INVESTMENT POLICY

OF

LITTLE ELM ECONOMIC DEVELOPMENT CORPORATION

EDC President

9-14-2024
Date

Michael Harnbuck
Mayor

9-15-2026
Date

PREFACE

It is the policy of the Little Elm Economic Development Corporation (hereinafter referred to as the "EDC") that all available funds within its control shall be invested in conformance with these legal and administrative guidelines.

Effective cash management is recognized as essential to good fiscal management. A comprehensive and effective cash management system will be pursued to optimize investment interest as viable and material revenue to all operating and capital funds. The EDC's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with local, state and federal law.

Earnings from investments will be used in a manner that will best serve the interests of the EDC.

Section 1. Scope.

The Public Funds Investment Act ("PFIA"), Chapter 2256, Texas Government Code, prescribes that each local government is to adopt rules governing its investment practices and to define the authority of the investment officers. This Investment Policy addresses the methods, procedures, and practices which must be exercised to ensure effective and judicious fiscal management of funds of the EDC.

This Policy shall apply to the investment and management of all funds of the EDC under its control, other than those expressly excluded herein or by applicable law or valid agreement. This Policy shall not supersede the restrictions on investment and use applicable to any specific fund and, in the event of any conflict between this Policy and the requirements of any fund subject hereto, the specific requirement applicable to such fund shall be followed as well as all other provisions of this Policy other than those in conflict.

Section 2. Objectives.

The EDC's principal investment objectives in order of priority are:

1. Preservation of capital and the protection of investment principal.

2. Maintenance of sufficient liquidity to meet anticipated disbursement and cash flows.

3. Conformance with all Federal regulations, State of Texas statutes and other legal requirements, including the Articles of Incorporation, and this Policy.

4. Diversification to avoid incurring unreasonable risks regarding investments owned.

5. Attainment of a market rate of return equal to or higher than the performance measure established from time to time by the EDC which is commensurate with the acceptable risk and liquidity objectives of this Policy.

Section 3. Delegation of Authority.

The EDC appoints the EDC's Treasurer and Accountants as the "Investment Officers" of the EDC. Direct management responsibility for the investment program of the EDC is delegated by the EDC's Board of Directors to the Investment Officers. The Investment Officers' authority will at all times be limited by all applicable laws and regulations in effect from time to time, and this Policy

The Investment Officers may develop and maintain written administrative procedures for the operation of the investment program consistent with this Policy. The controls shall be designed to prevent, identify and control losses of public funds arising from deviation from this Policy, fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the EDC. In these procedures, the Investment Officers may delegate specific portions of the investment management program. Such delegation shall state specifically the functions such person is authorized to perform.

The EDC shall obtain and maintain, at the expense of the EDC, fidelity bonds for the Investment Officers. No person may engage in an investment transaction except as provided under the terms of this Policy and the internal procedures established by the Investment Officer. A current list of persons authorized to transact investment business and wire funds on behalf of the EDC shall be maintained by the Executive Director.

In the discretion of the EDC, and in any event upon the termination or reassignment of any Investment Officer authorized to conduct transactions for the EDC pursuant to this Policy, the authority of such person shall be revoked and such revocation of authority shall be immediately communicated orally and in writing to each and every depository, broker/dealer, investment pool, investment advisor, custodian, and other agency or EDC with whom the EDC has any existing or continuing relationship in the management of its investments.

In order to ensure qualified and capable investment management, the Investment Officers shall, within twelve (12) months after taking office or assuming duties, attend at least one (1) training session from an independent source approved in this Policy that addresses investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the PFIA and contains at least ten (10) hours of instruction. Additionally, the Investment Officer shall complete not less than ten (10) hours of training every two (2) year period that begins on the first day of the EDC's fiscal year and consists of the two (2) consecutive fiscal years after that date, addressing the aforementioned topics. The Government Finance Officers' Association of Texas (GFOAT), Government Treasurers' Organization of Texas (GTOT), Texas Municipal League (TML), University of North Texas (UNT), North Central Texas Council of Governments (NCTCOG), American Institute of Certified Public Accountants (AICPA), and the Government Finance Officers Association (GFOA) are approved independent training sources.

Section 4. Investment Advisors.

The EDC may, at the recommendation of the Executive Director, select one or more Investment Advisor(s) to assist the Investment Officers in the management of the EDC's funds. The Investment Advisor must be registered with the Securities and Exchange Commission under the Investment Advisors Act of 1940 and also be registered with the Texas State Securities Board as an Investment Advisor. To be eligible for consideration, an Investment Advisor shall demonstrate knowledge of and experience in the management of public funds. A selected Investment Advisor shall act solely in an advisor and administrative capacity, within the guidelines of this Policy and without any discretionary authority to transact business on behalf of the EDC. The terms and conditions of any Investment Advisor contract shall comply with the PFIA. A contract with an Investment Adviser may not be for a term longer than two (2) years and any contract, renewal, or extension must be approved by the EDC and Town Council.

Section 5. Standard of Care.

The standard of care for the EDC's investments shall be that such 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.

The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Investment Officers and any others involved in the investment process shall recognize that the investment activities of the EDC are a matter of public record.

An Investment Officer, acting in accordance with written procedures and exercising due diligence and the proper standard of care, shall be relieved of personal responsibility for an individual investment's credit risk or market price changes, provided that this Policy and the Investment Officer's procedures were followed. In determining whether the Investment Officer exercised a proper standard of care, all investments over which the Officer had responsibility will be considered rather than a single investment, and whether the investment decision was consistent with this Policy, as applicable.

Section 6. Authorized Investments.

Subject to any limitations otherwise imposed by applicable law, regulations, bond indentures, or other agreements, (including but not limited to the PFIA), the following are the only permitted investments for the EDC's funds:

A. Direct obligations of the United States government including, but not limited to, U. S. Treasury Bills, U. S. Treasury Notes, U. S. Treasury Bonds, and U. S. Treasury STRIPS.

B. Debentures, discount notes or other obligations, guaranteed by, or for which the credit of any Federal Agency and Instrumentality is pledged for payment including, but not limited to, Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal Agricultural Mortgage Corporation (FRMAC), Federal Deposit Insurance Corporation (FDIC), and Federal Home Loan Mortgage Corporation (FHLMC). Principal-only and interest-only mortgage backed securities are expressly prohibited.

C. Bonds or other interest bearing obligations of which the principal and interest are guaranteed by the full faith and credit of the United States government. Principal-only and interest-only mortgage backed securities are expressly prohibited.

D. Certificates of deposit and other evidences of deposit at a financial institution that has its main office or a branch office in Texas and a) is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or other federally sponsored deposit insurance corporation, or its successor, b) is secured by obligations in a manner and amount provided by law for deposits of the EDC, or c) is placed through a broker or depository institution that has its main office or a branch office in Texas that meets the requirements of the PFIA.

E. Repurchase agreements structured incompliance with the PFIA, collateralized at a minimum market value of one hundred two percent (102%) of the dollar value of the transaction plus accrued interest. A flexible repurchase agreement that allows for withdrawals as needed to fund project expenditures may be utilized for capital improvement projects funded by bond proceeds.

The EDC will not enter into repurchase agreements that would result in a reverse repurchase position for the EDC.

F. Money Market Mutual Funds meeting each of the following criteria:

(1) Regulated by the Securities and Exchange Commission;

(2) No commission fee shall be charged on purchases or sales of shares (i.e. "no-load" fund);

(3) Have an objective of maintaining a constant daily net asset value of $1.00 per share;

(4) Limit assets of the fund to those described as "government" securities; and

(5) Maintain a rating of AAAm or the equivalent by a nationally recognized rating agency.

G. State and local government investment pools organized under and meet the requirements of the PFIA, have been specifically approved by the Investment Officers, and authorized by the EDC's Board of Directors, as the case may be.

H. Direct obligations of the State of Texas or its agencies.

I. Other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas.

Section 7. Other Investment Guidelines.

The EDC seek active management of its portfolio assets. In the effort of meeting the objectives of this Policy, the EDC may from time to time sell investments that it owns in order to better position its portfolio assets. Sales of investments prior to maturity shall be documented and approved by the Executive Director before such a transaction is consummated. Sales of investments yielding net proceeds less than ninety-eight percent (98%) of the book value of the investments must be approved in advance and in writing by the EDC.

Each security investment transaction must be based upon competitive quotations received from broker/dealers who have been approved by the EDC.

The purchase and sale of all securities shall be on a delivery versus payment or payment versus delivery basis. In this manner, the EDC will always have possession of either its securities or its monies.

The EDC is not required to liquidate investments that were authorized at the time of purchase. However, an investment that requires a minimum credit rating does not qualify as an Authorized Investment during the period the investment does not have the minimum credit rating. The Investment Officers shall monitor the rating of each issuer, as applicable, at least quarterly, and take all prudent measures that are consistent with this Policy to liquidate an investment that does not have the required minimum rating.

Section 8. Portfolio Maturities.

Maturities shall be selected which provide for both stability of income and reasonable liquidity. The maximum stated maturity of any non-bond proceed investment is two (2) years. An investment's "average life" does not constitute a stated maturity. The weighted average life of all non-bond proceed investments shall not exceed nine (9) months.

In the case of callable securities, the Investment Officer shall additionally calculate a weighted average call date. However, at all times the stated final maturity shall be used in portfolio average life calculations and reported as outlined in this Policy.

Investment of bond proceeds shall be limited to the shorter of the anticipated draw schedule or "temporary period" as defined by the Internal Revenue Service. Additionally, bond proceeds may be invested in a singular repurchase agreement, if reductions are allowed from the agreement without penalty for legitimate bond proceeds expenditures and the final maturity is within the

"temporary period" (this arrangement is commonly referred to as a "flexible repurchase agreement").

Section 9. Investment Allocation Limits.

It is the Policy of the EDC to avoid concentration of assets in a specific maturity, a specific issue, or a specific class of investments. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy and the investment market.

The Investment Officers shall evaluate how each investment purchased fits into the EDC's overall investment strategies (see Section 15 - Investment Strategy Statement).

Section 10. Broker/Dealers and Other Providers.

The EDC shall maintain a list of broker/dealers which have been approved by the EDC Council. Securities and other investments, where applicable, may only be purchased for the EDC from those authorized broker/dealers.

The Investment Officers shall review each broker/dealer approved under this Section and at least annually the EDC Council shall re-approve the applicable list.

Broker/dealers, investment pools, and other financial institutions will be selected by the Investment Officers on the basis of their financial stability, expertise in cash management and their ability to service the EDC's and Corporations' account. Each broker/dealer, investment pool, or financial institution, shall be required to submit to the EDC (as applicable) information as requested by the Investment Officers. The Investment Officers shall maintain a file which includes the most recent information submitted by each firm.

All business organizations eligible to transact investment business with the EDC shall be presented a written copy of this Policy. The qualified representative of the business organization seeking to transact investment business with the EDC shall execute a written instrument substantially to the effect that it has:

1) received and thoroughly reviewed this Policy, and

2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the EDC and the organization that are not authorized by this Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the EDC's entire portfolio or requires an interpretation of subjective investment standards.

The EDC shall not enter into an investment transaction with a business organization prior to receiving the written instrument described above.

Section 11. Selection of Depositories.

To be eligible for receipt of EDC deposits, financial institutions must be a member of the FDIC, or other federally sponsored deposit insurance corporation, and meet the minimum standards established by the Investment Officers. Financial institutions failing to meet the minimum criteria or, in the judgment of the Investment Officers, no longer offering adequate safety for the EDC will be removed from the list.

Consistent with the requirements of State law, the EDC requires all financial institution deposits to be federally insured or collateralized with marketable securities, irrevocable letters of credit, or in any other manner allowed by State law, if the amount of deposit exceeds federal insurance levels. Financial institutions serving as depositories will be required to sign a Depository Agreement with the EDC. The custodial portion of the Depository Agreement shall define the EDC's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations; including:

A. the Agreement must be in writing;

B. the Agreement has to be executed by the Depository and the EDC contemporaneously with the acquisition of the asset;

C. the Agreement must be approved by the board of directors or the designated committee of the Depository and a copy of the meeting minutes must be delivered to the Investment Officers;

D. the Agreement must be continuously, from the time of execution, an official record of the Depository.

Eligible collateral for financial institution deposits shall include all items allowable with the PFIA and the Public Funds Collateral Act, subject to prior approval and at the sole discretion of the Investment Officers.

Section 12. Safekeeping and Custody.

Investment securities purchased for the EDC shall be held in third-party safekeeping, and all pledged collateral shall be delivered to an independent third-party custodian prior to deposit. The EDC may designate safekeeping or custodian bank(s). With the exception of federally insured deposits, in no event will the EDC's custodial or safekeeping institution also be counterparty (broker/dealer) to the purchase or sale of those securities, or pledging of that collateral. The EDC shall execute a written agreement with each bank prior to utilizing the custodian or safekeeping services. The agreement must provide that the safekeeping or custodian bank will immediately record the receipt of purchased or pledged securities in its books and promptly issue and deliver a safekeeping receipt to the EDC showing the receipt and the identification of the security, as well as the EDC's perfected interest. The original safekeeping receipt for each transaction including purchased securities under a repurchase agreement and collateral securing deposits will be delivered to the Investment Officers.

Only institutions eligible under the Public Funds Collateral Act may be utilized as a custodian of securities pledged to secure financial institution deposits.

An Investment Officer must approve release of securities held as collateral, in writing, prior to their removal from the custodial account. A facsimile or email of a written authorization shall be sufficient if the custodian orally confirms receipt of the transmission, and an exact copy of the document is retained in the EDC's files.

Section 13. Recordkeeping and Reporting.

A record shall be maintained of any bids and offerings for investment transactions in order to ensure that the EDC receives competitive pricing. All transactions shall be documented by the person authorizing the transaction in a form that shows that person's name, the counterparty to the transaction, the date, a description of the transaction, and a brief statement of the reason(s) for the transaction.

Each depository institution of the EDC's funds shall maintain separate, accurate, and complete records relating to all deposits, the securities pledged to secure such deposits, and all transactions relating to the pledged securities. In addition, each depository shall file all reports required by the Texas State Depository Board. Each depository and custodian shall agree to make all the records described in this paragraph available to the EDC and its auditors at any reasonable time.

At least once each quarter, the Investment Officers shall verify that all securities owned by or pledged to the EDC are held in safekeeping in the safekeeping or custodial bank(s) with proper documentation. In conjunction with the annual audit, the EDC's investment program, including the records of safekeeping, custodian, and depository banks, shall be audited by independent certified public accountants. This annual audit shall include a compliance audit of the management and internal controls on investments and adherence to this Policy.

An investment report shall be prepared in compliance with the PFIA at least quarterly by the Investment Officers that:

a) describes in detail the investment position of the EDC,

b) states the reporting period beginning book and market values, and ending book and market values for the period of each pooled fund group,

c) states the reporting period ending book and market value for each investment by asset type and fund type,

d) states the maturity date of each investment,

e) states the fund for which each investment was purchased,

f) states the compliance of the investment portfolio with this Policy and the PFIA,

g) summarizes quarterly transactions, including a detailed list of the gains and losses recognized, and

h) explains the investment return during the previous quarter and compares the portfolio's performance to other benchmarks of performance.

This report will be prepared and signed by the EDC's Investment Officers and provided to the EDC's Board of Directors. In conjunction with the annual audit, these reports shall be annually reviewed by the independent auditor, and the result of that review shall be presented to the EDC's Board of Directors, as the case may be.

The Investment Officers shall determine market value of securities owned or pledged as collateral based on sources independent from the transaction.

All contracted Investment Advisors shall prepare reports as requested by the Investment Officers.

Section 14. Ethics and Conflicts of Interest.

Investment Officers and employees of the EDC involved in the investment process shall refrain from personal business activity that involves any of the EDC's approved custodians, depositories, broker/dealers, or investment advisors, and shall refrain from investing in any security issue held by the EDC. Investment Officers and employees of the EDC involved in the investment process shall not utilize investment advice concerning specific securities or classes of securities obtained in the transaction of the EDC's business for personal investment decisions, shall in all respects subordinate their personal investment transactions to those of the EDC, particularly with regard to the timing of purchases and sales, and shall keep confidential all investment advice obtained on behalf of the EDC and all transactions contemplated and completed by the EDC, except when disclosure is required by law.

All Investment Officers shall file with the Texas Ethics Commission and the EDC's Board of Directors a statement disclosing any personal business relationship with any business organization seeking to sell investments to the EDC or any relationship within the second degree by affinity or consanguinity to an individual seeking to sell investments to the EDC.

Section 15. Investment Strategy Statement.

In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:

a. Operating Funds

Suitability - Any investment eligible in this Policy is suitable for the Operating Funds.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations will however occur. By managing the weighted average days to maturity for the Operating Fund portfolio to less than nine (9) months and restricting the maximum allowable maturity to two years, the price volatility of the overall portfolio will be minimized.

Marketability - Investments with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement.

Liquidity - The Operating Fund requires the greatest short-term liquidity of any of the fund types. Short-term financial institution deposits, investment pools, and money market mutual funds provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Diversification - Investment maturities shall be staggered throughout the budget and cash flow cycle to provide cash flow based on the anticipated operating needs of the EDC. Market cycle risk may be reduced by diversifying the appropriate maturity structure out through two years.

Yield - Attaining a competitive market yield for comparable investment-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling six-month Treasury Bill portfolio shall be the minimum yield objective.

b. Capital Improvement Funds

Suitability - Any investment eligible in this Policy is suitable for Capital Improvement Funds.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations will however occur. By managing Capital Improvement Fund's portfolio to not exceed the anticipated expenditure schedule and restricting the maximum allowable maturity to the I.R.S. "temporary period", the market risk of the overall portfolio will be minimized.

Marketability - Investments with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement.

Liquidity - The funds used for capital improvement programs have reasonably predictable draw down schedules, therefore investment maturities shall generally follow the anticipated cash flow requirements. Short-term financial institution deposits, investment pools, and money market mutual funds provide readily available funds generally equal to at least one month's anticipated cash flow needs, or a competitive yield alternative for short term fixed maturity investments. A singular repurchase agreement may be utilized if

disbursements are: allowed in the amount necessary to satisfy any expenditure request; this investment structure is commonly referred to as a flexible repurchase agreement.

Diversification - Market conditions and the arbitrage regulations influence the attractiveness of staggering the maturity of fixed rate investments for bond proceeds and other construction and capital improvement funds. With bond proceeds, if investment rates exceed the applicable arbitrage yield, the EDC is best served by locking in most investments. If the arbitrage yield cannot be exceeded, then concurrent market conditions will determine the attractiveness of diversifying maturities or investing in shorter and larger lumps. At no time shall the anticipated expenditure schedule be exceeded in an attempt to bolster yield with any EDC funds.

Yield - Achieving a positive spread to the applicable arbitrage yield is the desired objective for bond proceeds. Non-bond proceeds construction and capital project funds will target a rolling portfolio yield of six month Treasury Bills.

c. Fiduciary Funds

Suitability - Any investment eligible in this Policy is suitable for the Fiduciary Funds.

Safety of Principal - All investments shall be of high quality with no perceived default risk. Market price fluctuations will however occur. By managing the weighted average days to maturity for the Fiduciary Fund portfolio to less than nine (9) months and restricting the maximum allowable maturity to two years, the price volatility of the overall portfolio will be minimized.

Marketability - Investments with active and efficient secondary markets are necessary in the event of an unanticipated cash requirement.

Liquidity - The Fiduciary Fund requires short-term liquidity. Short-term financial institution deposits, investment pools, and money market mutual funds provide daily liquidity and may be utilized as a competitive yield alternative to fixed maturity investments.

Diversification - Investment maturities shall be staggered throughout the budget and cash flow cycle to provide cash flow based on the anticipated operating needs of the EDC. Market cycle risk may be reduced by diversifying the appropriate maturity structure out through two years.

Yield - Attaining a competitive market yield for comparable investment-types and portfolio restrictions is the desired objective. The yield of an equally weighted, rolling six-month Treasury Bill portfolio shall be the minimum yield objective.

Section 16. Policy Revisions.

This Policy will be reviewed at least annually by the Investment Officers and the EDC's Board of Directors and may be amended as conditions warrant by the EDC's Board of Directors. The EDC shall adopt a written instrument by resolution stating that it has reviewed the Investment Policy and investment strategies and that the written instrument so adopted shall record any changes made to either the Investment Policy or investment strategies

Section 17. Effective Date.

This Policy shall become effective from and after its date of passage as provided by law.