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AGENDA ITEM MEMO

BOARD MEETING DATE: August 21, 2025

TO: Board Members

THROUGH: Bryan McMath, Executive Administrator
Ashley Harden, General Counsel

FROM: Georgia Sanchez, Chief Financial Officer and Development Fund Manager
LeeRoy Lopez, Finance Controller
Jerry Icaro, Director of Accounting

SUBJECT: Fiscal Year 2026 Investment Policy and Strategies

ACTION REQUESTED

Consider approving the Fiscal Year 2026 Texas Water Development Board Investment Policy and Strategies.

BACKGROUND

The Texas Public Funds Investment Act (PFIA) requires the governing body of the Texas Water Development Board (TWDB) to annually review and approve the agency's Investment Policy and Strategies. This document states that the Investment Officers, currently the Chief Financial Officer, the Director of Accounting, and the Development Fund Manager, will obtain approval no later than January of each year. As a best practice, the approval is sought at the beginning of each fiscal year.

PFIA changes can occur during a legislative session. At the conclusion of each session, the Investment Officers review the PFIA legislative changes and incorporate proposed revisions to the TWDB's Investment Policy and Strategies.

KEY ISSUES

There were no changes to the PFIA during the 89th Legislative Session. Further, the Investment Officers have reviewed the Investment Policy and Strategies and do not propose any changes from the previously-approved document.

RECOMMENDATION

To comply with the requirements of the Texas PFIA, the Investment Officers and the Executive Administrator recommend approval of the proposed Fiscal Year 2026 TWDB Investment Policy and Strategies.

Attachment: Proposed Fiscal Year 2026 TWDB Investment Policy and Strategies

Our Mission
Leading the state's efforts in ensuring a secure water future for Texas

Board Members
L'Oreal Stepney, P.E., Chairwoman | Tonya R. Miller, Board Member
Bryan McMath, Executive Administrator

FISCAL YEAR 2026
INVESTMENT POLICY AND STRATEGIES

Dated August 21, 2025

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I. Scope of Policy

(a) This policy is adopted in accordance with Chapter 2256, Texas Government Code, the Public Funds Investment Act (the "Act") and shall govern all funds managed by the Texas Water Development Board (the Board) and by the Board on behalf of the Texas Water Resources Finance Authority (the Authority), as authorized by the Sales and Servicing Agreement executed between the Board and the Authority. The funds are accounted for in the Board's Annual Financial Report and the State of Texas' Comprehensive Annual Financial Report.

(b) This policy shall not govern the State Water Implementation Fund for Texas (SWIFT). The SWIFT funds shall be governed by the SWIFT Investment Policy managed by the Texas Treasury Safekeeping Trust Company in accordance with Texas Water Code, Chapter 15, Subchapter G.

II. Definitions

The following words and terms, when used in this policy shall have the following meanings, unless the context clearly indicates otherwise.

(1) The Act – Texas Government Code, Chapter 2256 Public Funds Investment Act

(2) Agency - The Board or the Authority, or the Board and the Authority, consistent with the context of the use of the term in this policy.

(3) Authority - The Texas Water Resources Finance Authority.

(4) Authorized dealers - Those dealers who have been approved to do business with the Board.

(5) Board - The Texas Water Development Board.

(6) Business Organization – An investment pool or investment management firm under contract with the Board to invest or manage the Board's investment portfolio that has accepted authority granted by the Board under the contract to exercise investment discretion in regard to the Board's funds.

(7) Dealer - A business organization offering to engage in an investment transaction with the Board.

(8) Executive Administrator - The Executive Administrator of the Board or a designated representative.

(9) Governing Body of the Board – As set forth in the Texas Water Code, Chapter 6, the board is composed of three members who are appointed by the governor with the advice and consent of the senate.

(10) HUB - Historically Underutilized Business (HUB) that is currently certified by the Comptroller of Public Accounts Texas Procurement and Support Services as a HUB.

(11) Internal auditor - The internal audit staff employed by the Board.

(12) Investment officers - The Chief Financial Officer, the Development Fund Manager, and the Director of Accounting or any other person authorized by the governing body of the Board to invest funds of the Board.

(13) Policy – The written investment policy regarding the investment of the Board's funds as required by the Act.

(14) Portfolio - The investments held by or on behalf of the Board.

(15) Primary dealer - A designation given by the New York Federal Reserve Bank to commercial banks or broker/dealers who meet specific capital requirements and agree to continually participate in all U.S. Treasury auctions.

(16) Qualified representative - A person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

(A) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the Financial Industry Regulatory Authority;

(B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;

(C) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or

(D) for an investment management firm registered under the Investment Advisers Act of 1940 or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

(17) Secondary dealer - A dealer that specializes in various investment markets but is not monitored by the Federal Reserve Bank of New York.

(18) U.S. Government Agency Securities - A category of investments that includes the Government National Mortgage Association (GNMA) and several Government-

Sponsored Enterprises (GSEs) that includes but is not limited to the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Home Loan Bank (FHLB) and the Federal Farm Credit Bank (FFCB). While GNMA carries an explicit guaranty of the US government, the GSEs do not carry a full-faith-and-credit guaranty.

III. Investment Principles

The investment officers will invest the portfolio pursuant to the following principles in order of priority and in conformance with all federal and state statutes, rules, or regulations:

(1) Suitability of the investments to the financial requirements of the TWDB;

(2) preservation and safety of the principal;

(3) liquidity in order to meet cash flow needs;

(4) marketability of each investment should the need arise to liquidate the investment prior to maturity;

(5) diversification of the portfolio; and

(6) yield.

IV. Prudence

(a) Prudent person standard. Investments shall be made with judgment and care, under circumstances then prevailing, which 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.

(b) Considerations. In determining whether the investment officer has exercised prudence with respect to an investment decision, the following shall be considered:

(1) the investment of all funds, over which the investment officer had responsibility rather than a consideration as to the prudence of a single investment;

(2) whether the investment decision was consistent with this policy and state law; and

(3) whether deviations from expectation are reported in a timely fashion and appropriate action is taken to control any adverse developments.

V. Portfolio Objectives

The portfolio shall be governed by the following investment objectives, in order of priority:

(1) Preservation and safety of principal. The portfolio will be maintained with the intent to control the risk of loss due to the failure of an issuer or grantor. This loss shall be controlled by investing only in the safest types of securities as allowed in the Act and this Investment Policy.

(2) Diversification. The portfolio will be diversified by investment type in order to reduce credit risk associated with a single issuer or security type, and by investment maturity in order to reduce interest rate risk associated with market fluctuations.

(3) Liquidity. The portfolio will be managed for all funds so as not to exceed any anticipated cash flow requirements in a fund. Liquidity will be maintained by matching investment maturities with cash flow requirements.

(4) Yield/Return on Investments. The portfolio shall be managed to attain a competitive market yield for comparable security types and portfolio requirements, a rate of return that maintains compliance with federal tax regulations and allows financial programs to continue a self-supporting status.

VI Portfolio Strategy by Fund Type

(1) Pooled Funds – Pooled funds are a pooling of funds including enterprise, special revenue, and other funds that do not fall into one of the other fund types listed below. Investments in these funds will be used primarily to match cash-flow needs for financial programs and for the payment of debt service on obligations issued to fund financial programs. All investments listed in Section XII of this policy are eligible for these funds with a maximum final maturity not to exceed the requirements in Section XVII. The weighted average maturity of this fund group should not exceed 360 days.

(2) Debt Service Funds - Investments in these funds will be used primarily to match cash flow needs for debt service payments on obligations issued to fund financial programs. All investments listed in Section XII of this policy are eligible for these funds with a maximum final maturity not to exceed a required debt service payment date or the requirements in Section XVII. The weighted average maturity of this fund group should not exceed 180 days.

(3) Texas Water Resources Finance Authority Funds (TWRFA) – Investments in these funds will be used primarily to match cash flow needs for financial programs. All investments listed in Section XII with the exception of Commercial Paper are eligible for these funds with a maximum final maturity not to exceed the requirements in Section XVII. The weighted average maturity of this fund group should not exceed 360 days.

(4) State Water Implementation Revenue Fund for Texas (SWIRFT) Funds – Investments in these funds will be used primarily to match cash flow needs

and for the payment of debt service on obligations. All investments listed in Section XII of this policy, authorized investments in the Act and Texas Water Code, Chapter 15, Subchapter H and investments governed through bond indentures are authorized investments for these funds. Per Section XVII, these funds will have a final maturity not to exceed required cash flow payments.

VII. Delegation of Authority

Pursuant to the authority of the Texas Water Code, the Texas Government Code, and bond resolutions authorizing the issuance of obligations to fund financial programs, the management responsibility for investing the portfolio is delegated to the Chief Financial Officer, the Development Fund Manager, and the Director of Accounting, each acting in the capacity of investment officer. The investment officers shall have a system of written procedures and internal controls established consistent with this policy and the Act. The investment officers shall be responsible for all investment transactions and shall direct the activities of subordinate investment staff in accordance with the written procedures and controls.

VIII. Training

Each member of the governing body of the Board and each investment officer shall attend at least one training session relating to the person's responsibilities within six months after taking office or assuming duties. Thereafter, each investment officer shall attend a training session not less than once each state fiscal biennium. Each investment officer shall receive training from any independent source that conforms to the requirements of the Act and approved by the Board.

IX. Ethics and Conflicts of Interest

(a) The members of the governing body of the Board, investment officers and investment staff 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. Investment Officers who have a personal business relationship with a business organization offering to engage in an investment transaction with the Board shall file a statement disclosing that personal business interest with the TWDB Director of Human Resources. Investment Officers who are related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the Board shall file a statement disclosing that relationship with the Texas Ethics Commission and the TWDB Director of Human Resources.

(b) A personal business relationship with a business organization exists if:

(1) the Investment Officer owns 10% or more of the voting stock or shares of the business organization or owns $5,000 or more of the fair market value of the business organization;

(2) funds received by the Investment Officer from the business organization exceed 10% of the individual’s gross income for the previous year; or

(3) the Investment Officer has acquired from the business organization during the previous year investments with a book value of $2,500 or more for the personal account of the Investment Officer.

X. Authorized Dealers and Institutions

In accordance with the Act, the Board will maintain a list of broker/dealers and financial institutions authorized to do business with the Board. With respect to investments provided in connection with the issuance of bonds and associated escrow accounts approved by the Board, an investment provider will be considered an authorized provider in accordance with the Act as long as it has the minimum credit ratings required by the rating agencies and is acceptable to the bond insurers/credit enhancers, and if the investment meets the requirements of the applicable bond trust indenture or resolution.

XI. Selection of Authorized Dealers

(a) The Board will use as its authorized list of brokers/dealers and financial institutions, any broker/dealer or financial institution that is authorized to do business with the State Comptroller. Not less than annually, the Board shall approve the list of authorized broker/dealers and financial institutions maintained by the State Comptroller.

(b) A written copy of this policy shall be presented to any business organization offering to engage in investment activity with the Board. The qualified representative of the business organization seeking to engage in an investment transaction shall execute a written instrument substantially to the effect that the business organization has:

(1) received and reviewed this policy and,

(2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Board and the business organization that are not authorized by the Board's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Board’s entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the Board that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

(c) The investment officers may terminate all investment activity with an authorized dealer if any one of the following occurs. If such action is taken, the investment officers shall notify the authorized dealer and maintain documentation of the reason and notification for a year.

(1) the authorized dealer fails to deliver a security;

(2) the authorized dealer fails to provide efficient and professional service; or

(3) the authorized dealer is placed on credit watch by a rating firm.

(d) The Board will not buy or sell securities with a representative of its current financial advisory firm(s).

XII. Authorized and Suitable Investments

(a) The investment officers are authorized to invest the portfolio in the following securities:

(1) obligations of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks;

(2) direct obligations of the State of Texas or its agencies and instrumentalities;

(3) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States;

(4) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent;

(5) pooled funds of state agencies in the Texas State Treasury or the Texas Treasury Safekeeping Trust Company;

(6) commercial paper with a stated maturity of 365 days or fewer from the date of issuance and is rated not less than A-1 or P-1 or an equivalent rating by two nationally recognized credit rating agencies, or 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.

(7) AAA-rated no-load money market mutual funds registered and regulated by the Securities and Exchange Commission which have provided a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and comply with federal Securities and Exchange Commission Rule 2a-7. Additionally, a no-load money market mutual fund is authorized if it has an average weighted maturity of less than two years and either has a duration of one year or more and is invested exclusively in obligations approved by the Act or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. Excluding bond proceeds, no more than 85% of the monthly average fund balance may be invested in money market mutual funds, nor may funds in an amount that exceeds 10% of the total assets of any individual money market mutual fund be invested.

(8) any obligations authorized by a bond resolution of the Board if such obligation is not in violation of the "Act" or other law and is not listed in subsection (b) of this section and if prior approval of the Board is obtained; and

(9) fully-collateralized repurchase agreements and reverse repurchase agreements as authorized by the Act, provided that each issuer of repurchase agreements or reverse repurchase agreements have executed a Master Repurchase Agreement.

(b) The investment officers are not authorized to invest the portfolio in the following securities:

(1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;

(2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

(3) collateralized mortgage obligations that have a stated final maturity date of greater than seven years; and

(4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

XIII. Collateralization

Collateralization will be required for all bank deposits, repurchase and reverse repurchase agreements not insured by the FDIC. In order to anticipate market fluctuations and provide a level of security for all funds, the collateralization for all bank deposits, repurchase and reverse repurchase agreements in excess of FDIC insurance should be at least 100% of the market value of principal and interest and accrued interest for US Treasuries and 101% for US agencies and instrumentalities. Obligations of the United States or its agencies and instrumentalities, including mortgage backed securities, may be used as collateral under this policy. Collateral will be held by an independent third party with whom the Board has a current custodial agreement. Custodians shall provide reports upon request to the Board which lists collateral pledged and includes the market value of each security pledged.

XIV. Required Rating

An investment that requires a minimum rating under Section XII of this policy does not qualify as an authorized investment during the period if the investment does not meet or exceed the minimum rating. The investment officers shall monitor investments subject to ratings and take all prudent measures consistent with this policy to liquidate an investment that does not meet or exceed the minimum rating however, investments that were authorized investments at the time of purchase are not explicitly required to be liquidated.

XV. Delivery, Safekeeping and Custody

All investment transactions shall be executed on a Delivery vs. Payment (DVP) basis. The delivery of the securities will be made to a third party which may include the Texas State Treasury, Texas State Treasury Safekeeping Trust Company, or a national or state bank with whom the Board has a current safekeeping agreement.

XVI. Diversification

Each portfolio will be diversified by both the type of security and financial institution. The investment officers shall not invest more than 50% of the assets of any portfolio in one single security type or with a single financial institution, except for direct obligations of the United States or in the pooled funds of state agencies in the Texas State Treasury.

XVII. Maximum Maturities

(a) The Board shall attempt to match investment maturities to meet all funding requirements necessary to conduct business and to maintain adequate cashflows. Therefore, allowable investments, with the exception of repurchase agreements, shall have a final maturity date not to exceed eighteen months from settlement date. Repurchase agreements may have a final maturity date not to exceed two years from settlement date.

(b) With the prior consent of the Board, reserve funds may be invested in securities that have a maximum maturity of seven years. Such maturities will match as closely as possible the potential use of the funds.

(c) Notwithstanding (a) and (b) above, the investments and the maturities of investments held in the SWIRFT assistance accounts will be determined in accordance with the provisions of each bond indenture.

XVIII. Internal Controls

The Investment Officers shall establish a written system of procedures and internal controls consistent with the Act and this policy. The controls shall be designed to prevent and control losses of public funds. Investment Officers shall evaluate and update the procedures and internal controls as needed but no less than annually. The Board's internal auditor will review not less than every two years the Board's management controls on investments and adherence to the Board's established investment policies. The review will be based upon policies and procedures which are put in place by the investment officers. Not later than January 1 of each even-numbered year the Board shall report the results of the most recent review performed under this subsection to the state auditor.

XIX. Policy Review and Adoption

The Board's investment policy and strategies shall be reviewed and adopted by minute order by the Board no less than annually by the end of January. Such review shall include all changes to the investment policy, strategies and broker/dealer listing.

XX. Reporting

The investment officers will prepare and present to the Board not less than quarterly, a report of investment transactions for all funds within 60 days after the end of the period. The report will be prepared and signed jointly by all investment officers and include a statement of compliance to the Board's investment policy and strategies and to the Public Funds Investment Act. The report will include for each pooled fund group the beginning and ending market value, the changes to the book and market values for the reporting period and the fully accrued interest for the period. For each separately invested asset, the report shall state the book value, market value and maturity date of each investment at the end of the reporting period by asset type and fund type. The reports shall be formally reviewed not less than annually by the internal auditor and the result of the review shall be reported to the Board. The investment officers shall prepare a report on the Texas Government Code, Chapter 2256, Subchapter A and deliver the report to the Board not later than the 180th day after the last day of each regular session of the legislature.

APPROVED and ordered of record this the 21st day of August 2025.

TEXAS WATER DEVELOPMENT BOARD

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L'Oreal Stepney, P.E., Chairwoman

DATE SIGNED:

_____

ATTEST:

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Bryan McMath
Executive Administrator

ADDENDUM A

Broker/Dealer List

Academy Securities Inc.
ASL Capital Markets Inc.
B of A Securities, Inc.
Bancroft Capital LLC
Bank of Montreal, Chicago Branch
Barclays Capital Inc.
BMO Capital Markets Corp.
BNY Mellon Capital Markets LLC
BOK Financial Services, Inc.
Brean Capital LLC
Cabrerra Capital Markets LLC
Canaccord Genuity LLC
Cantor Fitzgerald & Co.
CIBC World Markets Corp.
Citigroup Global Markets, Inc.
Crews & Associates, Inc.
Curvature Securities LLC
Daiwa Capital Markets America Inc.
Deutsche Bank Securities Inc.
FHN Financial Securities Corp
Goldman Sachs & Co. LLC
Hilltop Securities Inc.
InspereX LLC
Jefferies LLC
JP Morgan Securities LLC
Loop Capital Markets LLC
Mesirow Financial Group
Mischler Financial Group
Mizuho Securities USA Inc.
Morgan Stanley & Co LLC
MUFG Securities Americas, Inc.
Multi-Bank Securities, Inc.
NatAlliance Securities LLC
NatWest Market Securities Inc.
Nomura Securities International Inc.
Oppenheimer & Co. Inc.
Penserra Securities LLC
Piper Sandler & Co.
Raymond James & Associations, Inc.
RBC Capital Markets LLC
Rice Securities LLC
Robert W. Baird & Co.
Samuel A. Ramirez & Co., Inc.
Santander US Capital Markets LLC
fka Amherst Pierpont

Broker/Dealer List (con't)

Scotia Capital (USA) Inc.
Siebert Williams Shank & Co., LLC
Stifel, Nicolaus & Company, Inc.
StoneX Financial, Inc.
TD Securities (USA) LLC
TP ICAP Global Markets Americas LLC
Vestech Securities Inc.
Virtu Americas LLC
Wells Fargo Securities LLC
Zions Bank Capital Markets