



Financial Advisor Services
Request for Qualifications
(RFQ) #01-02-19

ADDENDUM #1

Exhibit A
2018-2019 Board Approved Investment Policy
(Marked Revisions Noted)

ACKNOWLEDGEMENT OF ADDENDUM #1:

Company Name

Date

Authorized Official (Printed Name)

Authorized Official (Signature)

SIGNED ADDENDUM MUST BE SUBMITTED WITH PROPOSAL



BUSINESS & FINANCE OFFICE

5025 South Willow Drive
Houston, Texas 77035

RFQ# 01-02-19

FINANCIAL ADVISOR SERVICES

Addendum Date of Issue: February 6, 2019

ADDENDUM # 1

Exhibit A

**2018-2019 Board Approved Investment Policy
(Marked Revisions Noted)**

Office of Superintendent of Education
Board of Education Meeting of August 13, 2018

**SUBJECT: CONSIDER APPROVAL OF THE VARNETT PUBLIC SCHOOL INVESTMENT
POLICY - REVISED**

It is the policy of The Varnett Public School to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds.

This Policy will be reviewed at least annually to ensure its consistency with the objectives of income, growth, and safety, and changes in applicable laws and financial trends. In light of the statutory changes made by HB 1003, the attorneys of Rogers, Morris & Grover, L.L.P. has made required revisions. Any proposed amendments to the Investment Policy will require approval by the Board of Education.

The administration recommends that the Board of Education approves the school investment policy.

**The VARNETT SCHOOLS INC.
DBA THE VARNETT PUBLIC SCHOOL
INVESTMENT POLICY**

1.0 POLICY

It is the policy of The Varnett Public School to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all applicable state and local statutes governing the investment of public funds.

2.0 SCOPE

This investment policy applies to all state funds of The Varnett Public School. These funds are accounted for in The Varnett Public School's **Financial Statements and Supplementary Information Report and include:**

Funds

Unrestricted Funds

Temporary Restricted Funds

Permanently Restricted Funds

The policy does not cover Student Activity Funds or similar funds used for other school related clubs and associations.

3.0 PRUDENCE

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 their capital as well as the probable income to be derived. In determining whether an investment decision has been made with prudence, the determination shall take into consideration the investment of all funds over which the investment officer has authority rather than the prudence of a single investment, and whether the investment decision was consistent with the written investment policy.

19 T.A.C. §100.1045(c)

4.0 OBJECTIVE

The primary objectives, in priority order, of The Varnett Public School's investment activities shall be:

- 4.1 Preservation and Safety:** Safety of principal is the foremost objective of the investment program. Investments of The Varnett Public School shall be undertaken in a manner that seeks to ensure the preservation and safety of capital in the overall portfolio.

4.2 Liquidity: The Varnett Public School's investment portfolio will remain sufficiently liquid to enable The Varnett Public School to meet all operating requirements which might be reasonably anticipated.

4.3 Yield: The Varnett Public School's investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles, commensurate with The Varnett Public School's investment risk constraints and the cash flow characteristics of the portfolio.

4.4 Diversification: The Varnett Public School's investment portfolio shall represent diversified investments as to maturity, market sector and financial institution.

19 T.A.C. §100.1045 (c)(1)

5.0 INVESTMENT OFFICERS/INVESTMENT COMMITTEE

The Board of Directors, the governing body of The Varnett Public School, designates, by resolution, *the Superintendent, the Business Manager, and the Board Treasurer* as primary investment officers who shall form the Investment Committee and shall be responsible for the investment of the School's funds consistent with the School's investment policy. Authority granted to these investment officers to invest the School's funds is effective until rescinded by the Board of Directors or until termination of the investment officer's employment by the School.

Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner funds subject to the investment policy.

Each investment officer shall, within 12 months of assuming duties, attend training from a Board authorized source and shall receive continuing training in accordance with 19 TAC §§100.1102 and 100.1103, as applicable, pertaining to fiduciary and financial duties. The Board of Directors will support and encourage its investment officers in obtaining professional credentials.

The Investment Committee shall direct management ~~responsibility~~ recommendations for the investment program to the ~~Superintendent~~ School Board. The Board shall be ultimately responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

6.0 ETHICS AND CONFLICTS OF INTEREST

The investment officers shall refrain from personal business activity that could conflict with proper execution of the investment policy, or which could impair the ability to make impartial investment decisions. All investment officers shall comply applicable conflicts of interest provisions in state law when making investment recommendations and decisions.

7.0 SAFEKEEPING OF INVESTMENTS

All invested state funds shall be maintained in a discrete investment account, separate and distinct from both the operating accounts and any investment accounts related to non-charter school activities.

8.0 AUTHORIZED & SUITABLE INVESTMENTS

Pursuant to Texas Education Code Section 12.1053(b)(3), the Varnett Public School and its Investment Committee shall invest in accordance with the Public Finance Investment Act, Texas Government Code Sections 2256.009-2256.016. The Investment Committee shall recommend appropriate legally authorized and adequately secured investments and shall invest funds in accordance with the adopted investment policy and generally accepted accounting procedures that meet the daily cash flow needs of the School.

8.1 Obligations of or Guaranteed by a Governmental Entity.

8.1.1 Except as provided in Section 8.1.2, the following are authorized investments:

8.1.1.1 Obligations, including letters of credit, of the U.S. Government or its agencies and instrumentalities;

8.1.1.2 Direct obligations of the State of Texas or its agencies and instrumentalities;

8.1.1.3 Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

8.1.1.4 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; and,

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

8.1.1.6 Bonds issued, assumed, or guaranteed by the State of Israel.

8.1.2 Prohibited Investments. The following investments are prohibited:

8.1.2.1 Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.

8.1.2.2 Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.

8.1.2.3 Collateralized mortgage obligations that have a stated final maturity date of greater than ten years.

8.1.2.4 Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Texas Government Code §2256.009(b).

8.2 Certificates of Deposit and Share Certificates. A certificate of deposit or share certificate is an authorized investment under this policy if the certificate is issued by a depository institution that has its main office or a branch office in the State of Texas and is:

- (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor or the National Credit Union Share Insurance Fund or its successor;
- (b) secured by obligations that are described in the Section 8.1.1 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 plus any accrued interest, but excluding those mortgage backed securities of the nature described in the Section 8.1.2; or
- (c) secured in any other manner and amount provided by law for deposits of the School.

8.2.1. An investment in a certificate of deposit is authorized under this subsection if it is made under the following conditions:

- (a) The funds are invested by the School through a depository institution that has its main office or a branch office in this state;
- (b) The depository institution arranges for the deposit of the funds in certificates of deposits in one or more federally insured depository institutions, wherever located, for the account of the School;
- (c) The full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and
- (d) The depository institution selected by the Board acts as custodian for the School with respect to the certificates of deposit issued for the account of the School.

Texas Government Code §2256.010

8.3 Repurchase Agreements. A fully-collateralized repurchase agreement is an authorized investment under this subsection if the repurchase agreement:

- (a) Has a defined termination date;
- (b) Is secured by obligations of the United State or its agencies and instrumentalities;
- (c) Is pledged to the School, help in the School's name, and deposited with the School or a third party selected and approved by the Board; and
- (d) Is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State of Texas.

Texas Government Code §2256.011(a)

8.3.1 Repurchase Agreement Defined. For purposes of this policy, “repurchase agreement” means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described at Section 8.1 at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

Texas Government Code §2256.011(b)

8.3.2 The term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

Government Code §2256.011(c)

8.3.3 Money received by the School under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

Government Code §2256.011(d)

8.4 Securities Lending Programs. A security lending program is an authorized investment if it meets the following conditions:

- (a) The value of the securities loaned is at least 100% collateralized, including accrued income.
- (b) A loan made under the program must allow for termination at any time.
- (c) A loan made under the program is secured by:
 1. Pledged securities described in Section 8.1 above;
 2. Pledged irrevocable letters of credit issued by a bank that is organized and existing under the laws of the United States or any state and continuously rated by at least one nationally recognized investment rating firm at not less than “A” or its equivalent; or
 3. Cash invested in accordance with sections 8.1.1, 8.6, 8.8, and 8.10.
- (d) The terms of the loan require that the securities being held as collateral be:
 1. Pledged to the School;
 2. Held in the School’s name; and
 3. Deposited at the time the investment is made with the School or with a third party selected or approved by the Board.
- (e) The loan is placed through a primary government securities dealer (as defined by 5 CFR §6801.102(f) or its successor) or a financial institution doing business in the State of Texas.
- (f) The agreement to lend securities has a term of one year or less.

Texas Government Code §2256.012

8.5 Banker’s Acceptances. A banker’s acceptance is an authorized investment if it:

- issuance;
- (a) Has a stated maturity of 270 days or fewer from the date of its
 - (b) Will be liquidated in full at maturity;
 - (c) Is eligible for collateral for borrowing from a Federal Reserve Bank; and
 - (d) Is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than “A-1” or “P-1” or an equivalent rating by at least one nationally recognized credit rating agency.

Texas Government Code §2256.012

8.6 Commercial Paper. Commercial paper is an authorized investment if it:

- (a) Has a state maturity of 270 days or fewer from the date of its issuance; and
- (b) Is rated not less than A-1, P-1 or the equivalent by at least:
 1. Two nationally recognized credit rating agencies; or,
 2. One nationally recognized credit rating agency provided the commercial paper 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 thereof.

Texas Government Code -§2256.013

8.8 Mutual Funds. No-load money market mutual funds are authorized if they:

- (a) Are registered with and regulated by the Securities and Exchange Commission;
- (b) Provide the School with a prospectus and other information required by the Securities and Exchange Act of 1934 (15 USC §78a, et seq.) or the Investment Company Act of 1940 (15 USC §80a-1, et seq.); and
- ~~(c)~~ Comply with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. §270.2a-7) Have a dollar weighted average stated maturity of 90 days or fewer; and
- ~~(d)~~ (c) Include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.

Texas Government Code -§2256.014(a)

8.8.1 Other Authorized Form. An investment in a no-load market mutual fund is authorized under this section if the mutual fund:

- (a) Is registered with the Securities and Exchange Commission;
- (b) Has an average weighted maturity of less than two years; and
- (c) Either:
 1. Has a duration of one year or more and is Is invested exclusively in obligations authorized in section 8.1, or
 2. Has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.;

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~~(d) Is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and~~

~~(e) Conforms to the requirements set forth in section 8.10, relating to the eligibility of investment pools to receive and invest funds of the School.~~

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Texas Government Code 2256.014(b).

8.8.2 Prohibited Investments. The School may not invest:

- (a) In the aggregate more than 15% of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in no-load market mutual funds;
- (b) Any portion of bond proceeds, reserves, and funds held for debt service, in no-load market mutual funds; or
- (c) Its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in a mutual fund described in section 8.8 or 8.8.1 in an amount that exceeds 10% of the total assets of the mutual fund.

Texas Government Code- §2256.014(c)

8.9 Guaranteed Investment Contracts. A guaranteed investment contract is an authorized investment for bond proceeds if the guaranteed investment contract:

- (a) Has a defined termination date;
- (b) Is secured by obligations authorized by section 8.1.1.1 in an amount at least equal to the amount of the bond proceeds invested under the contract; and
- (c) Is pledged to the School and deposited with the School or with a third party selected and approved by the Board.

Texas Government Code -§2256.015(a)

8.9.1 Qualifying Requirements. To be eligible as an authorized investment,

- (a) The Board must specifically authorize guaranteed investment contracts as eligible investments in the order, ordinance, or resolution authorizing the issuance of bonds;
- (b) The School must receive bids from at least three separate providers with no material financial interest in the bonds from which the proceeds were received;
- (c) The School must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
- (d) The price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and
- (e) The provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Texas -Government Code §2256.015(c)

8.9.2 Limitation to Contract Term. Bond proceeds, other than bonf proceeds representing reserves and funds maintained for debt service purposes, may

not be invested in a guaranteed investment contract with a term longer than five years from the date of issuance of the bonds.

Texas -Government Code §2256.015(b)

8.10 Investment Pools. An investment pool is an authorized investment if:

- (a) the Board authorizes investment in the particular pool by rule, order, ordinance, or resolution; and
- (b) The investment pool only invests the funds it receives from the School in authorized investments as described in this policy.
- (c) An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with this policy and the investment policies and objectives adopted by the investment pool.

Texas -Government Code §2256.016(a)

8.10.1 Required Disclosures. To be eligible to receive funds from and invest funds on behalf of an entity under this policy, an investment pool must furnish to the investment officer or other authorized representative of the School an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

- (a) The types of investments in which money is allowed to be invested;
- (b) The maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
- (c) The maximum stated maturity date any investment security within the portfolio has;
- (d) The objective of the pool;
- (e) The size of the pool;
- (f) The names of the members of the advisory board of the pool and the dates their terms expire;
- (g) The custodian bank that will safekeep the pool's assets;
- (h) Whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
- (i) Whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance guarantees, and a description of the secondary source of payment;
- (j) The name and address of the independent auditor of the pool;
- (k) The requirements to be satisfied for the School to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the School to invest funds in and withdraw funds from the pool;
- (l) The performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios; and
- (m) The pool's policy regarding holding deposits in cash.-

Texas- Government Code -§2256.016(b)

8.10.2 Continued Disclosure Requirements. To maintain eligibility to receive funds and invest funds on behalf of the School under this policy, an investment pool must furnish to the investment officer or other authorized representative of the School:

- (a) Investment transaction confirmations; and
- (b) A monthly report that contains, at a minimum, the following information:
 - 1. The types and percentage breakdown of securities in which the pool is invested;
 - 2. The current average dollar-weighted maturity, based on the stated maturity date, of the pool;
 - 3. The current percentage of the pool's portfolio in investments that have stated maturities of more than year;
 - 4. The book value versus the market value of the pool's portfolio, using amortized cost valuation;
 - 5. The size of the pool;
 - 6. The number of participants in the pool;
 - 7. The custodian bank that is safekeeping the assets of the pool;
 - 8. A listing of daily transaction activity of each School account;
 - 9. The yield and expense ratio of the pool;
 - 10. The portfolio manage of the pool; and
 - 11. Any changes or addenda to the offering circular.

Texas- Government Code §2256.016(c)

8.10.3 Other Requirements. The Investment Committee shall monitor the investment pool's compliance with the required disclosures above and other statutory requirements set forth in Texas Government Code Section 2256.016(e)-(k).

8.10.4 Delegation of Authority. The Board may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

Texas Government Code §2256.016(d)

9.0 INTERNAL CONTROLS

The investment officers shall establish a system of internal controls which shall be documented in writing and approved by the Board. The internal controls shall be reviewed with the independent auditor on an annual basis. These controls shall be designed to control collusion and to implement a separation of functions including the separation of transaction authority from accounting and recordkeeping. The controls shall also establish custodial safekeeping guidelines, procedures for the delegation of authority to subordinate staff, and specific limitations regarding securities losses and remedial action. Furthermore, the controls shall require written confirmation of telephone transactions and documentation of transactions and strategies. Controls shall include the requirement for two separate authorizations on the quote sheet to initiate the investment purchase.

10.0 PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs of the School.

11.0 SAFEKEEPING OF INVESTMENTS

All security transactions, including collateral for repurchase agreements, entered into by The Varnett Public School shall be conducted on a **delivery-versus-payment (DVP)** basis.

Texas Government Code 2256.005(b).

Certificates of deposits issued by the depository bank or other financial institution to the School shall designate the School's ownership and be given to the School in receipt form and held by the School.

All obligations recorded on the Federal Reserve's book entry system purchased by the School as an investment shall be confirmed to the School via a safekeeping receipt which shall be maintained on the books of a third party's safekeeping department.

12.0 MAXIMUM ALLOWABLE STATE MATURITY

The Varnett Public School will diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 70% of The Varnett Public School's total investment portfolio will be invested in a single security type or with a single financial institution.

The following maturities and diversification levels shall be applied and must be consistent with the requirements of the Public Funds Investment Act:

| | <i>Max</i> | <i>Max. %</i> |
|--|-----------------|------------------|
| | <i>Maturity</i> | <i>Portfolio</i> |
| <i>US Obligations</i> | <i>365 days</i> | <i>80%</i> |
| <i>State Obligations</i> | <i>365 days</i> | <i>80%</i> |
| <i>Collateralized Mortgage Obligations</i> | <i>270 days</i> | <i>20%</i> |
| <i>Other Obligations</i> | <i>270 days</i> | <i>10%</i> |

| | | |
|---|-----------------|--------------|
| <i>Certificates of Deposit</i> | <i>6 mos.</i> | <i>70%</i> |
| <i>Constant Dollar Pools</i> | <i>n/a</i> | <i>100%</i> |
| <i>Repurchase Agreements</i> | <i>1 day</i> | <i>50%</i> |
| <i>Commercial Paper</i> | <i>270 days</i> | <i>20%</i> |
| <i>Investment Pools</i> | <i>365 days</i> | <i>100%*</i> |
| <i>No-Load Money Market Mutual Fund</i> | <i>90 days</i> | <i>10%</i> |
| <i>No-Load Mutual Fund</i> | <i>1 year</i> | <i>20%</i> |

*Represents maximum average dollar-weighted maturity.

Texas Government Code 2256.005(b).

The investment portfolio shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issue, a specific class of securities or a specific institution.

13.0 MAXIMUM MATURITIES

To the extent possible, The Varnett Public School will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, The Varnett Public School will not directly invest in securities maturing more than one (1) year from the date of purchase. However, The Varnett Public School may collateralize its repurchase agreements using longer-dated investments not to exceed 3 years to maturity.

Reserve funds may be invested in securities exceeding one (1) year if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

14.0 ANNUAL AUDIT

In conjunction with the annual external audit, the School shall perform a compliance audit of management controls on investments and adherence to this policy.

ISSUED DATE: *March 21, 2000*

ADOPTED: *April 14, 2000*

REVISED: _____

EXHIBIT A

BROKER/DEALER CERTIFICATION FORM

As required by Texas Government Code 2256.005(k)

I, as a registered principal or manager for the firm _____
_____ do hereby certify that I, and the broker
covering this account, _____
have received and reviewed the investment policy of The Varnett Public School.

We acknowledge that this firm has implemented reasonable internal procedures and controls in an effort to preclude investment transactions conducted between this firm and The Varnett Public School that are NOT authorized by the School's investment policy. The firm cannot be held responsible for the makeup of the School's entire portfolio or an interpretation of said portfolio, which requires an analysis of subjective investment standards.

Signature: _____

Name: _____

Title: _____

Date: _____

*** Please complete and return this form along with any additional documentation deemed necessary by the firm in order to conduct business with The Varnett Public School.**

EXHIBIT B

BROKER/DEALER QUESTIONNAIRE

NAME OF FIRM: _____

ADDRESS: _____

PHONE: _____

FAX: _____

E-MAIL: _____

ACCOUNT REP: _____

TITLE: _____

PHONE/FAX: _____

BACKUP REP: _____

TITLE: _____

PHONE/FAX: _____

Has the account representative and the backup representative read the School's investment Policy? _____

How long has the account representative been an institutional governmental securities broker? _____

How long has the account representative been with this firm? _____

In what markets does your firm trade? (Give approximate volume for last year.)

U.S. T-Bills, Notes, Bonds _____

U.S. Agencies _____

Commercial Paper _____

In what market sectors does the account representatives specialize? _____

Is your firm a primary or regional dealer? _____

Are the firm and the account representatives registered with the Securities Exchange Commission? _____

Since? _____

*** Please complete and return this form along with any additional documentation deemed necessary by the firm in order to conduct business with The Varnett Public School.**