

Harris County-Houston Sports Authority
Quarterly Portfolio Compliance Check
Period Ending September 30, 2020

Hilltop Securities Asset Management, in providing oversight of the Sports Authority investment portfolio, has reviewed each purchase for compliance with state law, as well as adherence to the investment policy and intended fund strategy during the quarter ending September 30, 2020. Data used in preparing this review was obtained from Harris County finance officials.

Adherence to Policy:

Article V.

Investment Objectives

Section 5.01 Objectives

(a) *General objectives of suitability, safety, liquidity, marketability, diversification and yield are met.*

- ✓ The portfolio contained only highly rated commercial paper, U.S. Treasury issues, a federally insured shared deposit account and AAA-rated money market funds.
- ✓ The portfolio is extremely liquid with an average maturity of 12 days as of September 30th, down from 13 days at the end of the previous quarter.
- ✓ The percentage in *full-faith-and-credit* Treasuries is approximately 6.4%.
- ✓ The percentage in Prime commercial paper is 14.8% at quarter.

The September 30th average portfolio bond equivalent yield at cost of 0.21% reflects a fair earnings rate given the fact that Fed cut the overnight rate target to **0.00%** in March. *Market yields are at, or near their lowest point in history.*

(b) *Safety of principal is reasonably assured.*

Safety of principal is assured through the high quality of the investments as well as the short maturity structure of the portfolio. Treasury notes are backed by the full-faith-and-credit of the United States and are rated AA+ by S&P and AAA by Moody's. Money market funds are AAA-rated, the Federally Insured Cash Account (FICA) is rated AAAkf by KBRA, while **Toyota Motor Credit Corp** (TMCC) is rated A1+/P1, the highest short-term rating categories of S&P and Moody's.

(c) *Maintains sufficient liquidity to meet reasonably expected construction requirements.*

- ✓ Approximately 78.8% of the portfolio is held in demand accounts.

(d) *Rate of return is comparable to the Constant Maturity Treasury matching the portfolio WAM.*

- ✓ A more indicative performance measurement for a buy-and-hold portfolio is the portfolio's *weighted-average yield*. The portfolio's weighted-average bond equivalent yield at cost *during Q3 2020* was 0.18%, above the average daily three-month Treasury bill yield of 0.12% and the 0.11% quarterly average of three-month Constant Maturity Treasury Index (CMT) during the quarter.
Bloomberg – H15T3M {INDEX} as of September 30, 2020.

(e) *Sufficient diversification within specific issues and institutions limits (credit) exposure.*

- As of the September 30, 2020 reporting date, approximately 78.8% of total funds were held in money market funds, 14.8% in Prime CP and 6.4% in full-faith-and-credit U.S. Treasury issues.

(f) *No apparent attempt to speculate on bond market movement.*

- ✓ The types of investments purchased don't suggest attempts to speculate on bond market movement.

(g) *Investment officers have acted responsibly as custodians of public trust.*

- ✓ The conservative nature of the portfolio along with the high liquidity and market rate of interest suggest that the Investment Officers have acted responsibly as custodians of public trust.

(h) *All security swap transactions were enacted with the primary objective of principal preservation while enhancing total returns.*

- ✓ There were no known swap transactions during the quarter.

(i) *Investments were held to maturity unless unexpected liquidity demands necessitate liquidation, or in the case of a security swap.*

- ✓ All securities were held to maturity during the quarter.

Section 5.02 Pricing Portfolios

Portfolio market pricing appears reasonable as of the reporting date.

- ✓ Prices appear reasonable as of the September 30, 2020 reporting date.

Section 5.03 Authorized Investment Instrument

All securities held are authorized in the investment policy.

- ✓ All purchases made are authorized under current policy.
- ☐ *Municipal obligations are rated not less than AA or its equivalent.*
 - ✓ There were no municipal obligations in the portfolio as of quarter end.
- ☐ *All repurchase agreements have a signed master repurchase agreement with the counterparty.*
 - ✓ There are no active repurchase agreements, thus there is no need for signed master repurchase agreements.
- ☐ *All commercial paper is rated A1 P1 or equivalent and is 270 days or less to maturity.*
 - ✓ Toyota Motor Credit Corp (TMCC) is rated A1+/P1, the highest short-term rating categories of S&P and Moody's.

NOTE: CP issuance has fallen and spreads are compressed. As a result, the risk/reward tradeoff has been less favorable for much of the quarter.

- ☐ *Money market funds are SEC registered, no-load, average maturity of 60 days or less, \$1 NAV objective, prospectus provided.*
 - ✓ The Federated Treasury Obligation Fund, the Federated U.S. Treasury Cash Reserves Fund, the Morgan Stanley Institutional Liquidity Funds Government Portfolio, the Fidelity Treasury Portfolio and the Fidelity Government I Fund are all no-load, SEC-registered money market funds with a stated \$1 NAV objective.
 - ✓ The Federally Insured Cash Account (FICA) is rated AAKf and is secured by FDIC insured deposits.

Section 5.04 Internal Accounting Controls

- ✓ A review and monitoring of the internal accounting controls is outside of the scope of this engagement.

Section 5.05 Maturity

- ☐ *Maximum maturity of any investment held in the debt service portfolio, does not exceed two years.*
 - ✓ No maturity in the debt service portfolio exceeds two years.
- ☐ *Maximum maturity of any investment held in the construction funds portfolio does not exceed three years.*

- ✓ Original construction funds have been depleted.

Reserve funds are invested to maturity dates not exceeding the bonds.

- ✓ There is not a reserve fund associated with these bonds due to the existence of a surety bond.

All other Authority funds are invested in securities not to exceed three years to maturity.

- ✓ There are no bonds remaining with maturities exceeding three years.

The weighted-average of the overall portfolio does not exceed two years.

- ✓ The weighted average maturity of the overall portfolio was 12 days at quarter end.

Section 5.06 Diversification

(a) *Investments are staggered to avoid undue concentration of assets in a specific maturity sector.*

- The portfolio is overly concentrated on the short end, but the curve is flat and there's little opportunity to add value without incurring risk at present time. *This not the time to increase risk tolerance.*

(b) *Anticipated disbursement dates are covered through positioning of maturing securities.*

- ✓ Anticipated disbursements are covered through ample liquid investments.

(c) *Diversification Limits:*

Maturity. *No more than 25% of the portfolio, excluding major capital expenditure funds, debt service payments, reserve accounts, and collateralized interest accounts are invested beyond 24 months.*

- ✓ At present, no investment maturity exceeds 24 months.

Risk Default. *No more than 50% of the overall portfolio is invested in time deposits of a single user.*

- ✓ There were no investments in time deposits at the end of the quarter.

Marketability. *At least 15% of the portfolio is invested in overnight investments or readily marketable securities.*

- ✓ Approximately 78.8% of the portfolio is held in fully liquid money market funds.

Section 5.09 Securing Deposits of Authority Funds

As of September 30th, all unsecured deposits at Amegy Bank were swept out and placed into the Fidelity Government I Fund. BNYM deposits are swept in the Morgan Stanley Institutional Liquidity Funds Government Portfolio. All other unsecured deposits are swept into AAA-rated government money market funds.

In conclusion, all investments contained in the September 30, 2020 portfolio, as well as investments made during the course of the quarter adhere to stated policy.

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