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**Administrative Offices**

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## **BOARD OF MANAGERS RESOLUTION**

**JULY 26, 2022**

### **A RESOLUTION RELATING TO ANNUAL REVIEW AND ADOPTION OF INVESTMENT POLICY AND INVESTMENT STRATEGIES**

**WHEREAS**, the Nueces County Hospital District (the “Hospital District” or “District”) is a political subdivision of the State of Texas, established and created pursuant to the Texas Constitution, Article IX, Section 4 and the Texas Health and Safety Code, Chapter 281 (the “Health Code”), and operated in accordance with the Health Code and other applicable laws of the State of Texas, including the Texas Government Code, Chapter 2256 relating to public funds investment (the “Public Funds Investment Act”);

**WHEREAS**, the Hospital District’s Board of Managers (the “Board”) have been duly appointed pursuant to Health Code, §281.021(a);

**WHEREAS**, pursuant to collective authorities of Health Code, §281.047 and §281.048, the Board is the Hospital District’s governing body and the Board has, and at the time of adoption of this Resolution had, full power and authority to manage, control, administer, and to adopt rules governing operation of the Hospital District;

**WHEREAS**, the Board desires to comply with annual requirements of the Public Funds Investment Act and Act, §2256.005(e), requires the Board to review, not less than annually, the District’s investment policy and investment strategies, adopt a written instrument stating that they have reviewed the policy and strategies, and record therein any changes made to the policy and the strategies;

**WHEREAS**, the Board: (i) adopted the original form of the Hospital District’s investment policy and investment strategies on March 31, 1998; (ii) previously amended portions of the policy and/or strategies on July 7, 1998; September 8, 1998; April 24, 2001; April 7, 2009; July 26, 2011, July 23, 2013, June 6, 2019, July 21, 2020, and September 1, 2021; (iii) has not amended the policy and/or strategies since September 1, 2021; and (iv) does not herein amend the current investment policy and investment strategies.

**WHEREAS**, in accordance with Public Funds Investment Act, §2256.005(e), the Board hereby desires to: (i) review the current District’s investment policy and investment strategies; (ii) does not herein amend the current investment policy and investment strategies; and (iii) adopt the investment policy and investment strategies attached hereto and identified as Exhibit “A” to supersede and replace the current policy and strategies to be effective September 1, 2022.

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF MANAGERS OF THE NUECES COUNTY HOSPITAL DISTRICT, THAT:**

1. The Board has reviewed the Hospital District's current investment policy and investment strategies.
2. The Board hereby adopts the investment policy and investment strategies attached hereto and identified as Exhibit "A" to supersede and replace the current policy and strategies to be effective September 1, 2022.
3. The Board hereby adopts this Resolution to affirm the preceding Resolves as required by Public Funds Investment Act, §2256.005(e).
4. The Administrator shall be and is expressly authorized and directed to do and perform all acts, and to execute all instruments and other related documents, whether or not herein cited, as required to carry out the intent, terms, and provisions of this Resolution, such execution to be conclusively evidenced by the performance of such acts.
5. The Administrator, in his capacity as the Secretary of the Hospital District Board, be and is hereby legally authorized and empowered to perform all acts described above and certify these resolutions and that the provisions hereof are in conformance with the laws of the State of Texas and the Governing Board Bylaws of the District.
6. This Resolution shall take effect and be in full force and effect upon and after its passage.
7. The Board retains its right to amend or repeal this Resolution at any time.

**NUECES COUNTY HOSPITAL DISTRICT  
BOARD OF MANAGERS**

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Daniel W. Dain  
Chairman

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Sylvia Tryon Oliver  
Vice Chairman

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Belinda Flores, RN  
Member

---

Vishnu V. Reddy, M.D.  
Member

---

John E. Valls  
Member

---

Mariana Garza, J.D.  
Member

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Efrain Guerrero, Jr.  
Member

Exhibit "A"

**NUECES COUNTY HOSPITAL DISTRICT**

**REVISED INVESTMENT POLICY AND INVESTMENT STRATEGIES**  
**(COMPARISON TO PRIOR VERSION)**

Original Adoption: March 31, 1998

Amended: July 7, 1998

Amended: September 8, 1998

Amended: April 24, 2001

Amended: April 7, 2009

Amended: July 26, 2011

Amended: July 23, 2013

Amended: June 6, 2019

Amended: July 21, 2020

Last Amended: September 1, 2021



# **NUECES COUNTY HOSPITAL DISTRICT**

## **INVESTMENT STRATEGY & INVESTMENT POLICY**

EFFECTIVE SEPTEMBER 1, 2022

### **Administrative Offices**

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# TABLE OF CONTENTS

PREFACE.....	1
POLICY .....	1
PURPOSE.....	1
ADOPTION & REVIEW .....	1
INVESTMENT STRATEGY .....	2
INVESTMENT POLICY.....	5
SCOPE.....	5
INVESTMENT OBJECTIVES.....	5
SAFETY OF PRINCIPAL.....	5
MAINTENANCE OF ADEQUATE LIQUIDITY .....	5
INVESTMENT DIVERSIFICATION.....	6
YIELD .....	6
PUBLIC TRUST.....	6
RESPONSIBILITY AND CONTROL .....	6
DELEGATION OF AUTHORITY FOR PROGRAM MANAGEMENT .....	6
PRUDENCE .....	7
ETHICAL STANDARDS AND CONFLICTS OF INTEREST .....	7
INVESTMENT COMMITTEE .....	8
DELEGATION OF AUTHORITY TO ACT AS INVESTMENT OFFICERS .....	9
TRAINING .....	9
INTERNAL CONTROLS .....	9
COMPLIANCE AUDIT .....	10
MANAGEMENT REPORTS .....	11
INVESTMENT PORTFOLIO .....	12
AUTHORIZED AND ACCEPTABLE INVESTMENTS.....	12
UNAUTHORIZED INVESTMENTS .....	13

MAXIMUM MATURITIES.....	14
AUTHORIZED DEPOSITORY, BROKER/DEALER AND INVESTMENT POOLS .....	14
DEPOSITORY FINANCIAL INSTITUTION .....	14
BROKER/DEALERS .....	15
REQUIREMENTS COMMON TO FINANCIAL INSTITUTIONS AND BROKER/DEALERS .....	15
INVESTMENT POOLS .....	16
COMPETITIVE BIDDING FOR ALL INVESTMENTS.....	16
DELIVERY VERSUS PAYMENT.....	16
SAFEKEEPING OF SECURITIES .....	17
DEPOSITORY COLLATERAL.....	17
MONITORING MARKET PRICES .....	19
GLOSSARY OF COMMON TREASURY TERMS.....	20
ATTACHMENT “A”: STATEMENT OF PERSONAL BUSINESS RELATIONSHIP.....	24
ATTACHMENT “B”: NUECES COUNTY HOSPITAL DISTRICT, BROKER/DEALER QUESTIONNAIRE .....	25

## **PREFACE**

The Nueces County Hospital District (the "Hospital District" or "District") is a political subdivision of the State of Texas, established and created in 1968 pursuant to Article IX, Section 4 of the Texas Constitution, and operated in accordance with Chapter 281, Texas Health and Safety Code and other applicable state laws, including Chapter 2256, Texas Government Code, the Public Funds Investment Act (the "Act") and Texas Government Code 2257, the Public Funds Collateral Act.

The Hospital District recognizes effective cash management is essential to good fiscal management. The District will pursue an active cash management and investment policy to take advantage of investment interest as a viable and material contribution to the revenues of the District. The District's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with state law.

## **POLICY**

It is the policy of the Hospital District that after allowing for the anticipated cash flow requirements of the District and giving due consideration to the safety and risk of investments, the District shall manage and invest its idle cash with these objectives which are listed in order of priority: safety of principal, liquidity of principal, investment diversification, yield, and public trust. The safety of the principal invested and liquidity always remain the primary objectives. The District shall design and manage all investments in a manner that is advantageous to the District, responsive to the public trust, and consistent with applicable law.

All investments made by the Hospital District shall comply with the Act and all federal, state, and local statutes, rules or regulations.

## **PURPOSE**

The purpose of this Investment Policy is to set forth specific investment policy and strategy guidelines for the Hospital District. This Policy also serves to satisfy requirements of the Act, which requires public entities such as the District, to define, adopt, and review a formal investment strategy and policy regarding its funds and the funds under its control.

## **ADOPTION & REVIEW**

The Hospital District's Board of Managers (the "Board"), based on advice and counsel from the Investment Committee and the Administrator, shall review and adopt by resolution, its investment strategies and policy not less than annually. Adopting resolutions shall include a record of changes made to either the investment policy or strategy.



## INVESTMENT STRATEGY

The Hospital District maintains a comprehensive, conservative and proactive cash management program designed to monitor and control all District funds to ensure maximum use and reasonable market yield. The basic and underlying strategy of this program is that all of the District funds earn continuously. The District shall maintain a flexible investment design and be prepared to modify the investment strategy as market conditions dictate. The investment strategies described herein are based on the District's conservative philosophy and predicated on repetitive cash flow conditions. As such, the market strategies supporting these overall strategies are subject to change as conditions warrant.

The Hospital District shall manage and invest its funds with these objectives, listed in order of priority: safety of principal, liquidity of principal, investment diversification, yield, and public trust. The safety of the principal invested and liquidity always remain the primary objectives. The District shall design and manage all investments in a manner that are favorable to the District, responsive to the public trust, and consistent with applicable law.

Within these investment objectives, the investment strategy is to utilize Investment Policy authorized investments to gain maximum advantage for the Hospital District.

- In accordance with the District's intermediate and long-term plans and strategies, the District will maintain one combined portfolio. At least annually, the District's Investment Committee will evaluate the usefulness of this approach as compared to the District's current and future asset use needs as well as contemporaneous market conditions and trends. The principal investment strategies for this aggregate portfolio are to assure that the District's cash assets are safe and that anticipated cash needs of the District are matched with sufficient liquidity.
  1. To assure safety, the District shall utilize only high-credit quality securities such as U.S. government and agency issues and other securities that assure the return of principal when held to maturity. Additionally, the District shall qualify and monitor financial institutions and brokers/dealers with whom the District transacts business. Compliance with this Policy is to assure safety. As a guideline, at least 33% of the District's investments shall be U.S. government or agency issued securities. The District will not invest in securities maturing more than 3 years from the date of purchase.

The District shall limit its acquisition of securities to those that are commonly traded by governmental entities and have proven resale markets. The District shall select brokers/dealers that regularly deal with governmental entities.

2. To assure liquidity, the District shall ensure that a minimum of 10% of its portfolio is invested in securities which mature or could be liquidated (without penalty) within 60-90 days. The District will utilize local government pools and money market funds or interest bearing depository accounts to achieve needed liquidity. The maximum dollar

weighted average maturity (“WAM”) of the District's portfolio will be one year or less, calculated on the stated final maturity date of each security. The District shall match its periods of high cash consumption with matching amounts of liquidating securities when tax revenues are not adequate. Similarly, the District will strive to assure that its cash outlays are paid in a timely fashion by coordinating the establishment of maturity dates of various securities to cover periodic annual outlay needs not fully covered by then available tax revenues. Additional liquidity will be made available to cover the debt service payments on the required payment dates if needed.

3. To assure diversification and to avoid incurring unreasonable risks from over concentration of investments in a specific maturity, a specific issue, or a specific class or type of securities, the District shall maintain a diversified portfolio. The District will diversify so that potential losses on individual securities do not exceed the investment income generated from the remainder of the portfolio, taking into account current and projected yields and other market considerations.

Diversification will be served by the District matching the District’s annual business plan and projected strategic plan to its investment plan. Diversification will be served by competitive bidding and monitoring of all authorized market sectors for value. The District shall concurrently monitor the progress of the operating and investment plans. The District shall select a number of brokers/dealers that regularly deal with governmental entities and are familiar with their business cycles and ongoing business strategies as well as to provide competition.

4. To assure yield and risks stay within safe limits, the District shall structure its portfolio to meet or exceed the risk benchmark. The District shall pursue an overall average benchmark yield on the six-month U.S. Treasury Bill which is comparable to the District's average WAM, and consistent with the investments authorized as well as limitations in this Investment Policy.
- To increase earnings for assets identified as available for investment over longer periods (based on a long-range cash requirement projection) the Hospital District will consider the following additional strategies:
    1. Evaluating longer term investment opportunities.
    2. Building a ladder of Investment Policy authorized securities with staggered maturities for all or part of the longer term investable funds. The benefits of this ladder approach include:
      - It is straightforward and easily matched to cash needs.
      - It will require a minimum of time and investment expertise to administer.

- It represents a safe option to meet cash needs.
  - All investments remain within the approved maturity horizon.
  - It will assure the District that it will capture the most reasonable section of the yield curve at the time of purchase.
  - It provides predictable cash flow with scheduled maturities and reinvestment.
3. Utilizing the services of a reputable and respected independent, third-party SEC-registered investment advisor to assist the District in preparing a plan to achieve a higher yield on the assets available for longer term investment.
- The Hospital District’s investment strategy for handling investments that are not presently statutorily authorized but were so authorized at the time of their purchase; or were previously purchased and exceed the maximum allowable maturity stated under this Investment Policy, shall have as its primary objective that the District will liquidate such investments if it is prudent to do so under the District’s investment objectives, but only when so authorized by the Investment Committee created under this Investment Policy. Upon liquidation, such funds shall be reinvested in a manner consistent with this Investment Policy.

If an existing investment that requires a minimum rating under this Investment Policy loses that required rating the District shall undertake all prudent measures that are consistent with this Investment Policy to liquidate an investment in a timely manner.

- Unless otherwise directed by the Investment Committee or Board, interest earnings received from investments of Hospital District funds shall be allocated back to the appropriate fund, unless indicated otherwise by generally accepted accounting principles or law.

# INVESTMENT POLICY

## I. SCOPE

This Investment Policy shall govern all cash and investment assets of the Hospital District. This Policy also governs all of the District's trust and escrow agreements and other similarly functioning agreements. Similarly, this Policy governs the District's depository agreement with its depository financial institution as it relates to collateral and collateral investment requirements. This Policy does not apply to funds the District maintains or administers under a deferred compensation plan, the federal income tax treatment of which is governed by Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Sections 401(k) and 457).

## II. INVESTMENT OBJECTIVES

The Hospital District shall maintain a comprehensive cash management program that includes collection of accounts receivable, vendor payment according to invoice terms, and prudent investment of available cash. Cash management is the process of managing monies to insure cash availability and maximum yield on short-term investment of pooled cash.

It is the intent of the Hospital District that after allowing for the anticipated cash flow requirements of the District and giving due consideration to the safety and risk of investments, all available funds shall be fully invested in conformance with this Investment Policy and at the highest reasonable rates obtainable at the time of investment within the limits of this policy.

The Hospital District shall manage and invest in accordance with these objectives, listed in order of priority: safety of principal, liquidity of principal, investment diversification, yield, and public trust. The safety of the principal invested and liquidity always remains the primary objectives. All investments shall be designed and managed in a manner favorable to the District, responsive to the public trust, and consistent with applicable law.

### A. SAFETY OF PRINCIPAL

Safety of principal invested is the primary objective in investment decisions of the Hospital District. Each investment transaction shall seek to ensure the preservation of capital. The District shall control investing risk by utilizing high credit quality securities and through portfolio diversification.

### B. MAINTENANCE OF ADEQUATE LIQUIDITY

The investment portfolio shall be managed to maintain adequate liquidity to ensure that funds will be available to meet cash flow requirements that might be reasonably anticipated and by investing in securities with active secondary markets. A security may be liquidated to meet unanticipated cash requirements or otherwise to favorably adjust the Hospital District's investment portfolio.

The Hospital District will match its investments with anticipated cash flow requirements in a laddered strategy by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets. Recognizing that not all funds are needed for cash flow purposes, cash may be invested to longer maturities to best utilize the funds.

C. INVESTMENT DIVERSIFICATION

The Hospital District shall diversify its investments to spread market and credit risk. The District will invest in a planned mix of investments, maturities, and/or investment categories to reduce credit and market risk.

D. YIELD

The Hospital District's cash management portfolio shall be designed with the objective of regularly exceeding the average yield on the six-month U.S. Treasury Bill which compares to the District's average WAM. The investment program shall seek to augment earnings above this threshold consistent with risk limitations identified herein and prudent investment policies.

E. PUBLIC TRUST

All participants in the Hospital District's investment program shall seek to act responsibly as custodians of the public trust. Investment officers shall avoid any transaction that might impair public confidence in the District's ability to govern effectively.

### **III. RESPONSIBILITY AND CONTROL**

A. DELEGATION OF AUTHORITY FOR PROGRAM MANAGEMENT

Overall management responsibility for the Hospital District's investment program is hereby delegated to the Administrator who shall be responsible for all operations of the District's investment program and transactions undertaken. The Administrator and other employees shall be designated Investment Officers in accordance with the Act. Investment Officers are designated by resolution of the Board.

B. PRUDENCE

The standard of prudence to be applied by the Hospital District's investment officers shall be the "prudent person" rule, which states:

"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 capital as well as the probable income to be derived."

In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration: (1) the investment of all funds, or funds under the Hospital District's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment, and (2) whether the investment decision was consistent with the written investment policy of the District. The investment officers acting according to written policies and procedures and exercising due diligence, shall not be held personally liable for a specific security's credit risk or market price changes, if these deviations are reported in a timely manner and that appropriate action is taken to control adverse developments.

For purposes of this Investment Policy, "investment officer" means all Hospital District employees designated by Board resolution and involved in investment activities. All employees involved in investment transactions will be bonded. The District shall bear the cost of such bonding.

C. ETHICAL STANDARDS AND CONFLICTS OF INTEREST

All Hospital District investment officers having a direct or indirect role in the investment of Hospital District funds shall act as custodians of the public trust avoiding any transaction that might involve a conflict of interest, the appearance of a conflict of interest, or any activity that might otherwise discourage public confidence. All persons involved in the District's investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

District staff shall disclose to the Administrator, or in the case of the Administrator, the Investment Committee and Board, any material financial interests in financial institutions, with dealers, brokers, or investment pools, collectively referred to "business entities," that conduct business with the District and they shall further disclose positions that could be related to the performance of the District's portfolio. District staff shall subordinate their personal financial transactions to those of the District, particularly with regard to timing of purchases and sales.

In accordance with the Act (§2256.005(i)), “an investment officer who has a personal business relationship with a business organization offering to engage in an investment transaction with the Hospital 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. Such statement must be filed with the District’s Investment Committee and Board.

In accordance with the Act, an investment officer must disclose to the Texas Ethics Commission if he has a personal business relationship with a business organization in which: (1) the investment officer owns 10% or more of the voting stock or shares of the business entity or owns \$5,000 or more of the fair market value of the business organization; or (2) funds received by the investment officer from the business entity exceed 10% of the investment officer’s gross income for the previous year; or (3) the investment officer has acquired from the business entity during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer”. (Attachment “A”)

D. INVESTMENT COMMITTEE

There is hereby created by the Board an Investment Committee, consisting of all members of the Board of Manager’s Finance Committee, the Hospital District’s Administrator, and primary and secondary investment officers. The Chairman of the Finance Committee shall be Chairman of the Investment Committee. Those Committee members who are District employees shall be ex officio members of the Committee. All members of the Investment Committee should have an understanding of the suitability of the District’s investment instruments as they relate to the financial, cash flow and long-term debt requirements of the District. The Investment Committee shall meet at least quarterly, usually in conjunction with Finance Committee meetings, to monitor the investment plan, set general strategies, and to review results. The Investment Committee shall include in its deliberations such topics as: performance reports, economic outlook, portfolio diversification, portfolio structure, potential risk to and opportunities for the District’s funds, authorized financial institutions, brokers/dealers, investment pools, and the overall target yield on the investment portfolio. The Administrator shall prepare an agenda for all Investment Committee meetings. The Administrative Assistant shall maintain minutes of such meetings. The Investment Committee shall operate according to the terms and conditions of the Board’s Bylaws. Either the Committee’s Chairman or the Administrator may request special meetings. A majority of the non-employee members shall form a quorum. The Committee shall establish its own rules of procedure if not so provided by the Board’s Bylaws.

E. DELEGATION OF AUTHORITY TO ACT AS INVESTMENT OFFICERS

Authority to act as an investment officer in the Hospital District’s investment program is derived solely by resolution of the District’s Board. Only persons authorized by Board resolution may deposit, withdraw, transfer, or manage in any other manner, the cash and investment assets of the District. Such persons shall manage the District’s funds according to this Investment Policy. Such authority is effective until rescinded by the Board or until termination of employment. The Board may appoint one or more investment officers. When more than one investment officer is appointed the Board shall designate one primary investment officer and the remainder shall be secondary investment officer(s). In the absence or unavailability of the primary investment officer, the secondary investment officers are responsible for investment decisions and activities.

F. TRAINING

Within one year of becoming or assuming their duties, investment officers shall receive not less than 10 hours of instruction relating to investment responsibilities under the Act from an independent source approved by Board resolution. After that, the investment officers shall attend 10 hours of investment training not less than once in each succeeding two-year period that begins on the first day of the Hospital District’s fiscal year and consists of the two consecutive fiscal years after that date, and instruction shall relate to investment responsibilities under the Act. Such training shall at least include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with the Act.

The Board shall from time-to-time, approve by resolution investment training courses applicable to this paragraph. The Hospital District shall bear the costs of such training.

G. INTERNAL CONTROLS

The Administrator shall establish a system of internal controls to regulate the activities of all investment officers. This system of controls shall be designed to provide reasonable assurance that the assets of the Hospital District are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. Additionally, the Administrator shall assure that written procedures are established for the operation of the investment program, consistent with this Investment Policy. Such procedures shall explicitly address delegation of authority to persons responsible for investment transactions. No persons may engage in an investment transaction except as provided under the terms of this Investment Policy and the internal control procedures established by the Administrator. In addition, the internal controls shall at least address the following points:



1. Control of collusion;
2. Separation of transaction authority from accounting and record keeping;
3. Custodial safekeeping;
4. Clear delegation of authority to subordinate staff members;
5. Written confirmation for all transactions for investments and wire transfers;  
and
6. Maintenance of a log detailing all investment bids solicited and purchases by investment officers.

The investment officer(s) shall monitor, on no less than a monthly basis, the credit rating on all authorized investments in the portfolio based upon independent information from a nationally recognized rating agency. If any security falls below the minimum rating required by Policy, the investment officer(s) shall notify the Investment Committee of the loss of rating, conditions affecting the rating and possible loss of principal along with liquidation options available,

The investment officer shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the District based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are owned, the investment officer shall immediately liquidate any brokered CD which is above the FDIC insurance level.

#### H. COMPLIANCE AUDIT

The Administrator shall assure that an internal controls compliance audit is performed in conjunction with the Hospital District's annual independent financial audit. Such compliance audit shall at least focus on management controls, adherence to this Investment Policy, and compliance with applicable laws. The results of this compliance audit shall be incorporated into the independent auditor's annual report to the Board.

If the Hospital District invests in other than money market mutual funds, investment pools or CDs the quarterly reports associated with those activities shall be formally reviewed, at least annually, by an independent auditor and the results of the review shall be reported to the Board by the independent auditor. This shall be done in conjunction with the independent auditor's annual report to the Board.

I. MANAGEMENT REPORTS

At least monthly, the investment officers shall jointly compile a written report for the Administrator and other management's use in monitoring the Hospital District's investment program. The report must:

1. Contain a detailed description of each investment position of the District on the date of the report.
2. Be prepared jointly and signed by all District investment officers.
3. Contain a summary statement, prepared in compliance with generally accepted accounting principles, of each pooled funds group that states:
  - a. Beginning market value for the reporting period.
  - b. Additions and changes to the market value during the period.
  - c. Ending market value for the period.
  - d. Fully accrued interest and total earnings (net amortization/accretion) for the reporting period.
4. State the book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested.
5. State the maturity date of each separately invested asset that has a maturity date. (Liquid investments have a one-day maturity date.)
6. State the account or fund or pooled group fund in the District for which each individual investment was acquired, if applicable.
7. State the compliance of the investment portfolio of the District as it relates to the District's Investment Policy and relevant provisions of law.

Market prices will be obtained from independent financial sources such as the Wall Street Journal for reporting purposes.

In addition to the above, but not less than quarterly, the Administrator and investment officers shall collectively prepare and submit to the Board an additional written report of investment transactions for the portfolio. The report shall be based on the District's fiscal year quarters and shall be presented to the Board within a reasonable time after the end of such periods. The report shall cover element's 1 -7 above.

## IV. INVESTMENT PORTFOLIO

### A. AUTHORIZED AND ACCEPTABLE INVESTMENTS

Only the following investments are authorized for investment by the Hospital District:

1. Obligations of the United States, its agencies and instrumentalities and full faith and credit obligations of the U.S. Government, excluding all mortgage backed securities with a maximum maturity of three years.
2. Direct obligations of the State of Texas or its agencies or instrumentalities; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit, of the United States. Obligations of the State of Texas, or their respective agencies and instrumentalities; obligations of the states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
3. Depository certificates of deposit issued by a state or national bank doing business in Texas that are:
  - a. guaranteed or insured by the FDIC or its successor; and
  - b. secured by obligations defined by this Policy; and
  - c. collateralized to 102% of District deposits, which collateral is held by an independent third-party custodian approved by the District.

Depository certificate of deposit spread programs entered into through a Texas bank are authorized under this provision.

4. FDIC-insured brokered CDs purchased from a broker on the District list or a bank in Texas, delivered versus payment to the District's safekeeping agent, not to exceed one year to maturity. Before purchase, the Investment Officer must verify the FDIC status of the bank (on [www.FDIC.gov](http://www.FDIC.gov) or equivalent) to assure that the bank is FDIC-insured.
5. Fully collateralized repurchase agreements that have a defined termination date not to exceed one year, are secured by obligations of the United States or its agencies and instrumentalities, are cleared delivery versus payment and held in the District's name by a custodian approved by the District, and placed through a primary governmental securities dealer, as defined by the Federal Reserve or a financial institution doing business in Texas.

Reverse repurchase agreements not to exceed 90 days. Funds received under the terms of a reverse repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse repurchase agreement.

6. Commercial paper that has a stated maturity of 270 days or less from the date of purchase and is dual rated A1-1 or P-1 or equivalent by at least two nationally recognized credit rating agencies.
7. AAA-rated, no-load money market mutual funds that:
  - a. are registered with and regulated by the Securities and Exchange Commission;
  - b. has a dollar-weighted average stated maturity of 60 days or fewer; and
  - c. includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.
8. Texas public funds investment pools which strive to maintain a \$1 net asset value and meet the requirements of the Act, if the Board authorizes the investment in the pool by resolution.
9. Fully insured or collateralized interest bearing accounts in any Texas bank to include spread demand deposit programs entered into through a Texas bank.

All investments must comply with all policy, federal, state, and local statutes, rules or regulations.

All security transactions will be made on a competitive bidding basis and all transactions will be settled into the District's custodian on a delivery versus payment basis.

**B. UNAUTHORIZED INVESTMENTS**

State law specifically prohibits investment in the following investment securities:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal.
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.

3. Collateralized mortgage obligations that have a stated final maturity date of greater than ten years.
4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

C. MAXIMUM MATURITIES

The longer the maturity of investments becomes, the greater their risk and price volatility but also the greater the yield normally. Accordingly, it is the Hospital District's policy to invest in a ladder structure to approximate investments to cash flow needs and provide for adequate liquidity. In periods of declining interest rates the portfolio may be extended to lock in rates. In periods of rising interest rates the portfolio may be kept more liquid. The District will not directly invest in individual securities maturing more than 3 years from the date of purchase. Collateral provided for certain investments, however, may be collateralized using longer date instruments. The WAM of the portfolio will not exceed one year.

D. AUTHORIZED DEPOSITORY FINANCIAL INSTITUTION, BROKER/DEALERS AND INVESTMENT POOLS

Conditioned on formal approval by the Investment Committee and satisfactory compliance with this Investment Policy (including applicable laws), a depository financial institution and brokers/dealers of government securities are hereby authorized under this Investment Policy. Investment pools are additionally authorized when approved by resolution of the Board.

1. DEPOSITORY FINANCIAL INSTITUTION

The depository financial institution selected by the Hospital District at least every four years shall be used for initial placement of District's demand deposits and as a source for placement of time deposits (CDs) pursuant to the requirements set forth in this Investment Policy. Such institution shall be a bank doing business in the State of Texas.

The Hospital District shall select one depository financial institution no less than every four years on a competitive basis pursuant to Texas Health and Safety Code, §281.093(a)(1) and pursuant to the selection process set forth in Texas Local Government Code, Chapter 116. The banking services depository will not be used as a broker for security purchases in order to perfect the delivery versus payment settlement on all transactions.

Hospital District investment officers may not place time or demand deposits requiring collateral with any financial institution that does not have a valid depository agreement with the District. However, investment officers may

place time deposits (CDs) with financial institutions, other than the depository financial institution, provided they have been approved by the Investment Committee and are located in the State and, if above FDIC insurance limits, has an executed depository/collateral agreement with the District. All collateral agreements will be in writing and must be approved by the Bank Board or Loan Committee to perfect the provisions of FIRREA.

Policy Certification

Hospital District investment officers may not participate in any pool which has not delivered to the District the policy certification of having read the District's Investment Policy, including an acknowledgment of implementing reasonable procedures and controls, as required below.

2. BROKERS/DEALERS

Investment officers shall not knowingly conduct business with any firm with whom public entities have sustained losses on investments. All securities brokers/dealers shall provide the District with references from public entities which they are currently serving. The Investment Committee shall annually adopt and review a list of qualified brokers/dealers authorized to engage in investment transactions with the District.

Policy Certification

Hospital District investment officers will deliver the current investment policy to all brokers, but certification is not required.

3. REQUIREMENTS COMMON TO FINANCIAL INSTITUTIONS AND BROKERS AND DEALERS

All financial institutions and brokers/dealers who desire to become the depository or qualified bidders for investment transactions must supply the Hospital District with the following information, as appropriate:

- a. current audited financial statements provided on an annual basis;
- b. proof of Financial Industry Regulatory Agency (FINRA) registration (CRD #) (brokers only);
- c. proof of state registration (brokers only);
- d. For pools, a signed *Policy Certification*; acknowledging that the pool has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the District and the pool;

- e. completed *Nueces County Hospital District Broker/Dealer Questionnaire* (Attachment “B”).

For purposes of this Investment Policy, a “qualified representative” means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization as defined by the Act.

An annual review of the financial condition and registration of qualified broker/dealers shall be conducted by the Hospital District’s Administrator.

4. INVESTMENT POOLS

The Hospital District may invest its funds in eligible investment pools which strive to maintain a \$1 net asset value and as defined by the Act and this Policy provided that the Board adopts a resolution authorizing investment in that particular pool.

Once an investment pool is approved for use by the Board, to maintain eligibility to receive Hospital District funds and invest funds on behalf of the District pursuant to the Act, the investment pool must furnish to the District’s Administrator or investment officers periodic reports as defined by the Act.

E. COMPETITIVE BIDDING FOR ALL INVESTMENTS

To purchase or sell investment securities, the Hospital District’s investment officers shall solicit independent bids/offers from at least 3 authorized brokers/dealers from the list approved by the Investment Committee. For CDs, the investment officers shall solicit independent bids from 3 financial institutions. All bids/offers for investment securities or instruments shall be solicited by an investment officer via any of the following methods but must be documented.

- 1. Orally (but confirmed in writing);
- 2. In writing;
- 3. Electronically; or
- 4. Any combination of the above methods.

F. DELIVERY VERSUS PAYMENT

It is the policy of the Hospital District that all security transactions entered into by the District shall be conducted on a “delivery versus payment” basis. That is, the depository acting as safekeeping agent for the District shall not release District funds until verification has been made that the correct security was received. The security

shall be held in the name of the District by the safekeeping agent. The records shall assure the notation of the District's ownership of the securities. The original copy of all safekeeping receipts shall be delivered to the District. For purposes of this Investment Policy, safekeeping receipt shall mean evidence of receipt, identification and recording, including a written or electronically transmitted advice of transaction.

G. SAFEKEEPING OF SECURITIES

All securities owned by the Hospital District shall be held in its banking services depository or a depository chosen by the District. Safekeeping will be controlled by a written Safekeeping agreement executed by the District and bank.

H. DEPOSITORY COLLATERAL

All collateral pledged to secure time and demand deposits shall be custodied in an independent custodial institution approved by the Hospital District to include the Federal Reserve.

The collateral agreement shall be executed by the Hospital District and the pledging bank and be in writing on the terms and conditions for securing the deposit of District funds, including the procedural steps for gaining access to the collateral. The Agreement shall be adopted by resolution of the Bank Board or the Bank's Loan Committee and executed before funds are moved into the depository. If the Federal Reserve is used as the custodian, a Pledgee Agreement Form (Circular 7) of the Fed will be executed. Such agreements shall include the signatures of all authorized representatives of the District. Original safekeeping trust receipts shall be obtained. The District or its agent may inspect, at any time, an investment security evidenced by a receipt.

The Custodian shall provide to the Hospital District monthly collateral reports listing the securities pledged.

1. Consistent with the requirements of the Public Funds Collateral Act (Texas Government Code, §2257 et seq.) it is the policy of the Hospital District to require that the depository financial institution pledge collateralization for all District funds in demand and time deposits, that are in excess of the amount insured by the FDIC. The following are applicable to such collateralization:
  - a. The District shall be the final authority when determining the market value of securities pledged to secure District deposits for the purpose of determining adequacy of the amount of collateral. The District's valuation of the securities is final and not subject to review;
  - b. The total value of eligible security used to collateralize deposits of the



District shall be not less than 102% of total market value on the deposits less an amount insured by the FDIC. Preferably, the Custodian shall report to the District, at least monthly, collateral reports listing the securities pledged;

- c. If the market value of the securities pledged by the depository financial institution becomes less than the amount of the total deposit in the depository, the District shall require that additional collateral be pledged immediately. If the collateral pledged by the depository financial institution is in excess of the percentage amount required above, the District may permit the release of the excess collateral if the collateral's market value exceeds the required amount. If the balance of District deposits in the depository financial institution is increased, the depository financial institution shall immediately increase the collateral for the deposits to the percentage amount required above. The bank shall be liable for monitoring and maintaining the required margin of 102% at all times;
- d. The depository financial institution may substitute securities pledged with the District, if the market value of the replacing securities are equal to or greater than the required collateral value and the new securities are received by the custodian before release of existing collateral;
- e. If the depository financial institution fails to credit a deposit or part of deposit made by the District, the District will notify and may sell or otherwise convert the securities to cash in accordance with the Public Funds Collateral Act's events of default.
- f. For purposes of this Investment Policy, collateral eligible to be pledged to secure District deposits at the District's depository financial institution shall be in accordance with the Act and limited to:
  - (1) Direct obligations of the United States government, its agencies or instrumentalities, excluding letters of credit; and
  - (2) Direct obligations backed by the full faith and credit of the United States government;
  - (3) Municipal and state obligations rated A or better by two nationally recognized rating agencies.
- g. The depository financial institution shall maintain a separate, accurate, and complete record relating to a pledged investment security, a deposit of demand or time deposit funds (including accrued

interest), and a transaction related to a pledged investment security.

2. All collateral and related information shall be subject to examination, verification and audit by the District or its agents (including its independent auditors) at any reasonable time.
3. The collateral pledged shall be reviewed at least monthly by the District's investment officers.
4. As a part of its independent annual audit, the District's auditor shall examine and verify pledged investment securities and its market value and records maintained and report any significant or material noncompliance with the Investment Policy to the Board. Such report shall be prepared in conjunction with the independent auditor's annual report to the Board.
5. The pledging financial institution shall be responsible for monitoring and maintaining the margins at all times.

I. MONITORING MARKET PRICES

On at least a monthly basis, the investment officers shall obtain the market price of owned securities investments using financial periodicals (i.e., Wall Street Journal, etc.), on-line investment monitoring services, and/or other market information sources. Market prices will be used to establish market value.



## GLOSSARY OF COMMON TREASURY TERMS

**Agencies:** Federal agency securities.

**Asked Price:** The price at which securities are purchased by the District. The opposite of a bid.

**Basis Point:** Equal to 1/100 of one percent to measure price and yield. If interest rates rise 0.25%, the difference is referred to as an increase of 25 basis points.

**Bid:** The price at which the District sells a security. The opposite of an offer.

**Book Value:** The value of a security owned by the District equal to the purchase cost plus/minus the net of amortization/accretion.

**Broker:** An individual or firm who brings buyers and sellers together. In the money markets, all prices for securities are net priced reflecting all costs.

**Certificate of Deposit – Depository (CD):** Notes issued by banks that guarantee payment of a fixed interest rate until a future date (the maturity date) which are FDIC-insured up to \$250,000.

**Certificate of Deposit – Brokered:** Securities issued by a bank as certificates of deposit but securitized by the bank and sold on the open market by brokers. Brokered CDs are securities and have additional risk/control elements to be addressed, such as safekeeping. Only FDIC-insured brokered CDs safe kept by the District's safekeeping agent are authorized for purchase by the District.

**Collateral:** Securities pledged to the District for time and demand deposits over FDIC insurance coverage.

**Commercial Paper:** An unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The maximum for commercial paper is 270 days, but most is sold with maturities of up to 90 days. The credit risk is rated by nationally recognized rating agencies.

**Coupon:** A certificate attached to any security with an original maturity over one year evidencing interest due semi-annually. (Coupon rate \* face amount)

**Custodial Agreement:** A written contract establishing the responsibilities of a custodian who holds collateral for deposits or securities.

**Dealer:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account. A firm that has an inventory and can sell securities.

**Debenture:** A bond secured only by the general credit of the issuer.

**Delivery versus Payment (DVP):** There are two methods of delivery of securities: Delivery versus payment and delivery versus receipt (DVR) (also called free).

- (a) Delivery versus payment means delivery of securities with an exchange of money for the securities.
- (b) Delivery versus receipt means delivery of securities with an exchange of a signed receipt for the securities.

**Depository Insurance:** Insurance on deposits with financial institutions. FDIC and some state governments provide this insurance.

**Deposits:** In the context of required note disclosures, cash and near cash items placed on account with a financial institution or fiscal agent. Some deposits (e.g., checking accounts) are subject to withdrawal on demand without notice or penalty (demand deposits) and others (e.g., CDs) can only be withdrawn without penalty upon completion of a fixed period (time deposits).

**Discount:** The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**Discount Securities:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value; for example, U.S. Treasury bills.

**Federal Deposit Insurance Corporation (FDIC):** A federal agency that insures deposits of federally chartered banks, currently up to \$250,000 per deposit.

**Federal Reserve System:** The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 regional banks, and about 5,700 commercial banks that are members of the system.

**Fixed-Income Securities:** Securities with a set interest rate for the life of the security.

**Governmental Accounting Standards Board (GASB):** The authoritative accounting and financial reporting standard-setting body for government entities.

**Interest Rate Risk:** The degree of uncertainty in the prices of securities associated with changes in interest rates; the value of the securities moves in inverse relation to interest rates. This term is generally associated with bond prices, but applies to all investments.

**Investment Risk:** Any of several risks incurred when making investments. Examples include credit risk, market risk, reinvestment risk, and volatility risk.

**Letters of Credit:** A financial institution's written guarantee of a customer's drafts, up to a specified amount, for a certain period of time.

**Liquidity:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable quantities can be purchased at those quotes.

**Local Government Investment Pool (LGIP):** The aggregate of funds from political subdivisions participating in a commingled investment vehicle for investment and reinvestment.

**Margin:** A percentage above market value used to protect against fluctuations in market value.

**Market Risk:** Risk coming from price fluctuations for a whole market, for an entire industrial group, or for a particular security, as a result of factors such as economic, political, or social events.

**Market Value:** The price at which a security could presumably be purchased or sold.

**Master Repurchase Agreement:** A written agreement between the investor and the financial institution or dealer. The Bond Market Association Master Agreement is the standard for this agreement.

**Maturity:** The final stated date on which the principal or stated value of an investment becomes due and payable.

**Money Market:** The market in which short-term debt instruments (bills, commercial paper, banker's acceptances, etc) are issued and traded.

**Money Market Mutual Funds:** A defined SEC registered commingled investment security which strives to maintain a net asset value of \$1 at all times and provides daily liquidity

**Mortgage-Backed Securities (MBS):** Securities created from pools of home mortgages that pay the investor as principal and interest is paid by the home-owner. These securities are highly volatile because they are directly affected by economic conditions and mortgage rates. Some MBS pools are further divided into separate securities called collateralized mortgage obligations (CMO) each of which has unique and often complex risk profiles.

**Par Value:** The face value of the security.

**Portfolio:** Collection of securities held by an investor.

**Premium:** The excess of the price of a security over its face value, excluding any amount of accrued interest bought or sold.

**Primary Dealer:** Government securities dealers included in the "List of Government Securities Dealers Reporting to the Market Reports Division of the Federal Reserve Bank of New York (N.Y.

Fed)” that submit daily reports of market activity and positions and monthly financial statements to the N.Y. Fed and are subject to its informal oversight. Primary dealers include SEC-registered securities brokers-dealers, banks and a few unregulated firms.

**Principal:** In the context of bonds other than deep-discount debt, the face value or par value of a bond or issue of bonds payable on the stated dates of maturity.

**Ratings:** An evaluation of credit-worthiness performed by an independent rating service.

**Repurchase Agreement (RP or REPO):** A buy-sell transaction in which an entity buys securities for a specified period and the seller agrees to repurchase the securities plus interest.

**Safekeeping:** A service including clearing, safekeeping and income distribution rendered by banks for a fee whereby securities and valuables of all types and descriptions are held on the record of the bank.

**Secondary Market:** A market in which securities are traded after initial distribution by the issuer.

**Securities:** A negotiable or nonnegotiable instrument that signifies an ownership interest, the right to an ownership interest or creditor status.

**U.S. Treasury Securities:** Securities issued by the U.S. Treasury and secured by the taxing ability of the U.S. These securities are highly liquid.

**Weighted Average Maturity (WAM):** WAM refers to the weighted average maturity of all positions in a portfolio.

**Yield:** The rate of annual income return on an investment, expressed as a percentage.

**ATTACHMENT "A"**

**STATEMENT OF  
PERSONAL BUSINESS RELATIONSHIP**

I, \_\_\_\_\_, am an investment officer for the Nueces County Hospital District (the "Hospital District").

I have a personal business relationship (as defined by the Hospital District's Investment Policy) with \_\_\_\_\_, a business entity offering to engage in an investment transaction with the Hospital District. This business organization is \_\_\_\_\_  
\_\_\_\_\_. I (or name of relative and relationship)  
\_\_\_\_\_ (insert name of relative or describe relationship) have/has a personal business relationship with this business organization for the following reasons: (Designate all which are applicable):

- 1) My/his/her ownership of 1% or more of the voting stock or shares of the business organization;
- 2) My/his/her ownership of \$250 or more of the fair market value of the business organization;
- 3) Funds received from the business organization exceed 1% of my/his/her income for the previous year;
- 4) During the previous year I/he/she acquired from the business organization investment with a book value of \$100 or more for my/his/her personal account.

Signed this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Title

**ATTACHMENT "B"**

**NUECES COUNTY HOSPITAL DISTRICT  
BROKER/DEALER QUESTIONNAIRE**

**Page 1 – To be completed by all banks and broker/dealers**

Name of Firm: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

Ownership/affiliation, if appropriate: \_\_\_\_\_

Primary representative on account: \_\_\_\_\_

Telephone: \_\_\_\_\_

Fax: \_\_\_\_\_

E-Mail: \_\_\_\_\_

Backup representative or trading assistant: \_\_\_\_\_

Telephone: \_\_\_\_\_

Branch Manager: \_\_\_\_\_

Telephone: \_\_\_\_\_

Fax: \_\_\_\_\_

E-Mail: \_\_\_\_\_

Is the firm designated as a Primary Dealer by the Federal Reserve? \_\_\_\_\_

Is the firm registered with the Texas Securities Board? \_\_\_\_\_

Are the firm and its representative registered with the NASD? \_\_\_\_\_

CRD Number: \_\_\_\_\_

How long has the designated representative been an institutional fixed income broker at this firm?  
\_\_\_\_\_ A broker? \_\_\_\_\_

In what market sectors does the primary account representative specialize? \_\_\_\_\_  
\_\_\_\_\_

Delivery Instructions:

**All transactions shall be completed delivery versus payment.**



**BROKER/DEALER QUESTIONNAIRE**

**Page 2 – To be completed only by Non-Primary Dealers**

Name of Firm: \_\_\_\_\_ CRD #: \_\_\_\_\_

Years in business at this location: \_\_\_\_\_ Total years: \_\_\_\_\_

Indicate the approximate sales volume in the following sectors for the previous year.

U.S. Treasuries	_____
Repo	_____
U.S. Agencies	_____
MBS	_____
CP	_____
Other?	_____

Has your firm, or this account representative, been subject to a regulatory agency, state of \_\_\_\_\_, or federal investigation for alleged improper, disreputable, unfair, (or) fraudulent activities related to the sale of securities or money market instruments in the past five years? Are there any outstanding claims? If yes, please explain.

Please attach a sample of your standard confirmation to be provided to clients.

Please provide the firm's most recent audited financial statements.  
(This will be required annually)

What portfolio information do you require from your clients?

What market information do you routinely offer your clients?

**CERTIFICATE FOR RESOLUTION**

**A RESOLUTION RELATING TO ANNUAL REVIEW AND  
ADOPTION OF INVESTMENT POLICY AND INVESTMENT STRATEGIES**

THE STATE OF TEXAS     §  
                                          §  
COUNTY OF NUECES     §

I the undersigned Secretary of the Board of Managers of the Nueces County Hospital District, hereby attest as follows:

1. The Board of Managers of said District convened in regular meeting on the 26<sup>th</sup> day of July 2022, at the regular meeting place, and the roll was called of the duly constituted officers and members of said Board of Managers, to wit:

Daniel W. Dain, Chairman  
Sylvia Tryon Oliver, Vice-Chairman  
Belinda Flores, RN  
Vishnu V. Reddy, M.D.  
John E. Valls  
Mariana Garza, J.D.  
Efrain Guerrero, Jr.

and all of said persons were present, except the following absentees: \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_ thus constituting a quorum. Whereupon, among other business, the following was transacted at said Meeting: A written

**A RESOLUTION RELATING TO ANNUAL REVIEW AND  
ADOPTION OF INVESTMENT POLICY AND INVESTMENT STRATEGIES**

was introduced for the consideration of said District and read in full. It was then duly moved and seconded that said Resolution be passed, and, after due discussion, said motion, carrying with it the passage of said Resolution, prevailed, and carried by the following vote:

YEAS: \_\_\_\_\_  
NAYS: \_\_\_\_\_  
PRESENT NOT VOTING: \_\_\_\_\_  
ABSENT: \_\_\_\_\_

2. That a true, full and correct copy of the aforesaid Resolution passed at the meeting described in the above and forgoing paragraph is attached to and follows this Certificate; that said Resolution has been duly recorded in the minutes of said Meeting; that the above and forgoing paragraph is a true, full, and correct excerpt from the minutes of said Meeting pertaining to and passage of said Resolution; that the persons named in the above and forgoing paragraph are the duly appointed, qualified, and acting members of the Board of Managers of said District as indicated therein; that each of the members of the Board of Managers of said District was duly and sufficiently notified officially and personally, in advance, of the time, place, and purpose of aforesaid Meeting, and that said Resolution would be introduced and considered for passage at said Meeting, and that each of said members consented, in advance, to holding of said Meeting for such purpose; and that said Meeting was open to the public, and public notice of the date, time, place, and purpose of said Meeting was given all as required by Texas Government Code, §551.001 et.seq.

SIGNED AND SEALED THIS 26<sup>th</sup> day of July 2022.

**ATTEST:**

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Jonny F. Hipp  
Secretary, Board of Managers  
Nueces County Hospital District

{SEAL}