TEXAS TRUST

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

COMPTROLLER GLENN HEGAR, CHAIRMAN

COMPTROLLER'S INVESTMENT POLICY

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I. Purpose and Objectives statement

A. Application

The Texas Comptroller of Public Accounts (the "Comptroller") manages moneys held in and outside the state treasury. This investment policy applies to the management of treasury funds and non-treasury funds pooled together for investment purposes ("Treasury Pool") and other funds not subject to a specific investment policy or a funds management or similar agreement.

B. Overall Objectives and Strategies

The Comptroller's principal investment management objectives, in descending order of priority, are as follows:

- preservation of capital and protection of principal;
- maintenance of sufficient liquidity to meet the state's operating needs; and,
- maximization of return.

The Comptroller will preserve capital and protect principal by investing in a diversified pool of assets of high credit quality. Interest rate risk will be managed by maintaining a weighted-average maturity of no more than two (2) years.

Liquidity is the ability to convert securities into cash in a timely manner at the prevailing market price. Liquidity will be achieved by holding a sufficient portion of the Treasury Pool in short-term (less than 1 year) assets of large, liquid U.S government, agency, or instrumentality (such U.S. instrumentalities are hereinafter referred to as "government-sponsored entities" or "GSEs") issuers and money market funds or corporate commercial paper issuers with multiple broker programs.

After preservation of capital and protection of principal and liquidity requirements have been met, investments will be made to enhance the return on the portfolio. This will be achieved by utilizing the full range of permitted investment types and strategies. The investments will be actively managed to take advantage of relative value opportunities. The Treasury Pool will seek to achieve a competitive yield consistent with the risk parameters set forth in this Policy.

II. Legal Authority

A. Treasury Funds

Section 404.024 of the Texas Government Code ("Code") governs the investment of state funds held in the treasury. The Comptroller may deposit state funds in time deposits in approved state depositories. The time deposits must be secured by collateral to the extent required and as described by Section 404.0221 of the Code. Such deposits are also subject to the additional collateral requirements of Section 404.031 of the Code. The Comptroller must invest state funds not deposited in state depositories in the instruments listed in Section 404.024 of the Code and in accordance with the other restrictions set out in the statute.

Under Section 404.024 of the Code, if the Comptroller is required by law to invest funds other than as provided in Section 404.024 of the Code and the other law does not establish a conflicting standard, the Comptroller must manage and invest the funds according to the following "prudent person" standard:

> [U]nder the restrictions and procedures for making the investments that *persons of ordinary prudence*, discretion, and intelligence, exercising the judgment and care under the prevailing circumstances, would follow in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital.
> TEX. GOV'T CODE ANN. 404.024(j) (Vernon Supp. 2004) (emphasis added).

B. Endowment Funds

Additionally, other statutory provisions govern the investment of particular endowment funds managed by the Comptroller according to either the "prudent person" or "prudent investor" standard. For instance, Section 403.1041 of the Code requires the Comptroller to manage the assets of the Tobacco Settlement Permanent Trust Account, established for the benefit of authorized political subdivisions, in accordance with the "prudent person" standard. Section 403.1068 of the Code requires the Comptroller to manage in accordance with the "prudent investor" standard the Permanent Fund for Tobacco Education and Enforcement, the Permanent Fund for Children and Public Health, Permanent Fund for Emergency Medical Services and Trauma Care, and the Community Hospital Capital Improvement Fund established for the benefit of the Texas Department of Health; and the Permanent Fund for Rural Health Facility Capital Improvement established for the benefit of the Office of Rural Community Affairs. Finally, Section 63.102(a) of the Texas Education Code also requires the Comptroller to administer in accordance with the "prudent investor" standard various endowment funds established for the benefit of health-related institutions of higher education. Separate investment policies govern the investment of these endowment funds.

C. Texas State Lottery

Section 466.403 of the Code requires the Comptroller to invest funds from the State lottery account as necessary to ensure the payments of a prizewinner's installments. The investments may be in securities, annuities, or other instruments as determined by the Comptroller.

D. Texas Treasury Safekeeping Trust Company

The Texas Treasury Safekeeping Trust Company (the "Trust Company") is a special-purpose corporation established by the Texas Legislature and the Comptroller under Subchapter G of Chapter 404 of the Code. The Comptroller is the sole officer, director, and shareholder of the Trust Company. The purpose of the Trust Company is to provide a means for the Comptroller to obtain direct access to the Federal Reserve System and to manage, disburse, safekeep, and invest funds and securities more efficiently. The Comptroller has delegated investment authority to the Trust Company and utilizes the Trust Company to manage and invest funds held in and outside the treasury.

Investment of funds by the Trust Company is governed by Section 404.106 of the Code. This section provides that funds held by the Trust Company must be invested in obligations authorized by law for the investment of funds held and managed by the Comptroller, which generally means Section 404.024 of the Code. Additionally, Section 404.106 of the Code provides that with respect to specific funds held by the Trust Company for a particular participant, the Trust Company has the same investment authority as the participant for those specific funds.

The Trust Company manages the Treasury Pool in accordance with this investment policy. The Trust Company also acts as the investment manager, depository, or both for the Comptroller and several state entities with respect to funds held outside the state treasury and the Treasury Pool. When managing such funds held outside of the Treasury Pool, the Trust Company invests in accordance with the statutes, bond documents, funds management agreements, or other interagency agreements applicable to the particular funds.

E. Tax and Revenue Anticipation Notes

In anticipation of a temporary cash flow shortfall in the General Revenue Fund, Subchapter H of Chapter 404 of the Code authorized the Comptroller to issue tax and revenue anticipation notes on behalf of the state. The proceeds of these notes are invested in the Treasury Pool.

F. TexPool

The Comptroller through the Trust Company manages the Texas Local Government Investment Pool and provides two investment alternatives: TexPool and TexPool Prime. TexPool invests only in U.S. Treasury and government agency securities. TexPool Prime invests additionally in certificates of deposit and commercial paper. (They are jointly hereinafter referred to as "TexPool"). TexPool is established pursuant to the Public Funds Investment Act, Chapter 2256 of the Code, and the Interlocal Cooperation Act, Chapter 791 of the Code. They authorize the creation of public funds investment pools comprising specified investments in which eligible governmental entities may invest their funds. The Comptroller and the Trust Company have contracted with external service providers to manage the investment pools and provide related services for TexPool, but retain ultimate oversight. The TexPool Advisory Board, composed of representatives of TexPool participants and non-participants, advises the Comptroller and the Trust Company in the administration of TexPool. TexPool is governed by its own investment policies.

III. Authorized Investments

Section 404.024 of the Code authorizes the Comptroller to invest treasury funds in the following investment vehicles.

A. Time Deposits

1. Statutory Requirements

Under Section 404.024(a) of the Code, treasury funds may be invested in time deposits at eligible financial institutions doing business in the state that have been approved as state depositories by the Comptroller. These institutions must pledge eligible collateral sufficient to secure state deposits as required by Sections 404.0221 and 404.031 of the Code. The total amount placed in time deposits will be based on the number of authorized depositories requesting funds, the interest rates available for competing investments, and the state's liquidity requirements.

2. Policy Guidelines

Depositories: In addition to the statutory requirements, depositories must meet the capital-to-asset ratio requirements of the Comptroller.

Interest Rate: The rate on time deposits will be determined monthly and will be based on a competitive on-line auction process and on current market yields and conditions at the time of the auction. The rate on time deposits at the time of placement must be at least equal to the current market yield on a comparable maturity Treasury Bill at that time.

Portfolio Composition: Up to 20% of Treasury Pool assets may be invested in time deposits at approved state depositories. The depository bank must be on the Comptroller's approved list at time of deposit.

Maturity Limitations: The maximum maturity may not exceed the term of the existing agreement with the depository bank, except for linked deposits through the Texas Economic Development Bank or the Department of Agriculture that may not exceed the end of the biennium.

B. Repurchase Agreements and Reverse Repurchase Agreements

1. Statutory Requirements

Pursuant to Section 404.024(a) and (b) of the Code, treasury funds may be invested in fully collateralized repurchase agreements secured by obligations of the U.S., its agencies or instrumentalities, GSEs, or cash. Because Section 404.024(e) of the Code prohibits their purchase, the following obligations are unacceptable collateral for repurchase agreements:

a. Obligations the payment of which represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral that pays no principal, *e.g.,* MBS Interest-Only Strips;

b. Obligations the payment of which represents the principal balance repayments from the underlying mortgage-backed security collateral that pays no interest, *e.g.*, MBS Principal-Only Strips;
c. Collateralized Mortgage Obligations ("CMOs") that have a stated final maturity date of greater than 10 years; and,
d. CMOs the interest rate of which is determined in a manner that adjusts in the opposite direction to the changes in a market index, *e.g.,* Inverse Floating Rate CMOs.

The Comptroller may also enter into reverse repurchase agreements, which are fully collateralized by cash. The maximum maturity of a reverse repurchase agreement shall not exceed 90 days. Money received pursuant to the terms of a reverse repurchase agreement may be used to acquire additional authorized investments, the maturity or term of which shall not exceed the term of the reverse repurchase agreement.

Repurchase and reverse repurchase agreement transactions must be placed only with primary government securities dealers approved by the Federal Reserve System, financial institutions doing business in the state, or made directly with a state agency with the authority to invest in repurchase agreements as defined in Section 404.024.

Repurchase and reverse repurchase agreement transactions may be submitted for clearing and settlement to a covered clearing agency pursuant to Section 404.024.

2. Policy Guidelines

a. ***Repurchase Agreements***

Portfolio Composition: The Comptroller may invest up to 100% of the Treasury Pool in repurchase agreements.
Maturity Limitation: The maximum maturity of direct repurchase agreements will not exceed 180 days.
Margin Requirements: In accordance with the master repurchase agreements of the Comptroller, repurchase agreements will be fully collateralized at the following margin levels:

Treasuries	- At least 100 %
Agencies	- 101 %
U.S. Instrumentalities	-101%
(e.g. AAA-Rated Supranational Organizations)	
Mortgage-backed	- 102 %

Collateral Maturity Limitations: Any CMOs securing a repurchase agreement may not have a final stated maturity exceeding 10 years.
Collateral Safekeeping: All collateral securing repurchase transactions will be held in safekeeping at the Trust Company's account at the Federal Reserve Bank of Dallas, San Antonio Branch in the name of the Trust Company or in the Trust Company's

account at an approved third-party custodian with which the Comptroller has executed a custodial undertaking agreement in connection with a master repurchase agreement, *i.e.*, a tri-party agreement. The collateral will be monitored daily to ensure that margin requirements are maintained. Margin excesses or deficits will be corrected on a timely basis, generally no later than the next business day.

b. *Reverse Repurchase Agreements*

Portfolio Composition: The Comptroller may enter into reverse repurchase agreements for up to 35% of the Treasury Pool.

C. Government Securities

1. Statutory Requirements

Pursuant to Section 404.024(b)(3) and (4) of the Code, the Comptroller may purchase direct obligations of or obligations, the principal and interest of which are guaranteed by the U.S.; and direct obligations of, or obligations guaranteed by U.S. agencies or GSEs. Mortgage-backed securities are eligible for purchase except those specifically prohibited by Section 404.024 (e) of the Code. The stated maturity of collateralized mortgage obligations may not exceed 10 years.

2. Policy Guidelines

Portfolio Composition: The Comptroller may invest up to 100% of the Treasury Pool in U.S. government, agency, and GSE obligations.

Maturity Limitation: The maximum maturity for any U.S. government, agency, or GSE security may not exceed ten (10) years, with the exception of certain U.S. Small Business Administration ("SBA") pools and mortgage-backed securities issued by a government agency or GSE. The Comptroller may purchase SBA pools with a stated final maturity of twenty-five (25) years or mortgage-backed securities (other than those prohibited by section 404.024(e) of the Code) issued by a government agency or GSE with a stated final maturity of fifteen (15) years, recognizing that these securities receive amortizing prepayments, which significantly shorten the actual maturity of the instrument.

Mortgage-Backed Securities: The Comptroller may invest up to 15% of the Treasury Pool in qualifying mortgage-backed securities.

SBA Pools: The Comptroller may purchase fully guaranteed SBA pooled loans to provide liquidity support for small businesses in Texas. In order to assure that the Comptroller will receive timely payment of principal and interest, only SBA loans which have been pooled by the SBA are authorized for purchase. The pools must represent only loans to Texas businesses with final maturities no greater than twenty-five (25) years. Priority will be given to loans made by authorized banking institutions doing business in Texas.

D. Commercial Paper

1. Statutory Requirements

Pursuant to Section 404.024(b) (6) of the Code, treasury funds may be invested in commercial paper that (1) does not exceed 365 days in maturity and (2) that, except as provided below, has received the highest short-term credit rating by a nationally recognized investment rating firm (hereinafter, such a firm is referred to as a "Nationally Recognized Statistical Rating Organization" or "NRSRO" and includes Moody's, Standard & Poor's, and Fitch). "Highest short-term credit rating" includes at least one of the following short-term credit ratings, Moody's (P-1), Standard & Poor's (A- 1), or Fitch, Inc. (F-1) (hereinafter referred to as a "top tier rating").

The Comptroller may, in accordance with section 404.024(i) of the Code, purchase commercial paper with a rating lower than a top tier credit rating of a NRSRO to provide liquidity for commercial paper issued by the Comptroller or an agency of the state.

2. Policy Guidelines

Portfolio Composition: The Comptroller may invest up to 30% of the Treasury Pool in qualifying commercial paper.

E. Asset-Backed Securities

1. Statutory Requirements

Pursuant to Section 404.024(b) (13), treasury funds may be invested in asset-backed securities that are rated A (or its equivalent) or better by a NRSRO and that have a weighted-average maturity of five years or less.

2. Policy Guidelines

Maturity: The Comptroller may invest in asset-backed securities that have a weighted-average maturity of five (5) years or less at the time of purchase.
Credit Quality: Asset-backed securities with weighted-average maturities of up to two (2) years shall be rated A or better, by two (2) NRSRO's at the time of purchase. Asset-backed securities with weighted-average maturities between two (2) and five (5) years shall be rated AA or better by two (2) NRSRO's at the time of purchase.
Portfolio Composition: The Comptroller may invest up to 10% of the Treasury Pool in qualifying asset-backed securities. No more than 5% of the Treasury Pool may be invested with any single issuer; however, no more than 2% of the Treasury Pool may be invested in any single issuer rated lower than "AA".

For purposes of this policy, an issuer is the individual Trust, irrespective of the issuing entity.

F. Corporate Debt Securities

1. Statutory Requirements

Pursuant to section 404.024 (b) (14), treasury funds may be invested in corporate debt obligations that are rated A (or its equivalent) or better by a NRSRO and mature in five (5) years or less from the date on which the obligations were acquired.

2. Policy Guidelines

Maturity: The Comptroller may invest in corporate debt securities issued by an entity with total assets in excess of one billion ($1 billion) and whose final maturity does not exceed five (5) years from the time of purchase.

Credit Rating: Corporate debt securities with maturities of up to 25 months shall be rated A or better, by two (2) NRSRO's at the time of purchase. Corporate debt securities with maturities between 25 months and five (5) years shall be rated AA or better by two (2) NRSRO's at the time of purchase.

Portfolio Composition: The Comptroller may invest up to 10% of the Treasury Pool in qualifying Corporate Debt Securities, however, no more than 3% of the Treasury Pool may be invested in issuers domiciled outside of the United States or Canada.

No more than 2.5% of the Treasury Pool may be invested with any single issuer; however, no more than 1% of the Treasury Pool may be invested in any single issuer rated lower than "AA".

G. Bankers' Acceptances

1. Statutory Requirements

Pursuant to Section 404.024(b)(5) of the Code, treasury funds may be invested in bankers' acceptances that (1) are eligible for purchase by the Federal Reserve System, (2) do not exceed 270 days in maturity, and (3) are issued by a bank that has received a top tier rating by a NRSRO.

2. Policy Guidelines

Portfolio Composition: The Comptroller may invest up to 30% of the Treasury Pool in qualifying bankers' acceptances.

H. "Supranational" Organization Obligations

1. Statutory Requirements

Pursuant to Section 404.024(b)(8) of the Code, treasury funds may be invested in direct obligations of or obligations guaranteed by the following:

1. The Inter-American Development Bank;
2. The International Bank for Reconstruction and Development (The World Bank);
3. The African Development Bank;
4. The Asian Development Bank; and,
5. The International Finance Corporation.

Obligations of these entities must have received a AAA rating from a NRSRO.

2. Policy Guidelines

Portfolio Composition: The Comptroller may invest up to 10% of the Treasury Pool assets in qualifying supranational organization securities and State of Israel bonds in the aggregate.
Maturity Limitations: The maximum maturity may not exceed ten years from the date of purchase.

I. Israel Bonds

1. Statutory Requirements

Pursuant to Section 404.024(b)(9) of the Code, treasury funds may be invested in bonds issued, assumed, or guaranteed by the State of Israel.

2. Policy Guidelines

Portfolio Composition: The Comptroller may invest up to 10% of the Treasury Pool assets in qualifying supranational organization securities and State of Israel bonds in the aggregate.

J. Tax-Exempt Securities and Taxable Municipal Securities

1. Statutory Requirements

Pursuant to Section 404.024(b)(10) of the Code, treasury funds may be invested in taxable and tax-exempt obligations of a state or an agency, county, city, or other political subdivision of a state.

2. Policy Guidelines

Ratings: While there are no statutory requirements regarding credit ratings on these investments, the Comptroller's policy is to purchase only obligations rated at least single-A or its equivalent by a NRSRO. If the rating on any obligation falls below single-A or its equivalent, the Director of Internal Investments will present a plan for liquidation to the Chief Executive Officer of the Trust Company ("CEO"). However, when acting as a liquidity provider, the Comptroller may purchase securities with a rating lower than the rating required by this paragraph in order to fulfill the Comptroller's contractual obligation.
Portfolio Composition: The Comptroller may invest up to 10% of the Treasury Pool in qualifying securities in this category.
Maturity Limitations: The maximum maturity may not exceed ten years from the date of purchase.

K. Mutual Funds

1. Statutory Requirements

Pursuant to Section 404.024(b)(11) of the Code, treasury funds may be invested in mutual funds (as defined by the Investment Company Act of 1940), including pooled funds established by the Trust Company and operated like a mutual fund, secured by the obligations described in Section 404.024(b)(1) through (6) of the Government Code, or by obligations consistent with Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated by the Securities and Exchange Commission.

2. Policy Guidelines

Portfolio Composition: Up to 30% of the Treasury Pool may be invested in qualifying money market mutual funds, subject to the following limitations:

- No more than 5% of the Treasury Pool may be invested in any one mutual fund.
- Except as noted below, money market funds must be rated AAAm by a NRSRO and have a weighted average maturity of 60 days or less. Funds created and operated by the Trust Company need not be rated AAAm by a NRSRO and may have a weighted average maturity of 90 days or less. But no more than 8% of the Treasury Pool may be invested in a non-AAAm rated fund with an average maturity of 90 days or less.
- Treasury Pool may represent no more than 10% of the assets of any fund.

L. Covered Call Options

Section 404.024(b)(7) of the Code authorizes the Comptroller to enter into covered call option contracts. These contracts grant the purchaser the right to purchase designated securities in the Comptroller's marketable securities portfolio at a specified price over a specified period and for which the Comptroller is paid a fee.

M. Securities Lending

Section 404.024(l) of the Code expressly authorizes the Comptroller to lend securities under procedures that are consistent with industry practice and that require the loan to be fully secured by cash, obligations described by Section 404.024(b)(1) - (6), or a combination of cash and the described obligations. Notwithstanding any law to the contrary, cash may be reinvested in the items permitted under Subsection (b) or mutual funds, as defined by the Securities and Exchange Commission in Rule 2a-7 (17 C.F.R. Section 270.2a-7)

N. General Policy Guidelines

With the exception of fully collateralized bank deposits or repurchase agreements, the Comptroller will not invest more than 5% of the Treasury Pool in any single corporate issuer. This limitation does not apply to investment in securities of the U.S. government, its agencies, or GSEs.

Unless otherwise noted, all policy limitations are applied at time of purchase.

IV. Prohibited Investments

A. Certain Mortgaged-Backed Securities

Pursuant to section 404.024(e) of the Code, the Comptroller may not invest in the following:

1. Obligations the payment of which represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral that pays no principal, *e.g.,* MBS Interest-Only Strips;
2. Obligations the payment of which represents the principal balance repayments from the underlying mortgage-backed security collateral that pays no interest, *e.g.*, MBS Principal-Only Strips;
3. CMOs that have a stated final maturity date of greater than 10 years; and
4. CMOs the interest rate of which is determined in a manner that adjusts in the opposite direction to the changes in a market index, *e.g.,* Inverse Floating Rate CMOs.

B. Naked Options

Section 404.024(b)(7) of the Code prohibits the use of naked option or uncovered call option trading.

C. Corporations Doing Business in Northern Ireland

Pursuant to Section 404.024(h) of the Code, the Comptroller may not invest in Northern Ireland unless those entities adhere to fair business practices and do not discriminate on the basis of race, color, religion, sex, national origin or disability.

D. Currency

The Comptroller may not invest in any asset that is not denominated in U.S. Dollars.

V. Administrative Guidelines

A. Authorized Staff

The Comptroller or the CEO will approve staff authorized to purchase and sell investments, send and receive securities, make funds transfers, and engage in other types of investment related transactions. A resolution or other document will identify the authorized individuals, which will be distributed to appropriate counterparties with which the Comptroller transacts investment related business.

B. Compliance with Ethics Policy

Investment staff will comply with the Trust Company's Ethics Policy, which requires compliance with the Code of Ethics and Standards of Professional Conduct of the CFA Institute.

C. Staff Competence, Training, and Education

The Comptroller will ensure that investment staff are updated on securities market developments and are competent to perform their assigned duties. The designated investment officers, or those personnel authorized to execute investment transactions, will be required to attend at least one investment training session annually. The minimum for this continuing education requirement will be ten hours of investment training within a two-year period.

D. Securities Brokers and Dealers

The Comptroller maintains a list of securities brokers and dealers (collectively, "brokers") approved to transact business with the Comptroller. Brokers must meet certain compliance and reporting requirements ("Compliance Requirements") prior to approval to transact business with the Comptroller. Each broker file shall contain the following information or acceptable substituted documents, which will be maintained by the Trust Company:

- completed broker questionnaire;
- audited financial statements for the most recent reporting period;
- proof of current certification by the Financial Industry Regulatory Authority (FINRA);
- proof of current registration in the State of Texas;
- completed anti-collusion statement;
- full-delivery instructions; and
- additional documentation requested by the Comptroller or the Trust Company.

The Comptroller may utilize the services of any primary brokers approved by the Federal Reserve System that meet the Compliance Requirements. In order to support the state's business enterprises, the Comptroller may use non-primary dealers with Texas offices.

The Trust Company Investment Committee (the "Committee") will at least annually review and recommend to the Comptroller brokers to be included in the Comptroller's approved list. Further, an update on approved brokers will be provided to the Board annually.

E. Competitive Trading and Documentation Procedures

Whenever practicable, the Comptroller and the Trust Company will award investment transactions on a competitive basis by soliciting at least two bids and then placing purchase or sale orders with brokers to achieve the best execution. All transactions will be fully documented by the individual executing the trade and confirmed by a second investment staff member. Confirmation of transactions received for trades settled through the Federal Reserve System, the Depository Trust

Company ("DTC"), or the Comptroller's general custodian will be maintained.

F. Safekeeping

All eligible book-entry securities are held in the Trust Company's accounts at the Federal Reserve Bank of Dallas, San Antonio Branch or the DTC. All other securities are held in the Trust Company's account with an independent third-party custodian pursuant to an agreement, or by the Comptroller.

G. State Depositories

The Comptroller may designate eligible institutions doing business in the state (state and national banks, savings & loans, and credit unions) as state depositories. Approved state depositories may request the placement of treasury funds in time deposits with the institution if acceptable collateral is provided. The specific depository procedures are set out in the State Depository Handbook, which is available at http://www.window.state.tx.us/treasops/depository.

H. Collateral for Deposits in Financial Institutions

State deposits in eligible institutions shall be initially collateralized and maintained at a minimum of 100% of the amount of the deposit, including accrued interest, at all times. In accordance with Section 404.0221 of the Code and the State Depository Handbook, the following securities are deemed acceptable as collateral:

- United States Treasury Obligations;
- Federal National Mortgage Association (FNMA) discount notes and primary debt instruments or debentures and mortgage-backed securities with a remaining maturity of fifteen (15) years or less;
- Government National Mortgage Association (GNMA) securities;
- Federal Home Loan Mortgage Corporation (FHLMC) discount notes and primary debt instruments or debentures and mortgage-backed securities with a remaining maturity of fifteen (15) years or less;
- Federal Home Loan Bank (FHLB) system consolidated bonds and discount notes issued in book-entry form;
- Federal Farm Credit Banks (FFCB) consolidated system-wide bonds and discount notes issued in book-entry form;
- Letters of credit issued or guaranteed by U.S. agencies or GSEs;
- State of Texas bonds issued by the various state agencies and four year educational institutions of the State of Texas; and
- Tax-exempt bonds issued by political subdivisions of the State of Texas.

In accordance with Section 404.031 of the Code, pledged securities may be held in safekeeping by the Comptroller; the Federal Reserve Bank; state or national banks in the State of Texas that are approved depositories, have capital stock and surplus of $5,000,000 or more, and that have been designated as custodians by the Comptroller, the Federal Home Loan Bank, or the Trust Company.

The Comptroller will update the market value of the collateral at least weekly. The Comptroller will evaluate the collateral-to-deposit ratio (margin) daily to assure that all deposits are adequately collateralized. State depositories will be notified immediately if the market value of the collateral drops below the total book value of the deposit plus accrued interest. Depositories will be required to correct collateral deficiencies within one day. If the depository does not comply, state deposits will be withdrawn completely or to the extent necessary to re-establish full collateralization.

I. Clearing Accounts

The Comptroller may place funds not otherwise invested in interest bearing NOW accounts in designated clearing banks or in the Trust Company's Federal Reserve account. The rate on interest bearing NOW accounts at designated clearing banks shall equal 90% of the average of the bond equivalent yield of all weekly auctions of the three-month Treasury Bill in the previous month.

J. Cash Management Programs

The Comptroller has established concentration networks to facilitate the collection and deposit of funds from multiple locations throughout the state. The Comptroller has designated local depositories as concentration depositories and has developed procedures for the operation of the accounts.

The Comptroller will establish lockbox contracts to facilitate the rapid deposit of funds collected by agencies when necessary. The Comptroller has developed procedures for the operation.

K. Performance Measurement and Reporting

The moneys comprising the Treasury Pool are subject to withdrawal at the request of a state agency or for the payment of state obligations. The Comptroller pools the funds for investment purposes to achieve a favorable return. The Treasury Pool provides the state daily liquidity along with the opportunity to earn yields exceeding those of money market funds. To measure performance, the Treasury Pool's yield will be compared to the yield of a customized benchmark comprised of: 40% institutional prime money market funds, 30% institutional government money market funds and, 30% laddered portfolio of 5-year U.S. Treasury Notes. The results will be reported quarterly to the Board and the Comptroller.

L. Economic Development Investment Programs

To support economic development programs in the state, the Comptroller may purchase certain deposits, securities, and loan agreements in various programs authorized by the Texas Legislature. Investments in these various programs will be limited by available amounts and subject to written agreements.

M. Investment Policy Review

This investment policy will be reviewed by the Trust Company Investment Committee on an annual basis for any statutory or procedural changes, and any recommended changes will be presented to the Comptroller for approval.

APPENDIX A

Summary of Authorized Investments

Asset Class	Target Allocation	Maximum Allocation[1]	Maximum Maturity
Total Portfolio			2 year WAM
Repurchase Agreements	15%	100%	180 days
Reverse Repurchase Agreements		35%	90 days
US Govt, Agency, Instrumentality	45%	100%	10 years
Mortgage-backed securities	10%	15%	15 year stated final
CMO			10 year stated final
SBA			25 year stated final
Bankers Acceptances		30%	270 days
Commercial Paper	10%	30%	365 days
Asset-Backed Securities	5%	10%	≤ 5 year WAM
Corporate Debt Securities	5%	10%	5 years
Supranational Organizations[3]		10%	10 years
Municipal Securities		10%	10 years
Time Deposits	5%	20%	term of agreement (except Linked Deposits[2])
Money Market Mutual Funds	5%	30%	90 day WAM

[1] Allocation at time of purchase.
[2] Linked deposit maximum maturity may not exceed the end of the biennium.
[3] Including bonds issued, assumed, or guaranteed by the State of Israel.