

Corpus Christi B Corporation

Investment Policy and Investment Strategy

Adopted

July 19, 2021

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CORPUS CHRISTI B CORPORATION
INVESTMENT POLICY AND INVESTMENT STRATEGY
Adopted, July 19, 2021

This Investment Policy ("Policy") sets forth the specific policies and guidelines and general strategy for the investment of funds of the Corpus Christi B Corporation ("Corporation") in order to achieve the Corporation's goals of safety, liquidity, diversification, and yield and to preserve the public trust. This Policy satisfies the statutory requirements of the Public Funds Investment Act, Texas Government Code, Chapter 2256 ("Act") to define and adopt a formal investment policy and investment strategy and assures compliance with the Act.

I. POLICY STATEMENT

It is the policy of the Corporation that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner which will provide maximum security of principal invested through risk management and diversification strategies while meeting the cash flow needs of the Corporation and conforming to all federal, State and local laws, rules and regulations governing the investment of public funds.

The receipt of a reasonable yield is secondary to the requirements for safety and liquidity. Earnings from investment will be used in a manner that best serves the interests of the Corporation.

II. SCOPE

This Investment Policy applies to all the financial assets of the Corporation. All funds of the Corporation are pooled for investment purposes and efficiency into the Corporation's Investment Portfolio ("Portfolio"). All investments must be accounted for in the City of Corpus Christi's ("City") Comprehensive Annual Financial Report ("CAFR").

III. PRUDENCE

The standard of care established by law to be used in the investment process shall be the "prudent person standard" and shall be applied in the context of managing the overall Portfolio, rather than a consideration as to the prudence of a single investment. The standard states that:

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 capital and the probable income to be derived.

IV. OBJECTIVES

All funds shall be managed and invested with four primary objectives, in order of their priority:

A. Safety

The preservation and safety of principal is the Corporation's foremost objective. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Authorized investments are chosen for their high credit quality and stability.

B. Liquidity

The Portfolio shall remain sufficiently liquid, and retain a liquidity buffer, to assure that the Corporation meets all reasonably anticipated expenditures. Investment decisions will be based on anticipated cash flows and only high-credit quality securities will be used for their marketability.

C. Diversification

The Corporation will diversify its investments by maturity and market sector in an effort to avoid incurring unreasonable and avoidable market risks.

D. Yield

The Portfolio shall be designed with the objective of attaining a reasonable market yield taking into account the investment risk constraints and liquidity needs of the Corporation.

V. LEGAL LIMITATIONS AND AUTHORITIES

Specific investment parameters for the investment of public funds in Texas are found in the Act. All investments will be made in accordance with the Act, this Policy, and any applicable financial indentures or trust requirements.

VI. DELEGATION OF AUTHORITY AND RESPONSIBILITY

All participants in the investment process shall seek to act responsibly as custodians of the public trust.

A. Corporation Board

The Corporation Board ("Board") has fiduciary responsibility for all funds. The Board is responsible for reviewing and adopting the Investment Policy and Investment Strategy on no less than an annual basis. The Board has resolved to designate the Investment Committee and authorized Investment Officers of the City (as named in the City's Investment Policy and Investment Strategies) as the Corporation's Investment Committee and authorized Investment Officers, respectively. The Executive Director of the

Corporation Board will coordinate with the Investment Officers on all strategy decisions and provide cash flow requirements. This will provide efficiency and cost effectiveness but retain control of investment strategy and final decision-making by the Corporation. The Board shall receive and review quarterly investment reports, approved by the Investment Committee, from the Investment Officers.

B. Investment Committee

An Investment Committee shall meet at least quarterly to review and determine operational strategies and to monitor investment results. The Investment Committee shall include in its deliberation such topics as: economic outlook, diversification, maturity structure, risk, and performance of the Portfolio. The Investment Committee shall be responsible for monitoring, reviewing, and making recommendations regarding the Policy to the Board. The Investment Committee will review quarterly investment reports before submission to the Board.

C. Investment Officer

The Investment Officers will be responsible for the daily operations of the investment program; shall comply with this Policy, the Act, and all applicable federal, State, and City laws, rules, and regulations; and will provide complete reports to the Investment Committee on a quarterly basis. The Investment Officers will retain all documentation on investment transactions and will direct the settlement and safekeeping of securities in accordance with any controlling Indenture of Trust, if applicable. Should funds be removed from a Trust or there is no Trust, the Investment Officers will settle investments into the Corporation's safekeeping account and provide documentation of the safekeeping to the Board representatives.

The Investment Officers will follow training guidelines as set forth in the City's Investment Policy and Investment Strategies.

D. Investment Advisor

The Corporation may use the City's Investment Advisor, if applicable. The City Council may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made under authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the City Council by ordinance or resolution.

E. Ethics and Conflicts of Interest

Investment Officers shall comply with the Ethics and Conflicts of Interest section in the City's Investment Policy and Investment Strategies.

VII. AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS

All investment transactions shall be made through the financial institutions or broker/dealers the City's Investment Committee has approved, and all requirements for these institutions of the City are to be met for Corporation funds.

No investment transactions may be entered into with a brokerage subsidiary of the City or the Corporation's safekeeping bank in order to perfect delivery versus payment (DVP) requirements for trade independence.

The Investment Officers will provide each authorized financial institution and broker/dealer a copy of this Policy to ensure that they are familiar with the goals and objectives of the Corporation as required by the Act.

Investments shall only be made with those financial institutions or broker/dealers (including money market mutual funds and local government investment pools) which have provided the Corporation with a written certification executed by a qualified representative of the firm acknowledging that the business organization has:

- A. Received, and thoroughly reviewed the Policy; and
- B. Implemented reasonable controls and procedures in an effort to preclude investment transactions not authorized by the Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Corporation's Portfolio or requires an interpretation of subjective investment standards.

The Investment Officers will request the Investment Committee authorize the deletion of financial institutions or broker/dealers for:

- A. Slow response time;
- B. Inability to compete with other authorized firms;
- C. Insufficient market information on technical or fundamental expectations based on economic indicators;
- D. Failed transactions or continuing operations difficulties; or
- E. Unwillingness to abide by this Policy.

VIII. AUTHORIZED INVESTMENTS

A. Investments

Authorized investments under this Policy shall be limited to the instruments listed below as further described by the Act. If additional types of securities are approved for investment of public funds by State statute, they will not be eligible for investment by the Corporation until this Policy has been amended and the amended version adopted by the Board. The Corporation is not required to liquidate investments that were authorized investments at the time of purchase (2256.017).

1. Obligations of the U.S. Government, its agencies and instrumentalities, excluding mortgage backed securities, with a maximum stated maturity of three years [2256.009(a)(1)].
2. Fully Federal Deposit Insurance Corporation (FDIC) insured depository certificates of deposit of a depository institution that has its main office or a branch office in Texas with a maximum maturity of two years (2256.010).
3. Fully collateralized direct repurchase agreements with a defined termination date secured in accordance with this Policy and placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this State. All repurchase agreement transactions shall be governed in accordance with the Act. The maximum stated maturity shall be one year with the exception of flex repurchase agreements used for bond proceeds capital projects. The flex repurchase agreement transaction shall be matched to the expenditure plan of the bonds (2256.011).
4. AAA, or equivalent, rated local government investment pools defined by the Act and striving to maintain a \$1 net asset value and specifically approved for participation by a resolution of the Board (2256.016).
5. AAA-rated, SEC registered no-load money market mutual funds which strive to maintain a \$1 net asset value [2256.014(a)].
6. Fully FDIC insured interest-bearing depository accounts of banks in Texas [2256.009(a)(7)].
7. General debt obligations of any U.S. states, agencies, counties, cities, and other political subdivisions of any state rated no less than A by a nationally recognized rating agency and with a maximum stated maturity of three years [2256.009(a)(5)].
8. FDIC insured brokered certificate of deposit securities from a bank in any U.S. state, DVP to the Corporation's safekeeping agent, not to exceed two years to maturity. Before purchase, the Investment Officers must verify the FDIC status of the bank on www.fdic.gov to assure the bank is FDIC insured [2256.010(b)].
9. A1/P1, or equivalent, rated commercial paper with a maximum maturity of 270 days subject to meeting one of the two stated conditions in Sec. 2256.013. (2256.013).
10. Guaranteed investment contracts with a maximum maturity of two years and executed in accordance with the Act (2256.015).
11. Securities lending transactions with primary dealers or banks doing business in Texas in accordance with the Act (2256.0115).

B. Competitive Bidding Requirement

It is the policy of the Corporation to require competitive bidding for all security purchases and sales, except for:

1. Transactions with money market mutual funds and local government investment pools;
2. Treasury and agency securities purchased at issue;
3. Automatic overnight "sweep" transactions with the Corporation depository;
4. Fully insured certificate of deposit placed in accordance with the Act [2256.010 (b)];

5. Repurchase agreements; and
6. Guaranteed investment contracts.

At least three bids or offers must be solicited for all other transactions involving individual securities. In situations where the exact security is not offered by other dealers, offers on the closest comparable investment may be used to establish a fair market price for the security. Bids for certificates of deposit may be solicited in any manner permitted by the Act.

C. Delivery versus Payment Requirement

All security transactions, including collateral for repurchase agreements, shall be conducted on a DVP basis.

- D. The Portfolio, as a pooled fund group, shall have a maximum dollar-weighted average maturity of one year (365 days)

IX. REPURCHASE AGREEMENT COLLATERALIZATION

As a local government *corporation*, the Corporation is not authorized to have collateral pledged to it for time and demand bank deposits in accordance with FDIC regulations. Time and demand deposits in any bank holding company must be limited by the FDIC insurance level (currently \$250,000), inclusive of accrued interest.

A. Repurchase Agreements Owned Collateral

Collateral under a repurchase agreement is owned by the Corporation. (2256.011) It will be held by an independent third-party safekeeping institution approved by the Corporation under an executed Bond Market Master Repurchase Agreement. Securities (collateral) with a market value totaling 102% of the principal and accrued interest of the repurchase agreement are required and the counter-party is responsible for the monitoring and maintaining of collateral and margins daily.

Authorized collateral for repurchase agreements will include only:

1. Cash;
2. Obligations of the US Government, its agencies and instrumentalities including mortgage-backed securities and CMO which pass the *bank test*; or
3. Debt obligations of any US state or US state sub-division rated A or better by at least one nationally recognized rating agency.

X. SAFEKEEPING

The Corporation shall maintain safekeeping under the Indenture of Trust, if applicable. Should funds be removed from a Trust, or if there is no Trust, the Investment Officers will settle investments into the Corporation's safekeeping account and provide documentation of the

safekeeping to the Board. All security transactions shall be settled on a DVP basis by the safekeeping institution (2256.005).

Securities shall not be held in any brokerage account. Securities shall not be bought from the Corporation's depository in order to provide perfected DVP.

The safekeeping institution shall be required to issue safekeeping receipts listing each specific security, rate, description, maturity, Committee on Uniform Security Identification Procedures (CUSIP) number, and other pertinent information which will be maintained by the Investment Officers.

XI. INTERNAL CONTROLS

The Investment Officers will maintain controls to regulate the activities of the investment program in accordance with this Policy. The controls shall be designed to prevent loss of funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions. Internal controls deemed most important would include: competitive bidding, control of collusion, separation of duties, safekeeping, delegation of authority, and documentation. In conjunction with the annual financial audit, a compliance audit of management controls on investments and adherence to this Policy shall be performed.

A. Cash Flow Forecasting

Cash flow analysis and forecasting is designed to protect and sustain cash flow requirements of the Corporation. The Executive Director will inform the Investment Officers of anticipated cash flows which will be used for cash flow and investment purposes.

B. Loss of Rating

The Investment Officers shall monitor the credit rating on all authorized investments in the Portfolio which require ratings by policy or law. Ratings will be based upon independent information from a nationally recognized rating agency. 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. The Corporation shall take all prudent measures that are consistent with this Policy to liquidate an investment that does not have the minimum rating. If any security falls below the minimum rating required by Policy or law, the Investment Officers shall notify the Investment Committee of the loss of rating, conditions affecting the rating and possible loss of principal with liquidation options available, within one week after the loss of the required rating (2256.021).

C. Monitoring FDIC Coverage

The Investment Officers shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered certificates of deposit owned by the Corporation based upon information from the FDIC. If any bank has been acquired or merged with

another bank in which brokered certificates of deposit are owned by the Corporation, the Investment Officers shall immediately liquidate any brokered certificate of deposit which places the Corporation above the FDIC insurance level.

XII. REPORTING

In accordance with the Act (2256.023), not less than quarterly, the Investment Officers shall prepare and submit to the Investment Committee and the Board a written report of investment transactions for all funds covered by the Act and this Policy for the preceding reporting period within a reasonable time after the end of the period. The report must:

- A. Describe in detail the investment position of the Portfolio on the date of the report;
- B. Be prepared jointly by all Investment Officers of the Corporation;
- C. Be signed by each Investment Officer of the Corporation;
- D. Contain a summary statement of each pooled fund group that states the:
 - 1. Beginning market value for the reporting period;
 - 2. Ending market value for the period; and
 - 3. Fully accrued interest for the reporting period;
- E. State the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;
- F. State the maturity date of each separately invested asset that has a maturity date;
- G. State the account or fund or pooled group fund in the Corporation for which each individual investment was acquired; and
- H. State the compliance of the Portfolio of the Corporation as it relates to:
 - 1. The investment strategy expressed in this Policy; and
 - 2. Relevant provisions of Section 2256.023 of the Act.

The quarterly reports prepared by the Investment Officers shall be formally reviewed at least annually by the independent auditor of the City, and the result of the review shall be reported to the City Council by that auditor. The City Council will then distribute the results to the Board.

Market prices for market value calculations shall be obtained from nationally recognized securities databases including those provided by the City's depository bank through its safekeeping services and Bloomberg Professional Services.

XIII. DEPOSITORIES

The Corporation will use the City's depository bank or, if applicable, the depository listed in the Indenture of Trust. The City designates one banking institution for banking services through a competitive process at least every five years. Written depository agreements shall be executed before funds are transferred.

XIV. AUDITS AND COMPLIANCE WITH LAWS

Each banking institution agrees to comply with all federal, State, and local laws, rules, and regulations. The personnel or officers of such institution shall be fully qualified and authorized under federal, State, and local law to perform the services set out under this Policy. Each institution shall permit the Investment Officers to audit, examine, and make excerpts or transcripts from such records of all contracts, invoices, materials, and other data relating to applicable investments.

XV. INVESTMENT POLICY ADOPTION

The Board shall review and adopt by resolution its Investment Policy and Investment Strategy not less than annually, and the approving resolution shall designate any changes made to the Policy and Strategy.

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XVI. INVESTMENT STRATEGY

All funds of the Corporation are commingled for investment purposes and efficiency into one portfolio. The Corporation's Investment Portfolio ("Portfolio") will be designed and managed based on projected cash flows to provide for all anticipated and projected cash needs. The Portfolio is to be managed pro-actively considering ongoing market changes but is essentially a buy-and-hold portfolio. Information on expected expenditures from the Executive Director of the Board will be incorporated in Investment decisions. The overall investment program shall be designed and managed with a degree of professionalism worthy of public trust.

The Portfolio is maintained to meet anticipated daily cash needs for Corporation operations, capital projects, and debt service payments. The objectives of the Portfolio are to:

- A. Ensure safety of principal by investing only in high-credit quality investments for which a strong secondary market exists which are designed to assure on-going suitability and marketability of such investments;
- B. Ensure that anticipated cash flows are matched with adequate investment liquidity;
- C. Limit market and credit risk through diversification; and
- D. Attain a market yield commensurate with the objectives and restrictions set forth in this Policy.

The Portfolio shall have a maximum dollar-weighted average maturity (WAM) of one year (365 days) designed to meet anticipated cash flow needs. The fund shall be laddered based on cash flow analysis to provide ongoing liquidity for anticipated needs and provide for reasonable extension.

A minimum of 15% of the Portfolio shall be held in cash or cash equivalents for liquidity and no more than 40% may be invested longer than one year. Changes in the Corporation's cash flows may change percentage representations over time. Unless approved by the Investment Committee, the target percentages specified shall not be exceeded for a temporary period greater than thirty (30) days without the Investment Officers taking corrective action.

The risks in the Portfolio shall be measured quarterly against a risk benchmark designed to mirror the authorized market investments and the Corporation's cash flow requirements. Because this Portfolio is dictated by cash flow needs, the benchmark becomes a measure of risk which reflects the primary market rates matched to the WAM. With a maximum WAM of one year, the risk benchmark is established as the one-year Treasury Bill for the comparable period. The fund should track the risk benchmark but will naturally lag as market interest rates, which adjust daily, move.