

THE PORT OF HARLINGEN AUTHORITY

INVESTMENT POLICY

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TABLE OF CONTENTS

INVESTMENT POLICY

| | |
|--|----|
| POLICY STATEMENT | 2 |
| LEGAL LIMITATIONS, RESPONSIBILITY AND AUTHORITY | 2 |
| SCOPE..... | 2 |
| OBJECTIVES AND STRATEGY | 3 |
| DELEGATION OF INVESTMENT AUTHORITY..... | 4 |
| STANDARDS OF ETHICS AND CONFLICT OF INTEREST | 5 |
| STANDARDS OF CARE..... | 6 |
| INTERNAL CONTROLS | 6 |
| AUTHORIZED INVESTMENTS..... | 7 |
| SELECTION OF INVESTMENT MANAGEMENT FIRM | 9 |
| AUTHORIZED FINANCIAL INSTITUTIONS | 9 |
| DIVERSIFICATION AND MATURITY LIMITATIONS | 10 |
| SAFEKEEPING AND COLLATERALIZATION..... | 11 |
| PERFORMANCE EVALUATION AND REPORTING | 11 |
| METHODS TO MONITOR MARKET VALUE..... | 12 |
| METHODS TO MONITOR RATING CHANGES IN INVESTMENTS | 12 |
| EFFECT OF LOSS OF REQUIRED RATING | 12 |
| DEPOSITORIES | 12 |
| INVESTMENT POLICY ADOPTION BY DISTRICT BOARD | 12 |
| INVESTMENT STRATEGY..... | 14 |
| CERTIFICATION BY BUSINESS ORGANIZATION | 15 |

INVESTMENT POLICY

POLICY STATEMENT

The Board of Commissioners of the Port of Harlingen Authority of Cameron County, Texas ("the District") in compliance with the Chapter 2256 of the Texas Government Code (the "Public Funds Investment Act"), does hereby adopt the following as its Investment Policy (the "Policy").

It is the Policy of the District 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 the maximum security of principal invested through limitations and diversification while meeting the daily cash flow needs of the District 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 District to be in complete compliance with local law and the Public Funds Investment Act. The earnings from investments will be used in a manner that best serves the interests of the District.

LEGAL LIMITATIONS,
RESPONSIBILITY AND
AUTHORITY

This Policy does not supersede applicable provisions of the Public Funds Investment Act or the Public Funds Collateral Act, Chapter 2257 of the Texas Government Code, which specifies collateral requirements for all public funds deposits.

The District shall comply with the provisions of Chapter 2252 and Chapter 2270 of the Texas Government Code with regard to prohibited investments and contracts relating to Sudan, Iran and designated foreign terrorist organizations.

All investments will be made in accordance with these statutes.

SCOPE

This Policy applies to the District's operating funds, construction funds, debt service funds, bond reserve funds and such other funds as determined appropriate by the Board. The District may commingle its funds into one pooled investment fund for investment purposes for efficiency and maximum investment opportunity.

This Policy shall not apply to defined benefit (pension) funds and such other funds as specified in Section 2256.004 of the Public Funds Investment Act and Section 2257.003 of the Public Funds Collateral Act.

INVESTMENT POLICY

OBJECTIVES AND
STRATEGY

It is the Policy of the District that all funds shall be managed and invested with four primary objectives, listed in order of their priority: security of principal, liquidity, diversification and yield. Investments are to be chosen in a manner which promotes diversity by market sector, credit and maturity. The choice of high-grade government investments and high-grade, money market instruments is designed to assure the marketability of those investments should liquidity needs arise. To match anticipated cash flow requirements, the maximum weighted average maturity of the overall portfolio may not exceed two years.

Security of Principal

Security of principal is the foremost objective of the District. Investments of the District shall be undertaken in a manner which seeks to insure the preservation of capital in the overall portfolio.

Liquidity

The District's investment portfolio will be based on a cash flow analysis of needs and will remain sufficiently liquid to enable it to meet all operating requirements which might reasonably be anticipated.

Diversification

Diversification of the portfolio will include diversification by maturity and market sector and will include the use of a number of Business Organizations diversification and market coverage. Competitive bidding will be used on each sale and purchase except for investments in money market mutual funds, investment pools and regular cash deposits at the District's depository bank.

Yield

The District's investment portfolio shall be designed with the objective of attaining a market rate of return, taking into account the District's risk constraints and cash flow needs. "Market rate of return" may be defined as the average yield of the current six-month U.S. Treasury Bill.

Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies in order to ensure maximum cash availability. The District shall maintain a comprehensive cash management program which includes collection of accounts receivable, prudent investment of its available cash, disbursement of payments in accordance with invoice terms and the management of banking services.

INVESTMENT POLICY

DELEGATION OF
INVESTMENT
AUTHORITY

In accordance with Section 2256.005(£), the Board of Commissioners of the District hereby appoints the Chief Financial Officer as the Investment Officer to be responsible for investment management decisions and activities of District funds. In the absence of the Chief Financial Officer, the Port Director ("Designee") is authorized to act as the Investment Officer and assume all responsibilities and authority vested in this Policy. The Investment Officer and Designee shall be covered under insurance policies to protect the District against possible embezzlement and malfeasance.

The Investment Officer is also responsible for considering the quality and capability of staff, investment advisors, and consultants involved in investment management and procedures. All participants in the investment process shall seek to act responsibly as custodians of the public trust.

The Investment Officer shall be responsible for all transactions undertaken and shall maintain a system of controls to regulate the activities of subordinate officials and staff. The Investment Officer is also authorized to approve wire transfers used in the process of investing.

No officer or designee may engage in an investment transaction except as provided under the terms of this Policy and the procedures established.

Training

As required by Section 2256.008 of the Public Funds Investment Act, the Investment Officer must attend a 10 hour investment training session not less than once in a two-year period that begins on the first day of the District's fiscal year and consists of the two consecutive fiscal years after that date.

Such training shall include education in investment control, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Texas Public Funds Investment Act, as amended.

In addition, newly designated Investment Officers must receive at least 10 hours of training relating to the Investment Officer's responsibilities under the Public Funds Investment Act within twelve (12) months of being designated as an Investment Officer.

Trainings shall be provided by an independent source approved or endorsed by either the Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, the Texas Municipal League, or the North Central Texas Council of Governments.

INVESTMENT POLICY

STANDARDS OF
ETHICS AND
CONFLICT OF
INTEREST

The investment Officer involved in the investment process shall refrain from personal business activities that could conflict with the proper execution and management of the investment program, or that could impair the ability to make impartial decisions.

For the purposes of this Policy, a personal business relationship with a Business Organization exists if:

1. The person in question own 10 percent or more of the voting stock or shares of the Business Organization or own \$5,000 or more of the fair market value of the Business Organization.
2. Receive funds from the Business Organization during the previous year that exceed 10 percent of their gross income; or
3. Has acquired from the Business Organization during the previous year investments with a book value of \$2,500 or more for their personal account.

An Investment Officer of the District who has a personal business relationship with an organization seeking to sell an investment to the District shall file a statement disclosing that personal business interest. An Investment Officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the District shall file a statement disclosing that relationship.

Disclosure statements required under this item shall be filed with the Texas Ethics Commission and the Board of Commissioners of the Port of Harlingen Authority.

INVESTMENT POLICY

STANDARDS OF CARE The standard of care to be used in the investment function shall be the "prudent person" standard and shall be applied in the context of managing the overall portfolio. This standard states:

"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 their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the expected income to be derived."

Limitation of Personal Liability

The Investment Officer and those delegated with investment authority under this Policy, when acting in accordance with this Policy and in accordance with the Prudent Person Rule, shall be relieved of personal liability in the management of the portfolio provided that deviations from expectations for a specific security's credit risk or market price change or portfolio shifts are reported in a timely manner and that appropriate action is taken to control adverse market effects.

INTERNAL CONTROLS The Investment Officer shall establish a system of internal controls which will be reviewed annually by the independent auditor of the District in conjunction with the District's annual financial audit to the extent deemed necessary to evaluate the system as required by generally accepted auditing standards. The controls shall be designed to prevent loss of public funds due to fraud, employee error, misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the District.

The internal controls shall address the following points:

1. Control of collusion
2. Separation of transaction authority from accounting and recordkeeping
3. Custodial safekeeping
4. Avoidance of bearer-form securities
5. Clear designation of authority
6. Written confirmation for telephone transactions for investments and wire transfers

Cash Flow Forecasting

Cash flow forecasting is designed to protect and sustain cash flow requirements of the District. Supplemental to the financial and budgetary systems, the Investment Officer will maintain a cash flow forecasting process designed to monitor and forecast cash positions for investment purposes.

INVESTMENT POLICY

AUTHORIZED
INVESTMENTS

Acceptable investments under this policy shall be limited to the instruments listed below and as further described by the Public Funds Investment Act. Bond proceeds may be further restricted by applicable bond covenants.

- I. Obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, not to exceed two years to stated maturity, excluding collateralized mortgage obligations (CMOs). Direct obligations of the State of Texas or its agencies and instrumentalities.
2. Interest-bearing banking deposits and certificates of deposits, not to exceed two years, from a bank with a branch office in the State of Texas and which are fully insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share or its successor, and secured in accordance with Chapter 2257, Public Funds Collateral Act and Section 2256.010 of the Public Investment Act for certificates of deposits. The full amount of principal and interest must be insured or collateralized.
3. No-load, Securities and Exchange Commission registered and regulated, money market mutual funds, that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and comply with the Federal Securities and Exchange Commission Rule 2a-7 in accordance with Section 2256.014 of the Public Funds Investment Act.
4. Texas Local Government Investment Pools as authorized by Section 2256.016 of the Public Funds Investment Act. Investments in a particular eligible investment pool must be authorized by the Board of Commissioners by resolution. An eligible Investment Pool shall invest the funds it receives from entities in authorized investments permitted by Subchapter 2256, Government Code. An eligible investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with Subchapter 2256, Government Code. Investment pools must maintain a continuous rating not lower than AAA or AAA-m (or an equivalent rating) from at least one nationally recognized rating service.
5. Commercial paper that has a stated maturity date of 270 days or fewer from the date of its issuance and is rated not less than A-1 or P-1 by at least two nationally recognized credit rating agencies or 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.

If additional types of securities are approved for investment by state statute, they will not be eligible for investment by the District until this Policy has been amended and the amended version approved by the District Board of Commissioners.

INVESTMENT POLICY

Competitive Bidding Requirement

Securities, including certificates of deposit, will be purchased or sold after three (3) offers/bids are received to verify that the District is receiving fair market value/price for the investment. Competitive bids are not required for investments in money market mutual funds, local government investment pools and regular cash deposits at the District's depository.

Bids shall be solicited and received in writing, electronically or in any combination of those methods with respect to an individual investment transaction. In situations where the exact security is not offered by other Business Organizations, or if few Business Organizations participate in such competitive bids then the District may use another authorized investment of similar maturity for evaluation purposes.

Delivery versus Payment

All investment transactions, except bank deposits, local government investment pools funds and mutual funds, shall be conducted on a delivery versus payment basis.

INVESTMENT POLICY

SELECTION OF
INVESTMENT
MANAGEMENT FIRM

The Board of Commissioners may contract with an investment management firm registered under the Investment Advisers Act of 1940 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 may not be for a term longer than two years. A renewal or extension of the contract must be made by the Board by order, ordinance, or resolution. Such engagements shall comply with Sections 2256.003 (b) and 2256.003 (c) of the Public Funds Investment Act.

The investment management firm shall be provided a copy of this Policy to assure that it is familiar with the goals and objectives of the District's investment program. The investment management firm shall submit a signed certification stating that the Policy has been received, reviewed and that controls are in place to assure compliance with this Policy and the Public Funds Investment Act.

AUTHORIZED
FINANCIAL
INSTITUTIONS

All investments made by the District will be made through either the District's banking services bank or an authorized financial institution (the "Business Organization"). The Board of Commissioners or a designated committee of the Board will review, revise, and adopt a list of authorized Business Organizations annually. A list of at least three Business Organizations will be maintained in order to assure competitive bidding.

Every Business Organization with which the District transacts business will be provided a copy of this *Investment Policy* to assure that they are familiar with the goals and objectives of the investment program. A qualified representative of the Business Organization will be required to return a signed certificate stating that the Policy has been received and reviewed and that controls are in place to assure that only authorized investment transactions are conducted between the Business Organization and the District as authorized by this Policy and the Public Funds Investment Act.

No investment shall be acquired from a Business Organization prior to the receipt of such certificate in accordance with Section 2256.005(1) of the Public Funds Investment Act.

INVESTMENT POLICY

**DIVERSIFICATION
AND MATURITY
LIMITATIONS**

It is the Policy of the District to diversify its investment portfolio. Invested funds shall be diversified to minimize risk or loss resulting from over-concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

| <u>Security Type</u> | <u>Max % of Portfolio</u> |
|--|----------------------------------|
| U.S. Treasury obligations | 100% |
| U.S. Government agencies and instrumentalities | 50% |
| Fully insured or collateralized CD's | 50% |
| Money Market Funds | 100% |
| Local Government Investment Pools | 75% |
| • Commercial Paper | 25% |

The Investment Officer shall be required to diversify maturities. The Investment Officer, to the extent possible, will attempt to match investment with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to a specific requirement, the Investment Officer may not invest more than 50% of the portfolio for a period greater than one (1) year. Unless matched to a specific requirement, the Investment Officer may not invest any portion of the portfolio for a period greater than two (2) years.

INVESTMENT POLICY

SAFEKEEPING AND
COLLATERALIZATION

In accordance with the Public Funds Collateral Act, the District's Board of Commissioners adopts the following policy regarding collateralization of District deposits, plus accrued interest. All provisions related to the acceptance, release and valuation of the collateral shall comply with the Public Funds Collateral Act.

All safekeeping arrangements shall be designated by the Investment Officer and an agreement of the terms executed in writing. Securities pledged shall be held in the District's name and shall be documented by safekeeping receipts and/or electronic records. At the request of the District, the custodian shall provide a current list of all pledged investment securities, as per Section 2257.046 (d) of the Public Funds Collateral Act.

All securities pledged to the District's public funds shall be held by an independent custodian at a (i) depository with a branch office in the State of Texas, (ii) Federal Reserve Bank, or (iii) another custodian meeting the requirements of Section 2257.041 of the Public Funds Collateral Act. The safekeeping bank may not be within the same holding company as the bank from which the securities are pledged. Collateral pledged to the District cannot be substituted or released without the District's written approval.

Collateralization

Collateralization on time and demand deposits over the FDIC insurance coverage of \$250,000.

In order to anticipate market changes and provide a level of additional security for all funds, the collateralization level required will be 102% of the market value of the principal and accrued interest. Collateral will be held by an independent third-party safekeeping agent.

PERFORMANCE
EVALUATION AND
REPORTING

The Investment Officer shall submit written quarterly reports to the District's Board of Commissioners and to the Port Director and CEO containing sufficient information to permit an informed outside reader to evaluate the performance of the investment program and consistent with statutory requirements. All reports shall be in compliance with Section 2256.023 of the Public Funds Investment Act. Market prices for market evaluations will be obtained from an independent source.

The quarterly investment reports shall also be provided to the District's independent auditor in conjunction with the District's annual financial audit to the extent deemed necessary to evaluate the system as required by generally accepted auditing standards. The results of such reviews should be reported to the District's Board of Commissioners by the independent auditor.

PORT OF HARLINGEN AUTHORITY

INVESTMENT POLICY

METHODS TO
MONITOR MARKET
VALUE

The District's Investment Officer will obtain the market value for each security held in all portfolios and for collateral pledged to the District for bank deposits from recognized market pricing sources.

Market valuation of the District's investments shall be performed at least quarterly. Valuation of pledged collateral should be done at least quarterly.

METHODS TO
MONITOR RATING
CHANGES IN
INVESTMENTS

The District's Investment Officer will monitor the rating for each security held that requires a minimum rating in all portfolios from recognized market pricing sources.

Monitoring of investment ratings of the District's investments shall be performed at least quarterly.

EFFECT OF LOSS OF
REQUIRED RATING

An investment that requires a minimum rating under this Policy does not qualify as an authorized investment during the period the investment does not have the minimum rating. The Investment Officer shall take all prudent measures that are consistent with this Investment Policy to liquidate an investment that does not have the minimum rating.

DEPOSITORIES

The District will designate one banking institution as its primary depository at least every four years. The District shall receive applications for the performance of depository services from one or more banks, credit unions or saving institutions authorized to do business in the State of Texas and regularly doing business within the territorial limits of the District. This institution will be used for normal banking services of the District including deposit of its public funds, disbursements, collection, and safekeeping of securities. Other banking institutions from which the District may purchase certificates of deposit will also be designated as a depository and shall fully insure and secure the District's deposits in accordance with the Public Funds Collateral Act.

The funds of the District shall be deposited in demand deposit accounts or savings accounts with the District's primary depository unless a significantly better rate of interest can be obtained on a particular individual investment allowed in this Policy, and provided such investment is legally, contractually, and administratively feasible. Funds remaining on deposit at the District's primary depository in demand deposit accounts or savings accounts will be exempted from the limitations in Diversification and Maturity Limitations.

INVESTMENT POLICY
ADOPTION BY
DISTRICT BOARD

The Policy and investment strategies shall be reviewed on an annual basis by the Board. A written resolution approving that review and changes to the Policy from the review will be adopted by the Board.

INVESTMENT POLICY

See the following pages for forms relating to the District's Investment Policy:

Exhibit A: Investment Strategy - 1 page

Exhibit B: Certification by Business Organization - I page

**Port of Harlingen Authority
Investment Policy Investment
Strategy**

ENTERPRISE FUND

All funds maintained in the accounts of the Port of Harlingen Authority are to be invested in instruments that are permitted by the District's Investment Policy. These funds are to be invested so as to maximize the interest earned on the funds, while maintaining the integrity of the principal and the liquidity required to accomplish the purpose of the account. Investments are intended to be held to maturity, however, it may be necessary to sell any investment prior to its maturity date in the event of unforeseen occurrences. Therefore, these funds must be invested in instruments that are consistently marketable.

Operating funds in excess of immediate needs may be invested in short term instruments, with terms not to exceed two years.

Debt service funds for general obligation and revenue bonds are to be invested in short term instruments, with maturity dates to be selected so that the funds are returned to the debt service fund in a timely manner to meet debt service payments as they come due.

Bond Reserve funds for general obligation and revenue bonds are to be invested in long term instruments of no more than two years. The selection of the maturities shall be at the discretion of the Investment Officer, who shall take into consideration the market conditions when placing the investments.

Construction funds for facility construction may be invested in short term and/or long-term instruments, with maturity dates to be selected to meet the capital improvement and construction needs of the District.

INVESTMENT POLICY
CERTIFICATION BY BUSINESS ORGANIZATION

PORT OF HARLINGEN AUTHORITY
Investment Policy
Certification by Business Organization

This certification is executed on behalf of the **PORT OF HARLINGEN AUTHORITY** (the "Investor") and

(the "Business Organization") pursuant to Chapter 2256 of the Texas Government Code, (the "Public Funds Investment Act") in connection with investment transactions conducted between the Investor and Business Organization.

The undersigned Qualified Representative of the Business Organization hereby certifies on behalf of the Business Organization that:

1. The Qualified Representative is duly authorized to execute this Certification on behalf of the Business Organization and the Qualified Representative meets all requirements under the Public Funds Investment Act to sign this Certification, and
2. The Qualified Representative has received and reviewed the Investment Policy furnished by the Investor, and
3. The Business Organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Business Organization and the Investor that are not authorized by the investor's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the investor's entire portfolio or requires an interpretation of subjective investment standards.

Qualified Representative

Signature

Name (Printed)

Title

Date