



## INVESTMENT POLICY

Effective Date: October 15, 2021

### POLICY AT A GLANCE

PEC is committed to upholding our Value of **Accountability** by putting effective cash management as the foundation of this Policy, with protection of principal paramount. PEC's investments will be made in accordance with applicable laws, Board-Level policies, the PEC Master Indenture, any applicable Credit Agreements (as defined in the Master Indenture), and other agreements and arrangements with third parties that may be applicable from time to time.

### INVESTMENT OBJECTIVES



## 1. PURPOSE

The purpose of the Investment Policy (“Policy”) is to state the objectives and guidelines for investing Pedernales Electric Cooperative, Inc. (“PEC” or “Cooperative”) funds, and defines the types of investments in which PEC may invest. The Policy also applies to activity involving PEC funds where investment is subject to the provisions of PEC’s Master Indenture of Trust dated January 1, 1993, as amended or supplemented by Supplemental Indentures from time to time (collectively, the “Master Indenture”) or other Credit Agreements (as defined in the Master Indenture) and PEC monies in accounts not established or governed by the Master Indenture.

## 2. SCOPE

This Policy applies to the Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”), the Board of Directors (“Board”), the Investment Committee (as applicable), and any other employee or party authorized under this Policy to act on behalf of PEC in use of PEC resources.

This Policy does not apply to the Pedernales Electric Cooperative, Inc. Employees’ Defined Benefit Retirement Plan or the Pedernales Electric Cooperative, Inc. Employees’ 401(k) Savings Plan, which are each managed separately by Plan Administrators appointed by the Plan Sponsors.

## 3. POLICY AND IMPLEMENTATION

### 3.1. Responsibilities

- 3.1.1. The CEO and the CFO, or their designee(s), is/are responsible for implementing this Policy and preparing reports to the Board regularly and as requested. Management will maintain safekeeping procedures to protect against potential loss or misapplication of investments.

### 3.2. Investment Objectives

- 3.2.1. The PEC investment portfolio will be managed primarily to be consistent with state law, PEC’s [Articles of Incorporation](#) and [Bylaws](#), and to take advantage of investment interest as a source of income for all funds. When investing PEC funds, the CEO and CFO, or designee(s), shall utilize the following objectives:
  - 3.2.1.1. Suitability - PEC will ensure the suitability of the investment to PEC’s financial requirements.
  - 3.2.1.2. Safety - PEC will give priority to ensuring the preservation and safety of principal.
  - 3.2.1.3. Liquidity - PEC will maintain sufficient liquidity to provide adequate and timely availability of funds necessary to pay obligations as they become due.
  - 3.2.1.4. Marketability - PEC will consider its ability to liquidate an investment prior to maturity.
  - 3.2.1.5. Diversification - PEC will diversify its investments on the basis of maturity, type of instruments, financial institutions, and securities firms.
  - 3.2.1.6. Return on Investment - PEC will optimize return on investments within the constraints of safety and liquidity.



- 3.2.1.7. Maturity - PEC will invest its funds in maturities sufficiently diverse and, in consideration of maximum maturity limits, to achieve safety of principal and adequate liquidity.

### 3.3. Standard of Care

- 3.3.1. The prudent investor rule will be applied to all investment decision processes. All persons involved in the investment of PEC funds shall act responsibly as stewards of PEC resources. PEC investment decisions will be made using the exercise of judgment and care under the circumstances then prevailing, that persons of prudence, discretion, and the intelligent exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital.

### 3.4. Authorized Instruments

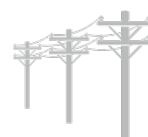
- 3.4.1. PEC shall purchase only those investment instruments authorized under this Policy.
- 3.4.2. For corporate funds not governed by the Master Indenture, the investment instruments shall include:
- 3.4.2.1. Obligations of the United States or its agencies and instrumentalities.
  - 3.4.2.2. No load equity mutual funds rated four-star or better by Morningstar Rating Services.
  - 3.4.2.3. Corporate bonds, notes, or other evidence of indebtedness with long-term ratings of at least “AA-” by Fitch or Standard & Poor’s, or “Aa3” by Moody’s Investor Service, and short-term ratings of at least “F1” by Fitch, “A-1” by Standard & Poor’s, or “P-1” by Moody’s Investor Service.
  - 3.4.2.4. JPMorgan Prime Money Market Fund, Class: Capital Share Class, Ticker: CJPXX.
  - 3.4.2.5. Equity investments in other cooperatives.
  - 3.4.2.6. Investments in National Rural Utilities Cooperative Finance Corporation.
- 3.4.3. For corporate funds governed by the Master Indenture, such obligations as permitted under the Master Indenture.

### 3.5. Disclosure

- 3.5.1. The CEO, CFO, Board, Investment Committee (if applicable) and any other party authorized under this Policy to act on behalf of PEC shall file any report disclosing a personal business interest or relationship with any Investment Advisor or as may be otherwise necessary in accordance with the Conflict of Interest Policy.

## 4. DEFINITIONS

- 4.1. **Investment Advisor** – The Board may choose an investment advisor to provide services including, among other things, development of investment benchmarks for performance, maturity horizon review, assistance in broker/dealer selection, etc.
- 4.2. **Investment Committee** – The Board may choose to establish an Investment Committee that is composed of at least three PEC management employees. The purpose of the



Investment Committee will be to review the Policy and investment objectives and guidelines, evaluate investment advisors, and recommend changes where appropriate.

## 5. POLICY ENFORCEMENT

The Board, CEO, and CFO will enforce this Policy. Violation of this Policy may result in disciplinary action, up to and including, termination.

## 6. REFERENCES AND RELATED DOCUMENTS

[Chapter 161, Texas Utilities Code](#)

[PEC Bylaws](#)

[PEC Articles of Incorporation](#)

[Authority and Responsibilities Policy](#)

[Conflict of Interest Policy – Board of Directors](#)

Defined Benefit Plan Funding Policy

Date adopted:	March 20, 2006
Last reviewed:	August 9, 2021
Review frequency:	Every five years
Amendment dates:	January 17, 2017
Effective date:	October 15, 2021
Approver:	Board of Directors
Applies to:	CEO, CFO, the Board of Directors, the Investment Committee (as applicable), and any other employee or party authorized under this Policy to act on behalf of PEC in use of PEC resources
Administrator:	Chief Financial Officer
Superseding effect:	This Policy supersedes all previous policies and memoranda concerning the subject matter. Only the Approver may authorize exceptions to this Policy.

