DVP) to the Permanent Fund account. In order to perfect the DVP process, neither the Trustee nor the safekeeping depository (nor their brokerage subsidiaries) will be approved as a broker/dealer.

The Trustee will perform due diligence and maintain information on each broker/dealer, including a process to ensure best execution. The Trustee shall review the performance, financial condition and registration of all qualified counter-parties on an ongoing basis. Results will be provided to the Investment Committee for review upon request.

## **VIII. AUTHORIZED INVESTMENTS**

The Permanent Fund shall be invested only in the investments authorized below and further defined by the Act and Trust Code. If additional types of potential authorized investments are created by changes made to the controlling statutes, they will not be

authorized until this Policy is amended and adopted by the City Council. All investment transactions will be placed in an effort to achieve a fair and reasonable return under all circumstances and in light of other investment alternatives available.

1. Obligations of the United States Government, its agencies and instrumentalities including mortgage backed securities and collateralized mortgage obligations (CMO) which pass the Federal Reserve's bank test, with a maximum stated maturity of twenty (20) years.
2. FDIC insured and/or collateralized depository certificates of deposit from banks in the United States, with a maximum maturity of three (3) years.
3. Commercial paper rated A1/P1 or equivalent by two nationally recognized rating agencies, with a maximum maturity of 365 days.
4. AAA or equivalent rated constant dollar, Texas local government investment pools as defined by the Act.
5. AAA-rated United States Institutional government money market mutual funds.
6. Debt obligations of any state or political subdivision of any US state, rated A or better with a stated maturity not to exceed ten (10) years.
7. Fully collateralized, direct repurchase agreements executed through a primary government securities dealer, with a maximum maturity of one (1) year. A Bond Market Association Master Repurchase Agreement, 102% margin, and independent third party safekeeping are required. (See section IX)
8. Banker's acceptances with a maximum maturity of 120 days accepted by a US registered bank with a short term rating of not less than A1/P1 by two nationally recognized rating agencies.
9. Domestic bond mutual funds with a maximum weighted average maturity of ten (10) years with a Morningstar rating of at least two stars if available. If a fund is less than three years old and lacks a Morningstar rating, that fund may be selected only if it has been recommended by an investment management firm under contract as Trustee of the Permanent Fund.
10. International bond mutual funds with a maximum weighted average maturity of fifteen (15) years with a Morningstar rating of at least two stars if available. If a fund is less than three years old and lacks a Morningstar rating, that fund may be selected only if it has been recommended by an investment management firm under contract as Trustee of the Permanent Fund.

11. Domestic or international equity and preferred stock mutual funds with a Morningstar rating of at least two stars if available. If a fund is less than three years old and lacks a Morningstar rating, that fund may be selected only if it has been recommended by an investment management firm under contract as Trustee of the Permanent Fund.
12. US or international stocks.
13. Real assets, including real estate, commodities and real estate investment trusts (REITS).
14. Alternative Investments to include hedge funds.
15. Corporate and asset backed securities rated A, or better with a stated maturity not to exceed ten (10) years.

### **Securities Lending**

If the City has an active securities lending agreement, the Permanent Fund securities may also be lent by Trustee utilizing the City's agreement as determined by the City under their written agreement and conditions only.

## **IX. COLLATERALIZATION**

### **Time and Demand Pledged Collateral**

All time and demand deposits placed by the Permanent Fund that exceed the limits of coverage provided by Federal Deposit Insurance Corporation (FDIC) shall be transferred to a money market fund or otherwise collateralized in accordance with the Texas Public Funds Collateral Act with collateral pledged to the Permanent Fund. In order to anticipate market changes and provide a level of security for all funds, collateral shall be maintained and monitored by the pledging depository at 102% of market value of principal and accrued interest on the deposits. The pledging bank shall monitor and maintain the margins on a daily basis. All collateral shall be subject to inspection and audit by the City or its internal and external auditors.

Collateral pledged to secure deposits of the Trust Fund assets shall be held by an independent financial institution outside the holding company of the depository, as approved by the Trustee, and in accordance with a safekeeping agreement executed under the terms of the Financial Institutions Resource and Recover Enforcement Act (FIRREA).

### **Permanent Fund Owned Collateral Under Repurchase Agreements**

Each counter party to a repurchase transaction is required to execute the Bond Market Master Repurchase Agreement and to provide collateral at a 102% margin and held by an independent third party custodian approved by the Trustee. The Master Repurchase Agreement must be fully executed before any transaction is initiated. Collateral will be evidenced by safekeeping reports/receipts clearly denoting Permanent Fund ownership from the independent safekeeping agent.

**Authorized Collateral**

As authorized by the Public Funds Collateral Act and further restricted by this Policy, acceptable collateral for time and demand deposits and repurchase agreements shall include only:

- obligations of the U.S. Government, its agencies and instrumentalities including mortgage backed securities and CMO that pass the bank test, and
- obligations of any US state, city, county or authority rated at least A by two nationally recognized statistical rating organizations.

Collateral will be monitored at least monthly by the Trustee, and each month Trustee will send City a document listing any current collateral and its market value.

**X. DIVERSIFICATION**

The City as beneficial owner of the Permanent Fund recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification. The strategy for diversification will be guided by the circumstances then prevailing but will generally be:

	Range	Target
<b>Cash, Cash Equivalents, and Fixed Income</b>	<b>29-49%</b>	<b>39%</b>
US Obligations		
US Agencies/Instrumentalities		
Depository Certificates of Deposit		
Commercial Paper		
Local Government Investment Pools		
Money Market Mutual Funds Municipal Obligations		
Corporate Obligations (Max. 20.00%)		
Asset Backed Securities (Max 10.00%)		
Repurchase Agreements		



Bankers Acceptances  
 Domestic Bond Mutual Funds (Max.10.00%)  
 International Bond Mutual Funds (Max. 10.00%)  
 Preferred Stock Mutual Funds

<b>Equities</b>	<b>27-47%</b>	<b>37%</b>
U.S. Large Cap		14.00%
U.S. Mid Cap		5.00%
U.S. Small Cap		3.00%
Int'l Developed Markets Equity Mutual Funds		9.00%
Int'l Emerging Markets Equity		6.00%
<b>Real Assets</b>	<b>2-12%</b>	<b>12%</b>
Global Public REITS		8.00%
Private Real Estate		2.00%
Commodities		2.00%
<b>Alternative Investment</b>	<b>2-22%</b>	<b>12%</b>
Hedge Funds - Relative Value		3.00%
Hedge Funds - Macro		3.00%
Hedge Funds - Event Driven		2.00%
Hedge Fund - Equity Hedge		2.00%
Private Equity		2.00%

The diversification percentage guidelines will be measured based on market value. Fluctuations in cash flows may cause the portfolio to exceed these maximum percentages for a particular asset class subsequent to the purchase. Securities need not be liquidated to realign to match the portfolio diversification guidelines.

Because of its tax-exempt nature, the Permanent Fund shall not be invested based on tax optimized strategies with the goal of improving after-tax returns through active tax loss harvesting.

## **XI. INTERNAL CONTROLS**

The CFO and Trustee are responsible for mutually establishing and maintaining an internal and external control structure designed so that assets are reasonably protected from loss, theft, or misuse.

### **Competitive Transactions**

All investments will be made in an effort to achieve a fair and reasonable return under market circumstances and in light of other investment alternatives available and shall utilize market competition where appropriate.

In general, in buying or selling equity or fixed income securities, Trustee shall utilize electronic communications networks, exchanges, and market makers using the National Best Bid/Offer consolidated quote system pricing to solicit terms from multiple industry-recognized third party registered broker/dealers that are included on the then-current list of approved broker/dealers. The Trustee shall evaluate all transactions and brokers for best execution, taking into account a variety of factors including price, execution and commission costs, size of the order and other unique trading characteristics, value of research provided, financial responsibility, and the responsiveness of the brokers.

All bids and offers for fixed income shall be completed using at least three broker/dealers whenever possible to make certain of fair and competitive pricing in the market. In the event three bids cannot be obtained, Trustee shall use market variables to determine best price, including but not limited to: competitive pricing, market condition, sector, liquidity, and credit conditions. The Trustee shall not use margin accounts.

### **Delivery vs. Payment**

All trades of marketable securities shall be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the Permanent Fund safekeeping institution prior to the release of funds.

### **Monitoring Credit Ratings**

The Trustee shall monitor, on no less than a weekly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by this Policy, the Trustee shall (i), within two business days of downgrade, notify the CFO of the loss of rating within two business days of the occurrence and (ii), within four business days of downgrade, notify the CFO of conditions affecting the rating and available liquidation options, including associated loss of principal, before any action is taken, provided however, that in extreme situations where the Trustee determines in the exercise of its reasonable discretion that immediate liquidation is prudent, Trustee shall be authorized to liquidate immediately but shall be required to provide the City with notice of such liquidation by the close of the following business day.

## **XII. SAFEKEEPING**

All security transactions will be settled on a delivery versus payment basis and held in the Permanent Fund by the Trustee, the City's depository or other Trustee-contracted safekeeping institution independent from any security transactions or trade counterparties. All safekeeping functions will be performed by the Trustee. The Trustee as safekeeping agent shall provide monthly statements on all security positions held by the Permanent Fund.

## **XIII. REPORTING**

### **Monthly Reporting**

No less than monthly, the Trustee will submit a report to the CFO and Investment Committee. The report will, at a minimum, comply with the statutory requirements for quarterly reporting below.

### **Quarterly Reporting**

No less than quarterly, the Trustee will prepare and submit a report to the Investment Committee. The report will comply with provisions of the Act governing Internal Management Reports and will contain, at a minimum, the following:

- a. detailed description of each investment position as of the date of the report including market values, market yield and earnings;
- b. summary statements for the Permanent Fund including:
  - (1) amortized book value for individual fixed income securities, market values, market yield, and earned income,
  - (2) beginning and ending market value for the reporting period,
  - (3) change in market value (volatility measure) for the reporting period,
  - (4) yield for the fixed income portion of the portfolio for the reporting period,
  - (5) total return for the entire portfolio for the reporting period,
  - (6) weighted average maturity, as applicable, and
  - (7) asset class returns and benchmark returns for the reporting period.

The quarterly report shall include a statement of compliance for the portfolio as it relates to the Fort Worth Permanent Fund Investment Policy and Strategy and be signed by the CFO and Trustee.

Prices used for calculation of market values will be obtained from an independent source.

### **Benchmark: Risk Measurement**

The benchmarks for risk measurement and performance of the Permanent Fund portfolio will be divided among the asset classes as outlined below.

- The benchmark for the fixed income portion shall be the Barclays' 1-5 Year Government/Credit Index for the comparable period.
- The benchmark for the equity portion shall be a total return equal to a composite of the total return of S&P 500 for stocks and the EAFE for international investments comparable to the then-current makeup of the portfolio for the comparable period.
- The benchmark for the real assets portion shall be the FTSE NAREIT All Equity REIT Index for the comparable period.
- The benchmark for the commodities portion shall be the Dow Jones UBS Commodities Index for the comparable period.
- The benchmark for the alternative investment portion shall be the HFRX Global Hedge Fund Index for the comparable period.

#### **XIV. ADOPTION**

The Fort Worth Permanent Fund Investment Policy and Strategy shall be reviewed by the Investment Committee and adopted by the City Council at least annually. The adopting resolution shall include any changes made to the Policy.

Policy Adopted:

April 16, 2013 (M&C G-17857)

Policy Reviewed and Approved:

July 15, 2014 (M&C G-18244)

May 5, 2015 (M&C G-18466)

September 15, 2015 (M&C G-18552)

September 26, 2017 (M&C G-19117) (Amended Authorized Investments and diversification requirements and guidelines)

September 11, 2018 (M&C G-19359)

September 10, 2019 (M&C 19-0142) (Amended Section III. Objectives and Section VIII. Authorized Investments, item 3 Commercial Paper maximum maturity changed from 90 days to 365 days)