



# ***Texas Connect Investment Policy***



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# Definitions

Unless the context requires otherwise, the following terms and phrases used in this investment policy shall mean the following:

**“Act”** means Chapter 2256, Texas Government Code, as amended from time to time.

**“Advisory Board”** means the Advisory Board of Texas Connect.

**“Authorized Investment”** means any security which Texas Connect is authorized to invest in under Chapter 2256, Texas Government Code.

**“Board”** means the Board of Trustees of the Trust.

**“Collateral”** means any authorized means or method of securing the deposit of funds of Texas Connect under Chapter 2257, Texas Government Code.

**“Custodian”** means U.S. Bank National Association.

**“Investment Adviser”** means Meeder Public Funds, Inc. an Ohio corporation.

**“Investment Officers”** means the individuals designated by the Trustees to invest and reinvest the funds of Texas Connect held in its various accounts pursuant to Section 2256.005(f) of the Act.

**“Participants”** include:

- ★ Any municipality, county, school district, or authority created under Section 52(b)(1) or (2), Article III or Section 59, Article XVI, Texas Constitution;
- ★ A fresh water supply district;
- ★ A hospital district;
- ★ Any political subdivision, authority, public corporation, body politic, or instrumentality of the State of Texas; and
- ★ Any non-profit corporation acting on behalf of any of those entities;

so long as any of the above entities has taken the actions required by Section 2256.016 of the Act.

**“Program Administrator”** means Mutual Funds Service Company d/b/a Public Funds Administrators, an Ohio limited liability company.

**“Texas Connect”** for purposes of this investment policy means the government investment pool established pursuant to the Trust Agreement that is available to Participants in the State of Texas.

**“Texas Connect Officials”** means the Investment Officers, Trustees, officers, employees, and persons and business entities engaged in managing the investment of funds of Texas Connect, including, without limitation, the Program Administrator, the Custodian, and the Investment Adviser.

**“Trust”** means the Connect Investment Trust, a Texas business trust.

**“Trust Agreement”** means the Trust Agreement dated September 7, 2023, between the Trust and the Program Administrator.

**“Trustee”** means a person elected or appointed to serve on the Board.

# Purpose and Scope

The Board has adopted this Investment Policy (the “Policy”) to govern the management of the public funds investment pool referred to as Texas Connect®, which was established and created pursuant to Chapter 2256 of the Act, and the Trust Agreement.

The Board has contracted with the following to provide services for Texas Connect:

- ★ U.S. Bank National Association serves as Custodian;
- ★ Public Funds Administrators serves as the Program Administrator;
- ★ Meeder Public Funds, Inc. serves as the Investment Adviser; and
- ★ Cohen and Company serves as the Auditor.

This Policy establishes the policies and procedures governing the investment activities of the Investment Adviser in managing Texas Connect. It is designed to ensure Texas Connect is managed in compliance with the provisions of the Trust Agreement and Texas law.

As of the adoption date of this Policy, the following laws are applicable to the investment of Texas Connect: Chapter 2256, Texas Government Code; Chapter 791, Texas Government Code; Chapter 2257, Texas Government Code; and Chapter 404.101 et seq., Texas Government Code (collectively, the “Investment Laws”).

The Investment Laws provide the minimum criteria for the management of Texas Connect. This Policy specifies the scope of authority of the Texas Connect Officials who are responsible for the investment of the funds.

# Investment Objectives

Consistent with Sec. 2256.002(a)(6) and Sec. 2256.006(a) of the Act, the objectives of Texas Connect are in order of priority: 1) Preservation and safety of principal; 2) Liquidity; and 3) Yield.

## PRESERVATION AND SAFETY OF PRINCIPAL

The primary objective of Texas Connect is the preservation and safety of invested principal. Therefore, all investments made in Texas Connect will be in accordance with the established processes and procedures for maintaining a stable net asset value (“NAV”) of \$1.00 per share.

The securities held by Texas Connect are marked to market daily in accordance with the Act and the Trust’s valuation policies. The Investment Adviser will take appropriate action to maintain the ratio of the market value of the portfolio divided by the book value of the portfolio between \$0.995 and \$1.005.

Consistent with Sec. 2256.019 of the Act, Rating of Certain Investment Pools, Texas Connect will be continuously rated no lower than AAA or AAAM or at an equivalent rating by at least one nationally recognized statistical rating organization (“NRSRO”). Texas Connect is currently rated AAAM by Standard and Poor’s (“S&P”) and is managed to comply with S&P’s Principal Stability Fund Rating criteria. These criteria may be more limiting than the provisions of the Act. Texas Connect seeks to comply with the stricter standard.

Under Sec 2256.017 of the Act, except as provided by Chapter 2270, Texas Connect is not required to liquidate investments that were Authorized Investments at the time of purchase.

Under Sec 2256.021 of the Act, an investment that requires a minimum rating under the Act does not qualify as an Authorized Investment during the period the investment does not have the minimum rating. Texas Connect will take all prudent measures that are consistent with the Policy to liquidate an investment that does not meet the minimum rating.

## LIQUIDITY

To maintain sufficient liquidity to allow for same-day deposits and redemptions, Texas Connect only invests in high-quality, short-term securities denominated in U.S. dollars. Additionally, Texas Connect maintains a dollar-weighted average maturity of no more than 60 days (floating and variable rate securities are adjusted to the next interest-rate reset date) and a dollar-weighted average life of no more than 90 days (floating and variable rate securities are calculated to final maturity). Furthermore, Texas Connect only buys investments that have either a final or effective maturity of 397 days or less, and 762 days for floating or variable rate government obligations of the United States, its agencies, or instrumentalities.

Texas Connect may acquire an illiquid investment only if, after acquisition, it would hold no more than five percent of its total assets in illiquid investments. An illiquid investment is an investment that cannot be sold or disposed of in the ordinary course of operations at its amortized cost value within five business days.

The portfolio liquidity requirements of Government Accounting Standards Board Statement Number 79 (“GASB 79”) require Texas Connect to maintain a minimum of 10 percent of its assets in daily liquid assets and 30 percent in weekly liquid assets, as defined in GASB 79.

## YIELD OBJECTIVES

Generate a competitive return while containing costs consistent with safety of principal, maintaining liquidity, and maintaining a stable NAV of \$1.00 per share.

# GASB 79

To assist in achieving the investment objectives, Texas Connect is managed in accordance with GASB 79, which establishes criteria for an external investment pool to qualify for making the election to measure its investments at amortized cost for financial reporting purposes. The specific criteria address:

1. How the external investment pool transacts with participants;
2. Requirements for portfolio maturity, quality, diversification, and liquidity; and
3. Calculation and requirements of a shadow price.

GASB 79 also establishes minimum requirements for the financial statements to be presented and the disclosures to be made in the separate financial reports of governmental external investment pools.

## Delegation of Authority and Standard of Care

The Board has designated experienced individuals associated with the Investment Adviser to serve as Investment Officers to oversee the investment of funds of Texas Connect. The Investment Officers are responsible for investing the funds of Texas Connect in accordance with this Policy and will exercise the judgment and care, under prevailing circumstances, that a prudent person 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 an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

1. The investment of the entire Texas Connect portfolio rather than a consideration as to the prudence of a single investment.
2. Whether the investment decision was consistent with the Policy.

The Board hereby authorizes and directs the Program Administrator and any other Texas Connect Officers, as requested, to assist the Investment Officers with any of their duties, including but not limited to the following:

1. Handling investment transactions.
2. Preparing and submitting to the Board the written report on all investment transactions for Texas Connect.
3. Researching investment options and opportunities.
4. Obtaining written depository pledge agreements as required herein.
5. Obtaining safekeeping receipts from the Texas financial institution which serves as a depository for pledged Collateral.
6. Reviewing the market value of investments of Texas Connect, including each pool or portfolio established pursuant to the Trust Agreement and of any Collateral pledged to secure funds of Texas Connect.

# Conflicts of Interest

The Investment Officers and Texas Connect Officers will disclose in writing:

- A. Any “personal business relationship” with a business organization offering to engage in an investment transaction with Texas Connect, and
- B. Any relationship within the second degree by affinity or consanguinity, as determined by Chapter 573, Texas Government Code, to any individual seeking to sell an investment to Texas Connect, as required by the Act.

The existence of a “personal business relationship” is determined in accordance with the Act. The disclosure statement will be filed with the Board and the Texas Ethics Commission.

# Authorized Investments

Unless specifically prohibited by law or elsewhere by this Policy, funds of Texas Connect may be invested and reinvested only in investments authorized by the Act or any successor statute thereto, including the following types of investments:

## GOVERNMENT SECURITIES

Obligations, including letters of credit, of the United States or its agencies and instrumentalities.

Direct obligations of the State of Texas or its agencies and instrumentalities.

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, 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.

Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by an NRSRO no less than a single-A (A) rating or its equivalent.

### Policy Guidelines

Up to 100% of the Texas Connect assets may be invested in government securities.

### Maturity Limits

The maximum final stated maturity of a security is 397 days, except for floating or variable rate government obligations of the United States, its agencies, or instrumentalities. The final stated maturity of securities that are not obligations of the United States, its agencies, or instrumentalities, is the earlier of the contractual final maturity date or the next date on which full repayment of principal can be obtained through exercise of a demand feature.

## REPURCHASE AGREEMENTS

A fully collateralized repurchase agreement or reverse repurchase agreement is an Authorized Investment if it:

1. Has a defined termination date.
2. Is secured by a combination of cash or obligations of the United States, its agencies, or its instrumentalities, including certain mortgage-backed securities.
3. Securities that are pledged to the investing entity are held in the investing entity's name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the entity.
4. Is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas.

The term of a reverse repurchase agreement may not exceed 90 days after the date of delivery. Money received under a reverse repurchase agreement may be used to acquire additional Authorized Investments provided such investments mature not later than the expiration date stated in the reverse repurchase agreement.

### Policy Guidelines

- A. Up to 100% of the Texas Connect assets may be invested in direct repurchase agreements.
- B. A term repurchase agreement refers to any repurchase agreement with more than seven (7) calendar days remaining to maturity or more than seven (7) calendar days to the next put option that allows Texas Connect to liquidate the position at par (principal plus accrued interest).
- C. Margin Requirements: Collateral must be equal to at least 102% of the total market value of the repurchase agreement, including accrued interest.
- D. All repurchase agreement transactions are governed by a Bond Market Association (BMA) or Securities Industry and Financial Markets Association (SIFMA) approved Master Repurchase Agreement and Master Reverse Repurchase Agreement.

### Maturity Limits

The maximum final maturity on repurchase agreements may not exceed 365 days. For purposes of calculating the weighted average maturity of the portfolio, the maturity date of a term repurchase agreement will be equal to the put option notice period.

## CERTIFICATES OF DEPOSIT

Certificates of deposit or share certificates if the certificate is issued by a depository institution that has its main office or a branch office in Texas.

### Policy Guidelines

Up to 75% of Texas Connect assets may be invested in certificates of deposit. Certificates of deposit must be:

- A. Guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor;
- B. Secured by obligations of the United States, its agencies, or its instrumentalities, 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 of the nature described in the prohibited investments section of this policy; or
- C. Secured in any other manner and amount provided by law for deposits of the investing entity.

### Maturity Limits

The maximum final stated maturity of a security may not exceed 397 days.



## COMMERCIAL PAPER

Up to 100% of Texas Connect assets may be invested in commercial paper with a maximum maturity of 365 days which is rated not less than A-1 or P-1 or an equivalent rating by at least:

- A. Two NRSROs; or
- B. One NRSRO 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.

## MONEY MARKET MUTUAL FUNDS

### Policy Guidelines

Up to 75% of Texas Connect assets may be invested in money market mutual funds with no more than 10% concentration risk in each money market mutual fund. The fund must be rated triple-A (AAA) or equivalent by at least one of the NRSROs. The fund must be registered with and regulated by the U.S. Securities and Exchange Commission (“SEC”) and provide a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, each as amended.

### Maturity Limits

The fund must have a dollar-weighted average maturity of 120 days or less.

## Prohibited Investments

Notwithstanding anything to the contrary stated herein, no funds of Texas Connect may be invested in the following or in any other type of investment prohibited by the Act or other applicable law:

- A. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (e.g., interest only).
- B. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (e.g., principal only).
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than ten years.
- D. Collateralized mortgage obligations, the interest rate of which are determined by an index that adjusts opposite to the changes in the market index (i.e., inverse floaters).

## Administrative Guidelines

### PROVISIONS APPLICABLE TO TEXAS CONNECT

1. All funds of Texas Connect shall be invested only in accordance with this Policy and shall comply with any additional requirements imposed by the Trust Agreement or by resolutions of the Board and applicable state law or federal tax law, including the Investment Laws.
2. The Investment Adviser will cure any breaches of this Policy consistent with the guidelines set forth in S&P’s Principal Stability Fund Rating methodology.

## **REPORTING BY THE PROGRAM ADMINISTRATOR**

Not less than monthly and within a reasonable time after the end of the period reported, the Investment Officers and Texas Connect Officers shall cause the Program Administrator to prepare and submit to the Board a written report of the investment transactions for all funds of Texas Connect for the preceding reporting period. The report must:

1. Describe in detail the investment positions of Texas Connect on the date of the report;
2. State the book value, using amortized cost valuation, and the market value of each asset within Texas Connect;
3. State the maturity date of each separately invested asset that has a maturity date;
4. State the compliance of Texas Connect with this Policy and the Act; and
5. Be signed by the Program Administrator.

## **QUALIFIED BROKER-DEALERS**

Under Section 2256.025 of the Act, “the governing body of an entity subject to this sub-chapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.” The list of qualified broker-dealers with whom Texas Connect may engage in investment transactions is maintained by the Investment Adviser. The Board will annually review this list and revise it as needed.

## **SETTLEMENT BASIS**

All purchases of investments, except investment in mutual funds, shall be made on a delivery versus payment basis. The safekeeping entity for all Texas Connect investments and for all collateral pledged to secure funds of Texas Connect shall be one approved by the Investment Officer or the Program Administrator.

## **MONITORING OF THE MARKET VALUE OF INVESTMENTS AND COLLATERAL**

The Program Administrator, on behalf of the Investment Officer, with the help of such Texas Connect Officers, as needed, shall determine the market value of each investment and of all collateral pledged to secure deposits of funds of Texas Connect at the times required and, in the manner, provided in the Trust Agreement and the Act.

## **ANNUAL REVIEW**

The Texas Advisory Board and Board shall review this Policy at least annually and adopt a resolution confirming the continuance of the Policy without amendment or adopt an Amended Policy. Additionally, per Section 2256.005(m) of the Act, in conjunction with a Texas Connect annual financial audit, the Trust will conduct a compliance audit of management controls on investments and adherence to this Policy.

## **ADVISORY BOARD**

Pursuant to Section 2256.016(g)(2) of the Act, the Board has appointed an Advisory Board composed of Participants and other people who do not have a business relationship with the Trust but are qualified to advise the Trust. The Advisory Board provides advice to the Board, the Program Administrator, and the Investment Adviser about the Investment Policy and Investment Strategy of Texas Connect and about other matters as requested by the Board and the Investment Adviser.

# Investment Strategy

The general investment strategy for Texas Connect shall be to invest all funds to accomplish the following objectives, which are listed in the order of importance:

1. Ensuring the suitability of the investment to the financial requirements of the Participants in Texas Connect;
2. Preservation and safety of principal;
3. Liquidity;
4. Marketability of the investment if the need arises to liquidate the investment before maturity;
5. Diversification of the investment portfolio;
6. Yield.

All funds shall be invested to meet the cash flow requirements of Texas Connect as determined by the needs of the Participants.



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