

**North Padre Island
Development Corporation**

**Investment Policy and
Investment Strategy**

**Adopted
August 17, 2021**

TABLE OF CONTENTS

I. POLICY STATEMENT.....	1
II. SCOPE	1
III. PRUDENCE	1
IV. OBJECTIVES.....	2
V. LEGAL LIMITATIONS AND AUTHORITIES.....	2
VI. DELEGATION OF AUTHORITY AND RESPONSIBILITY	2
VII. AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS	3
VIII. AUTHORIZED INVESTMENTS.....	4
IX. REPURCHASE AGREEMENT COLLATERALIZATION.....	5
X. SAFEKEEPING	5
XI. INTERNAL CONTROLS.....	6
XII. REPORTING	6
XIII. DEPOSITORIES.....	7
XIV. INVESTMENT POLICY ADOPTION	7
XV. INVESTMENT STRATEGY	8
XVI. GLOSSARY	10

APPENDICES

A. TEXAS PUBLIC FUNDS INVESTMENT ACT.....	12
B. RESOLUTION.....	49

NORTH PADRE ISLAND DEVELOPMENT CORPORATION
INVESTMENT POLICY AND STRATEGY

Adopted August 17, 2021

This Investment Policy sets forth the specific policies and guidelines and general strategy for the investment of funds of the North Padre Island Development Corporation (the "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 state statutory requirements of the Public Funds Investment Act, Texas Government Code, Chapter 2256 (the "Act") to define and adopt a formal investment policy and 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.

The receipt of a reasonable yield will be 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.

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 circumstances then prevailing, which 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 principal as well as the probable income to be derived.

IV. OBJECTIVES

All funds shall be managed and invested with four primary objectives, in order of their priority: safety, liquidity, diversification and yield.

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 these statutes. In addition, investments shall conform to all financial indentures and trust requirements.

VI. DELEGATION OF AUTHORITY AND RESPONSIBILITY

a. Corporation Board

The Corporation Board has ultimate fiduciary responsibility for all funds. The Board is responsible for reviewing and adopting the Investment Policy and Strategy on no less than an annual basis. The Board has resolved to designate the Investment Committee of the City of Corpus Christi and the authorized Investment Officers of the City of Corpus Christi as the Corporation's Investment Committee and Investment Officers, respectively. The Treasurer or Assistant Treasurer of the Corporation Board will coordinate with these Investment Officers on all strategy and purchase decisions to 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 from the Investment Committee.

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 Investment Policy and Strategy to the Corporation 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 and 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. Should funds be removed from Trust, the Investment Officers will settle investments into the City's safekeeping account and provide documentation of the safekeeping to the Board representatives.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. The Investment Officers will avoid any transaction that might impair public confidence in the Corporation. The Investment Officers may not engage in an investment transaction except as provided under the terms of this Policy.

VII. AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS

All investment transactions shall be made through the financial institutions or broker/dealers the City 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.

Each authorized financial institution and broker/dealer will be provided a copy of the Corporation's Investment Policy to assure that they are familiar with the goals and objectives of the Corporation. If material changes are made to the Policy, a new Policy will be sent.

Any local government investment pools in which the Corporation participates shall sign a written certification, in a form acceptable to the Corporation, substantially to the effect that the pool has:

- a. Received, and thoroughly reviewed the Policy, and

- b. Acknowledged that the pool has implemented reasonable controls and procedures in an effort to preclude investment transactions not authorized by the 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 Corporation Board.

1. Obligations of the US Government, its agencies and instrumentalities, excluding mortgage backed securities, with a maximum stated maturity of three (3) years. (2256.009(1))
2. Fully FDIC insured depository certificates of deposit of banks doing business 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 with a primary securities dealer. 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 NAV and specifically approved for participation by a resolution of the Board. (2256.016)
5. AAA-rated, SEC registered money market mutual funds which strive to maintain a \$1 net asset value. (2256.0.14(a))
6. Fully FDIC insured interest bearing depository accounts of banks in Texas. (2256.009)
7. General debt obligations of any US states, agencies, counties, cities, and any other political subdivisions of any US state rated no less than A by a nationally recognized rating agency and with a maximum stated maturity of three years. (2256.009)
8. FDIC insured brokered certificate of deposit securities from a bank in any US state, delivery versus payment to the City's safekeeping agent, not to exceed one year 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. (2256.009)
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

All securities, including depository certificates of deposit, will be purchased only after at least three (3) competitive offers are taken to verify that the Corporation is receiving fair market value/price for the investment.

c. Delivery versus Payment Requirement

All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery versus payment (DVP) basis.

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.

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 is 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, as applicable. All security transactions shall be settled on a delivery versus payment (DVP) basis by the safekeeping institution. Should funds be removed from Trust, the Investment Officers will settle investments into the Corporation's safekeeping account and provide documentation of the safekeeping to the Board representatives. (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 delivery versus payment.

The safekeeping institution shall be required to issue safekeeping receipts listing each specific

security, rate, description, maturity, CUSIP 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 will be reviewed annually with the independent auditor of the City. 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.

a. Cash Flow Forecasting

Cash flow analysis and forecasting is designed to protect and sustain cash flow requirements of the Corporation. The Board 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, on no less than a weekly basis, 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. If any security falls below the minimum rating required by Policy or law, the Investment Officers shall notify the Board 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 CDs owned by the Corporation based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned by the Corporation, the Investment Officers shall immediately liquidate any brokered CD which places the Corporation above the FDIC insurance level.

XII. REPORTING

The Investment Officers shall provide quarterly reports to the Board in accordance with the Act (2256.023) and containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program. At a minimum, the report shall include:

- a. Description of each investment and depository position,
- b. Amortized book and market values at the beginning and end of the reporting period,

- c. Amortized book value and market value of each separately invested asset at the beginning and end of the reporting period market by sector and fund,
- d. Maturity date of each separately invested asset,
- e. Account, fund or pooled fund group for which each investment was acquired (as applicable),
- f. Earnings for the period, and
- g. Overall yield for the portfolio(s) in comparison to its benchmark yield for the comparable period.

Market prices for market value calculations shall be obtained from independent sources.

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. INVESTMENT POLICY ADOPTION

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

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XV. INVESTMENT STRATEGY

The Corporation 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 proactively considering ongoing market changes but is essentially a buy-and-hold portfolio. Information on expected expenditures from the Board will be incorporated into investment decisions. The overall investment program shall be designed and managed with a degree of professionalism which is worthy of public trust. The Corporation maintains separate funds as required by the Indenture of Trust. Specific strategies for each fund are as follows:

- a. **Pledged Revenue Fund Strategy** – The Corporation’s Pledged Revenue Fund is an aggregation of proceeds from bond issues and tax increment revenue. The objectives of this fund are to:
 1. ensure safety of principal by investing only in high-quality investments for which a strong secondary market exists which are designed to assure on-going suitability and marketability of such investments;
 2. ensure that anticipated cash flows are matched with adequate investment liquidity or that the terms of the secured investment agreement permit maximum flexibility for the City in making withdrawals;
 3. manage market and credit risk through diversification and control of counterparty risk; and
 4. attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy, the Indenture of Trust, the Tri-Party Agreement, and the bond ordinance to produce a reasonable market yield commensurate with its overall low risk strategy.
- b. **Reserve Fund Strategy** – The Corporation’s Reserve Fund are funds required by the Indenture of Trust to be maintained and intact throughout the life of the debt issue. The objectives of this fund are to:
 1. ensure safety of principal by investing only in high-quality investments for which a strong secondary market exists which are designed to assure on-going suitability and marketability of such investments;
 2. ensure that anticipated cash flows are matched with adequate investment liquidity or that the terms of the secured investment agreement permit maximum flexibility for the City in making withdrawals;
 3. manage market and credit risk through diversification and control of counterparty risk; and
 4. attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy, the Indenture of Trust, the Tri-Party Agreement, and the bond ordinance to produce a reasonable market yield commensurate with its overall low risk strategy.
- c. **Debt Service Fund Strategy** – The Corporation’s Debt Service Fund consists of interest earnings from the Reserve Fund. Twice a year funds are transferred from the Pledged

Revenue Fund to the Debt Service Fund for the debt service payment. The objectives for this fund are to:

1. ensure safety of principal by investing only in high-quality investments for which a strong secondary market exists which are designed to assure on-going suitability and marketability of such investments;
2. ensure that anticipated cash flows are matched with adequate investment liquidity or that the terms of the secured investment agreement permit maximum flexibility for the City in making withdrawals;
3. manage market and credit risk through diversification and control of counterparty risk; and
4. attain a market rate of return commensurate with the objectives and restrictions set forth in this Policy, the Indenture of Trust, the Tri-Party Agreement, and the bond ordinance to produce a reasonable market yield commensurate with its overall low risk strategy.

The Corporation may combine funds for investment purposes into one portfolio while addressing all the needs of specific funds in the portfolio. The overall portfolio shall have a maximum dollar-weighted average maturity (WAM) of one year designed to meet anticipated cash flow needs.

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 the 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 portfolio should track the risk benchmark but will naturally lag as market interest rates, which adjust daily, move.

XVI. GLOSSARY

Agency – Federal government organizations set up for specific purposes such as management of resources, financial oversight or funding for specific purposes (ex: FNMA, FHLMC, GNMA, FHLB, FAMCA, FFCB, and TVA). They carry the implicit guarantee of the US Government.

Benchmark – A recognized index or basis used to compare either performance or risk in a portfolio. In governmental portfolios, which are controlled by cash flow demands, the benchmark is used to measure risk. The benchmark is based on the primary markets used by the portfolio (US Treasuries) and the anticipated maturity of the portfolio (the WAM).

Broker – A financial firm registered with FINRA, the SEC, and the State to bring a buyer and seller together for an investment transaction. A broker carries no inventory of securities owned by the firm.

Dealer – Dealers carry an inventory of securities and sell from their inventory or broker trades as a broker. Primary dealers are recognized by the NY Fed and must adhere to strict financial requirements. Primary dealers transact in most markets domestically and internationally. Regional dealers are smaller firms and may focus on only specific markets.

CUSIP Number – A 9-character alphanumeric code which identifies a financial security for purposes of facilitating clearing and settlement of trades.

Custodian – An approved independent custodian charged with the safekeeping of securities owned by or pledged to the City. An independent custodian is one not affiliated with any pledging institution or counter-party.

Delivery versus Payment (DVP) – The process whereby a custodian receives a security and verifies it is the correct security from the investor before any funds are released for its purchase.

FINRA (Financial Institutions Regulatory Authority) – A self-regulated organization of broker/dealers.

Instrumentality – Government agency or corporation established for a specific purpose.

Investment Portfolio – Assets invested in securities and financial transactions including cash in bank accounts under authority of the Investment Policy.

Securities – A fungible, negotiable financial instrument of financial value. Securities authorized by this Policy are debt instruments of the US Government or local governments.

Securities Lending – A financial transaction in which securities owned by investing entity is lent out on margin (for interest earnings). Ownership of the security remains with the lender. Fund

from the lending transaction are reinvested for the same length of the loan providing incremental income to the portfolio.

Settlement – The process of delivering a security to the new owner of that security. Settlement for book entry (electronic) securities is usually over the FedWire system of the Federal Reserve. Settlement done DVP assures the safest process because no funds are released until the security is received and verified by the custodian.

WAM (Weighted Average Maturity) – The average period of time until portfolio securities mature, weighted by their book value in proportion to the total amount invested in the portfolio.

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