

FY 2027 INVESTMENT POLICY

Texas Real Estate Commission

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Investment Policy

Section 2.00 Policy Statement.

It is the policy of the Texas Real Estate Commission that the administration of its funds and the investment of those funds shall be handled in a manner which will provide the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the Commission and conforming to all applicable state statutes governing the investment of public funds. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. It is the intent of the Commission to be in complete compliance with the Texas Public Funds Investment Act, Chapter 2256 of the Texas Government Code, as amended.

Section 2.01 Scope.

The Commission will endeavor to earn a return on funds invested at the optimum investment return after taking into account the primary goals of preservation of principal and liquidity of funds invested. A separate portfolio of investments may be created for each investment strategy and each portfolio will be managed in a manner consistent with the policy and applicable strategy objectives described below. This investment policy applies to all financial assets and funds held by the Commission and include:

Real Estate Recovery Trust Account,
Real Estate Inspection Recovery Fund,
Current Operations and Contingencies Reserve; and
Statutory General Revenue Payment Reserve.

Section 2.02 Prudence.

Investments shall be made with judgment and care under circumstances then prevailing that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by Investment Officers shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment Officers acting in accordance with written procedures, this Investment Policy, any applicable investment strategies, and exercising due diligence, shall be relieved of personal responsibility for an individual instrument’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. In determining whether an Investment Officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration the investment of all funds over which the Officer had responsibility rather than consideration as to the prudence of a single investment and whether the investment decision was consistent with this Investment Policy, the applicable Investment Strategy and written investment procedures.

Section 2.03 Objectives.

The Real Estate Recovery Trust Account, Real Estate Inspection Recovery Fund, and Reserve funds shall be managed and invested with three primary objectives, listed in order of their priority: safety, liquidity, and yield. These objectives encompass:

Preservation and Safety of Principal

Safety of principal is the foremost objective of the Commission. Investments of the Commission shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio. To obtain this goal, diversification is required in the portfolio’s composition in order to minimize potential losses on the portfolio.

Liquidity

The Commission's investment portfolio will remain sufficiently liquid to enable it to meet all operating requirements, which might be reasonably anticipated.

Yield

The Commission's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, commensurate with the Commission's investment risk constraints and the cash flow characteristics of the portfolio. It is recognized that in diversifying the portfolio, occasional measured losses due to market volatility are inevitable and must be considered within the context of the overall portfolio's investment return, provided that adequate diversification has been implemented.

Section 2.04 Delegation of Authority.

Authority to manage the investment program is derived from the Act, specifically, Section 2256.005(f)-(h). Management responsibility for the investment program is hereby delegated to the Director of Finance, Accounting Manager, and Senior Budget Analyst of the Texas Real Estate Commission, or their successor positions, who for purposes of this Investment Policy, shall be referred to herein as the Investment Officers. The Investment Officers will be responsible for all transactions undertaken under this Investment Policy.

Section 2.05 Public Funds Investment Act Training.

In order to ensure qualified and capable investment management, each member of the Commission and the Investment Officers shall attend at least one training session relating to the person's responsibilities under the Act within six months after taking office or assuming duties. The Investment Officers shall attend an investment training session not less than once each state fiscal biennium and may receive training from any independent source approved by the Commission. Training to be received by the Investment Officers must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio assets, and compliance with the Act.

Section 2.06 Public Funds Investment Act Reporting.

The Investment Officers shall prepare and submit to each member of the Commission and the Executive Director an investment report no less frequently than quarterly. In addition to the information required by the Act, the report shall contain sufficient information to provide for a comprehensive review of investment activity, current investment instruments and performance for that period, and shall include, at a minimum:

(For each individual investment)

- a. the book value at the end of the reporting period,
- b. the market value at the end of the reporting period,
- c. the maturity date of each investment,
- d. a statement of intent if some or all securities are intended to be held to maturity,
- e. any variations from the Texas PFIA, this investment policy or the investment strategy of the Commission; and
- f. any recommended amendments to current specific investment strategies.

The investment report shall be prepared jointly and signed by all Investment Officers.

At least once every two years, the Commission shall perform a compliance audit of management controls on investments and adherence to the established investment policies as set forth in this document.

For any rated investment authorized under Section 2.09, including commercial paper, the Investment Officers shall monitor the credit rating of the issuer on an ongoing basis. If an issuer's rating falls below the minimum rating required by this Policy and the Act, the Investment Officers shall promptly evaluate the holding and take appropriate action consistent with Section 2256.021 of the Act, which may include liquidation of the investment.

Section 2.07 Safekeeping.

All securities purchased by the Commission under this Investment Policy shall be designated as assets of the Commission, shall be conducted on a delivery-versus-payment (DVP) basis, and shall be protected through the use of a third-party custodian/safekeeping agent. As required by law, cash is held in the Texas Treasury Safekeeping Trust Company (Trust Company).

Section 2.08 Investment Strategy.

The investment strategy for the funds is to maintain a laddered approach to portfolio management. Having a relatively even distribution of securities maturing each year helps eliminate extreme interest rate exposure. Investments will be set to mature on a quarterly basis when possible. The maximum allowable stated maturity of investments is 10 years.

Notwithstanding the 10-year maximum stated maturity above, commercial paper authorized under Section 2.09 is subject to its own maximum stated maturity of 365 days from the date of issuance, as required by the Act.

As required by law, cash is held in the Texas Treasury Safekeeping Trust Company (Trust Company). Cash is fully invested at all times and reinvested by the Trust Company in those investments authorized for state funds. Interest is compounded daily with earnings credited daily.

Section 2.09 Authorized Investments.

Authorized investments include primarily Direct Obligations of the United States Treasury (i.e., Treasury Bills, Notes, and bonds). Occasionally, Indirect Obligations of the Treasury or Agency Securities may be considered to be an appropriate investment (example, Federal National Mortgage Association - FNMA). This is considered on a case-by-case basis.

Commercial paper is an authorized investment provided it: (a) has a stated maturity of 365 days or fewer from the date of issuance; and (b) is rated not less than A-1 or P-1, or an equivalent rating, by at least (i) two nationally recognized credit rating agencies, or (ii) 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, consistent with Section 2256.013 of the Act.

Commercial paper holdings, in the aggregate, may not exceed 15% of the total portfolio at the time of purchase, and holdings of a single issuer may not exceed 5% of the total portfolio at the time of purchase, in order to maintain diversification consistent with Section 2.03.

A fully collateralized repurchase agreement is an authorized investment provided it meets the requirements of Section 2256.011 of the Act, including a defined termination date, security of the funds disbursed by pledged obligations described in Section 2256.009(a)(1) or Section 2256.013, placement through a primary government securities dealer or a financial institution doing business in this state, and delivery of the pledged securities to the Commission or a third-party custodian selected and approved by the Commission. This authorization includes the overnight repurchase agreement described in Section 2.10(b) below.

All investment transactions must be settled on a delivery versus payment basis. The securities are held by the Trust Company as trustee. The Trust Company monitors the market price of investments and updates them daily. The Trust Company invests cash as described by Sections 404.024 and 404.106, Texas Government Code using prudent investment standards.

Section 2.10 Account Balances and Expenses.

a. Recovery Fund Account Balances

The minimum and maximum balances required for each Recovery Fund Account, as well as the sources and methods for adding funds to, and the procedures for any remittance of funds from, each Account are established by law in Chapters 1101 and 1102 of the Occupations Code.

b. Current Operations and Contingency Reserves Account Balances

The Commission will accumulate and maintain an Operations and Contingencies Reserve totaling not less than three months of current budget's estimated operating expenses, excluding all "pass through" expense items. These

Reserves will be held in a highly liquid overnight repurchase agreement (Repo), as authorized in Section 2.09. This type of repurchase agreement matures nightly, and the instrument turns back into cash the very next day.

Once the target Operations & Contingencies Reserve is achieved, any other specifically approved reserves are funded at specific levels approved by the Commission, as needed to provide for planned expenditures or contingencies.

c. Statutory General Revenue Payment Reserve

The Commission will maintain a reserve to ensure that adequate funding is available to pay for the Commission's share of the statutory General Revenue payment as identified in Occupations Code 1105.003(f). The total amount due by August 31st of each fiscal year is \$750,000 and is split proportionately between the Commission and the Texas Appraiser Licensing and Certification Board. The funding will be secured via existing US Treasury Notes and liquidated prior to the due date of the required payment.

Section 2.11 Annual Review.

As required by Section 2256.005(e) of the Act, the Commission shall review this Investment Policy and the investment strategies applicable to each fund not less than annually. The Commission shall adopt a written instrument by rule, order, or resolution stating that it has reviewed the Investment Policy and investment strategies, and that written instrument shall record any changes made to either the Investment Policy or the investment strategies.