



**THE PORT OF
VIRGINIA®**

Virginia Port Authority

Statement of Investment Policy

Effective April 1, 2021

Adopted by the Virginia Port Authority
Board of Commissioners on March 23, 2021

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GLOSSARY

VIRGINIA PORT AUTHORITY STATEMENT OF INVESTMENT POLICY

A. INTRODUCTION

The intent of the Investment Policy of Virginia Port Authority (“VPA” or “the Authority”) is to define the parameters within which certain operating and bond-related funds are to be managed. This policy formalizes the framework for the Authority’s investment activities that must be exercised to ensure effective and judicious fiscal and investment management of the Authority’s funds. The guidelines are intended to be broad enough to allow the Authority’s investment program to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

B. GOVERNING AUTHORITY

The Virginia Port Authority is a political subdivision of the Commonwealth of Virginia created under §62.1-128 et seq. of the Code of Virginia. The investment program shall be operated in conformance with federal, state, and other legal requirements, including the provisions of any applicable bond resolutions, the Amended and Restated Bylaws of the Virginia Port Authority (the “Bylaws”), the Authority’s Investment Policy (the “Policy”), Security for Public Deposits Act (“SPDA”; §2.2-4400 et seq.) and Investment of Public Funds Act (§2.2-4500 et seq.), which governs the investment of public funds. In the event of a conflict between this Policy and the Code of Virginia, the Code of Virginia will always apply, and this Policy may establish guidelines that are more restrictive than those imposed by the Code of Virginia.

C. SCOPE

This Policy applies to activities of the Virginia Port Authority with regard to investing the financial assets of all funds. These funds include, but are not limited to, all operating funds, the Revenue Stabilization Fund, the Residual Fund, and any new funds created by the Authority, unless specifically exempted by the Board of Commissioners of the Virginia Port Authority (the “Board”) and this Policy.

Any excluded funds such as employee retirement funds, proceeds from certain bond issues and grant funds are covered by separate policies.

Except for funds in certain restricted and special funds, the Authority can commingle its funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

Section K of this Policy will govern the investments belonging to the Authority’s subsidiaries.

D. OBJECTIVES

The primary objectives, in priority order, of VPA’s investment activities shall be:

Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

Return

The investment portfolio shall be designed with the objective of attaining a reasonable market rate of return throughout economic cycles, taking into account the nature of funds being invested and the previously stated priorities of safety and liquidity.

E. DELEGATION OF AUTHORITY

Section 3.3.5 of the Bylaws authorizes the Treasurer to the Board (the “Investment Officer”) to manage the investments of the Authority. The Investment Officer shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. The Investment Officer may delegate day-to-day responsibility for management of the investment program to internal staff member(s) and/or to external investment manager(s).

Section 3.10.2 of the Bylaws grants authority to approve all depositories used by the Authority to the Finance and Audit Committee of the Board. The Investment Officer shall evaluate financial institutions to provide depository services to the Authority and recommend depositories to the Finance and Audit Committee. Whether or not a bank is an approved depository (a “Depository”) by the Finance and Audit Committee, the Investment Officer is permitted to use investment products (e.g., bank CDs) offered by any such banks, provided such investments meet the investment parameters otherwise outlined in this policy.

Pursuant to the Agreement for Shared Services dated August 8, 2014 between VPA and its subsidiaries, responsibility for all Accounting and Finance functions, including investment of the funds of VPA’s subsidiaries, is delegated to VPA.

The Investment Officer will report quarterly to the Finance and Audit Committee of the Board regarding the investment program. If the Finance and Audit Committee so chooses, it may delegate responsibility for reviewing the investment program to a subcommittee.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

F. STANDARD OF PRUDENCE

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal liability for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. The “prudent person” standard states that:

“Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

In accordance with §2.2-4516 of the Code of Virginia, when investments are made in accordance with the Investment of Public Funds Act §2.2-4500 et seq., the Investment Officer shall not be liable for any loss therefrom in the absence of negligence, malfeasance, misfeasance, or nonfeasance on his part or on the part of his assistants or employees.

Furthermore, in accordance with §2.2-4410 et seq. of the Code of Virginia, the Investment Officer shall not be liable for loss of public money due to the default, failure or insolvency of a depository.

G. ETHICS AND CONFLICTS OF INTEREST

The Investment Officer and any VPA staff involved in the cash management and investment processes shall comply with the Code of Virginia Section §2.2-3100 et seq., the State and Local Government Conflict of Interests Act. Specifically, no staff shall:

1. accept any money, loan, gift, favor, service, or business or professional opportunity that reasonably tends to influence him in the performance of his official duties; or
2. accept any business or professional opportunity when he knows there is a reasonable likelihood that the opportunity is being afforded to influence him in the performance of his official duties.

The Investment Officer and VPA staff shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

H. INTERNAL CONTROLS

Management shall establish a system of internal controls with regards to its investment activities, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Authority.

I. AUTHORIZED INVESTMENTS

Subject to applicable state laws, federal laws, bond resolutions, and when required, action by the Authority's Board of Commissioners, VPA's investment portfolio may be invested in the following Authorized Investments within the investment parameters described in Section J. The Investment Officer may, but shall not be obligated to, impose additional requirements and restrictions to ensure that VPA's goals are met.

Code of Virginia §2.2-4500 et seq. describes certain permitted investments for qualified public entities ("QPEs"), defined by §2.2-4511 as "any state agency, institution of the Commonwealth or statewide authority created under the laws of the Commonwealth having an internal or external public funds manager with professional investment management capabilities." So long as VPA has an internal or external public funds manager with professional investment management capabilities, VPA qualifies as a QPE.

1. **U.S. Treasury Obligations.** Bills, notes and any other obligation or securities issued by or backed by the full faith and credit of the United States Government, as described by Code of Virginia §2.2-4501.
2. **Federal Agency/Government Sponsored Enterprise Obligations.** Bonds, notes and other obligations issued by any federal government agency or

instrumentality or government sponsored enterprise, as described by Code of Virginia §2.2-4501.

3. **U.S. Dollar Denominated Supranational Agency Bonds.** Bonds and other obligations issued, guaranteed or assumed by the International Bank for Reconstruction and Development, by the Asian Development Bank or by the African Development Bank, as described by Code of Virginia §2.2-4501.
4. **Municipal Obligations.** Bonds, notes and any other obligation of a state or municipal government, upon which there is no default, and which otherwise meet the requirements of Code of Virginia §2.2-4501.
5. **Commercial Paper.** “Prime quality” commercial paper, issued by corporations organized and operating under the laws of the United States or any state thereof, and otherwise meeting the requirements of Code of Virginia §2.2-4502.
6. **Bankers’ Acceptances.** Issued by domestic banks or a federally chartered office of a foreign bank, which are eligible for purchase by the Federal Reserve System, as described by Code of Virginia §2.2-4504.
7. **Corporate Notes.** Unsecured promissory notes issued by corporations, and otherwise meeting the requirements of Code of Virginia §2.2-4510.
8. **Negotiable Certificates of Deposit and Bank Deposit Notes.** Negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks, and otherwise meeting the requirements of Code of Virginia §2.2-4509.
9. **Bank Deposits and Non-Negotiable Certificates of Deposit.** Demand deposits, time deposits, and other deposits that comply with all aspects of SPDA and with §2.2-4518.
10. **Asset-Backed Securities (“ABS”).** Securities whose principal and income payments are derived from and collateralized by a specific pool of underlying assets, and otherwise meeting the requirements of Code of Virginia §2.2-4511.
11. **Repurchase Agreements.** Repurchase agreements meeting the requirements of Code of Virginia §2.2-4507 and the conditions stated below:
 - a. the contract is fully secured by deliverable U.S. Treasury and Federal Agency/Government Sponsored Enterprise obligations as described in paragraphs 1 and 2 above, having a market value at all times of at least one hundred and two percent (102%) of the amount of the contract;
 - b. a Master Repurchase Agreement or specific written Repurchase Agreement governs the transaction;
 - c. the securities are free and clear of any lien and held by an independent third party custodian acting solely as agent for VPA, provided such third party is not the seller under the repurchase agreement;
 - d. a perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of VPA;
 - e. the counterparty is a:
 - i. primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
 - ii. a bank, savings and loan association, or diversified securities broker-dealer having at least \$5 billion in assets and \$500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and
 - f. the counterparty meets the following criteria:

- i. a long-term credit rating of at least ‘AA’ or the equivalent from a Nationally Recognized Statistical Ratings Organization (“NRSRO”), and
- ii. has been in operation for at least 5 years.

12. **Money Market Mutual Funds (Open-Ended Investment Funds).** Shares in open-end, no-load investment funds provided such funds are registered under the Investment Company Act of 1940. The mutual fund must comply with all requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission, provided the investments by such funds are restricted to investments otherwise permitted by the Code of Virginia for political sub-divisions, as described by Code of Virginia §2.2-4508.

13. **Pools.** Pooled investment programs provided that the underlying investments by such funds are restricted to investments otherwise permitted by the Code of Virginia for political sub-divisions, as described by Code of Virginia §2.2-4513.1. The Authority can invest in two different types of Pools:

- a. **Principal Stability Pools.** Pools that operate in compliance with the Government Accounting Standard Board’s Statement 79 (“GASB 79”), which maintain a weighted average maturity of less than 60 days and whose primary objective is to maintain a stable net asset value; and
- b. **Bond Funds.** Pools that may have a longer average maturity than principal stability pools and a fluctuating net asset value.

J. INVESTMENT PARAMETERS

Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. It is the policy of the Virginia Port Authority to perform independent credit analysis on any corporate or municipal issuers held in VPA’s portfolio. Such analysis will be performed prior to the purchase of any corporate or municipal security and on an ongoing basis as long as such security is held in the portfolio. VPA will also diversify its investment portfolios to minimize risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities.

Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The Authority recognizes that, over time, longer-term/core portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The Authority further recognizes that certain types of securities, including variable rate securities, securities with principal pay downs prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The Authority shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

Maximum Maturity

Maintenance of adequate liquidity to meet the cash flow needs of VPA is essential. Accordingly, the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements of VPA.

The Authority's investment portfolio will be invested in permitted investments with a stated maturity of no more than five (5) years from the transaction settlement date (with the exception of Agency Mortgage-Backed Securities and Asset-Backed Securities which must have a weighted average life (WAL) of no more than five (5) years). To control the volatility of the portfolio, the Investment Officer will determine a duration target, not to exceed three (3) years.

Diversification Parameters

The following diversification parameters have been established and will be reviewed periodically by the Investment Officer for all funds. The Investment Officer may choose to implement limitations that are more restrictive than these parameters if he deems it prudent to do so. The diversification parameters will be applied across all of the Authority's investments governed by this policy, not at the individual fund level.

Permitted Investment	Sector Limit	Issuer Limit	Minimum Ratings Requirement^{1,2}	Max Maturity³
U.S. Treasury Obligations	100%	100%	N/A	5 Years
Federal Agency/GSE Obligations	75%	40%	Same as or higher than the U.S. Federal Government	5 Years
Agency Mortgage-Backed Securities	30%	30%	Same as or higher than the U.S. Federal Government	WAL of 5 Years
Supranationals	30%	5%	Same as or higher than the U.S. Federal Government	5 Years
Municipal Obligations	20%	5%	AA by at least one NRSRO	5 Years
Commercial Paper	35%	5%	At least two of the following: A-1 (S&P), P-1(Moody's), or F-1(Fitch)	270 Days
Bankers' Acceptances	30%	5%	A-1 or equivalent by an NRSRO	180 Days
Corporate Notes	35%	5%	<i>At least two of the following: A (S&P), A (Moody's) or A (Fitch).</i>	5 Years
Negotiable Certificates of Deposit and Bank Deposit Notes	35%	5%	At least two of the following: A-1 (S&P), P-1 (Moody's) or F1 (Fitch) if less than one year to maturity; at least two of the following: AA (S&P),Aa (Moody's) or AA (Fitch) if greater than one year to maturity	5 Years
Bank Deposits and Non-Negotiable Certificates of Deposit ⁴	100%	100%	Collateralized in accordance with the SPDA	N/A
Asset-Backed Securities	20%	5%	AAA or equivalent by two NRSROs, one of which must be either S&P,Moody's or Fitch	WAL of 5 Years
Repurchase Agreements	25%	25%	N/A	90 Days
Money Market Mutual Funds	100%	25%	AAAm or equivalent by an NRSRO	N/A
Principal Stability Pools	100%	25%	AAAm or equivalent by an NRSRO	N/A
Bond Funds	100%	25%	AAf or equivalent by an NRSRO	Maximum duration of 3 years

1. Ratings by a Nationally Recognized Statistical Ratings Organizations (“NRSRO”) as designated by the SEC without regards to rating modifiers.
2. At time of purchase
3. From transaction settlement date
4. Whether or not a bank is an approved Depository by the Finance & Audit Committee, the Investment Officer is permitted to use investment products (e.g., bank CDs) offered by any such banks, provided such investments meet the investment parameters otherwise outlined in this policy.

K. INVESTMENTS OF THE AUTHORITY’S SUBSIDIARIES

Authorized Investments

Investment holdings allocated to the Authority’s subsidiaries may be invested in the following Authorized Investments within the investment parameters described below. The Investment Officer may, but shall not be obligated to, impose additional requirements and restrictions to ensure that VPA’s goals are met.

1. **Bank Deposits.** Demand deposits and other overnight deposit vehicles.
2. **Repurchase Agreements.** Overnight repurchase agreements meeting the conditions described in Section I Paragraph 11 of this Policy.
3. **Money Market Mutual Funds (Open-Ended Investment Funds).** Shares in open-end, no-load investment funds provided such funds are registered under the Investment Company Act of 1940. The mutual fund must comply with all requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission and maintain a stable net asset value.

Investment Parameters

The primary purpose of any investments of the Authority’s subsidiaries is to preserve principal and provide daily liquidity. As such, all investments will be limited to overnight vehicles. Because of the highly liquid nature of the authorized investments, sector and issuer limits will not apply to investments of the Authority’s subsidiaries.

L. SECURITY DOWNGRADES

If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the security must be sold within 30 calendar days, unless retention of the security is approved in writing by the Investment Officer. If VPA engages an external Investment Manager, the Investment Manager is required to notify the Investment Officer of a downgrade below the minimum rating level within 5 business days.

M. NON-COMPLIANCE WITH INVESTMENT POLICY

In the event of non-compliance with this Policy, the Investment Officer or other appropriate investment management staff will determine what course of action to take and notify the chair of the Finance and Audit Committee. The Finance and Audit Committee will review compliance concerns on a quarterly basis and, if unresolved at the time of the meeting, determine whether to grant an exception. If VPA engages an external Investment Manager, the Investment Manager will notify the Investment Officer immediately of any known compliance breach within this Policy or other investment related regulations governing the Virginia Port Authority. Written notification must follow within 5 business days.

N. COMPETITIVE TRANSACTIONS

The Authority has established the following procedures:

1. The Investment Officer or Investment Manager shall seek to obtain competitive bid information on all purchases of investment instruments purchased on the secondary market. A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.
2. If the Authority is offered a security for which there is no readily available competitive offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

O. INVESTMENT OF BOND PROCEEDS

VPA intends to comply with all applicable sections of the Internal Revenue Code relating to Arbitrage Rebate and the investment of bond proceeds. All investment records will be maintained to ensure compliance with all regulations. All bond proceeds will be invested in accordance with applicable bond resolutions.

P. COLLATERALIZATION OF BANK DEPOSITS

All bank deposits of the Authority should be considered Public Deposits as defined by Code of Virginia Security for Public Deposits Act (Section 2.2-4400 et seq.) and all deposits must be made with Qualified Public Depositories. There shall be no sector or issuer limit for properly insured or collateralized public deposits, or deposits made in accordance with Code of Virginia 2.2-4518.

Q. ENGAGEMENT OF INVESTMENT MANAGERS

VPA may engage one or more qualified firms registered under the Investment Advisers Act of 1940 to provide investment management services. All investment management firms engaged by VPA will be provided with a current copy of the Investment Policy. Before an organization can provide investment services to VPA, it must confirm in writing that it has reviewed the Investment Policy and will not purchase for VPA any security that, at the time of purchase, is in conflict with the Policy.

If VPA engages external investment managers, the selection process should include:

1. Confirmation that the investment manager meets minimum requirements, including registration with the Securities and Exchange Commission under the Investment Advisers Act of 1940 and registration to conduct business in the Commonwealth of Virginia;
2. Review of the investment manager's Form ADV, Part II; and
3. Consideration of the following criteria:
 - a. The investment manager's understanding of VPA's investment program, objectives and constraints
 - b. The investment manager's background and experience of individuals assigned to the account
 - c. Fees

Any firm engaged by VPA to provide investment services shall:

1. Maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the Commonwealth of Virginia;
2. Provide monthly reports of transactions and holdings to the Investment Officer;

3. Provide quarterly performance reports that display investment performance in comparison to VPA's investment benchmarks;
4. Upon request, show that it has solicited at least three bids for any security purchased or sold on behalf of VPA; and
5. Not collect any soft dollar fees from any broker/dealer or other financial firm in relation to services provided to VPA.

R. AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS

A list will be maintained of approved security broker/dealers selected by conducting a process of due diligence.

Institutions eligible to transact investment business with the Authority may include:

1. Primary government dealers as designated by the Federal Reserve Bank;
2. Nationally or state-chartered banks;
3. The Federal Reserve Bank; and
4. Direct issuers of securities eligible for purchase

All financial institutions who desire to serve as broker/dealers and conduct investment transactions with VPA must supply the following (as appropriate):

1. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
2. Proof of FINRA certification
3. Proof of State Registration
4. Evidence of adequate insurance coverage
5. Certification of having read and understood and agreeing to comply with the Authority investment policy

If the Authority hires an external investment manager to provide investment management services, the investment manager will be responsible for selecting qualified broker/dealers on behalf of the Authority.

S. SAFEKEEPING AND CUSTODY

Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the Authority's safekeeping institution prior to the release of funds.

Third-Party Custody

Securities will be held by an independent third-party custody bank selected by the Authority. All securities will be evidenced by safekeeping receipts in the Authority's name. The custody bank shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011.)

T. RECORDS AND REPORTS

The Investment Officer shall prepare an investment report at least quarterly for the Finance and Audit Committee of the Board or to a subcommittee, if so designated. This report will provide an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter. This report will allow the Finance and Audit Committee to ascertain whether investment activities during the reporting

period have conformed to the Investment Policy. The report will include, at a minimum, the following:

1. Summary of relevant economic and capital markets information
2. Summary of portfolio's sector, maturity, and credit quality distribution
3. Confirmation that the portfolio is invested in compliance with the Code of Virginia and the Investment Policy
4. Summary of performance relative to established benchmarks

Additionally, staff and/or external investment manager(s) shall provide the Investment Officer with monthly and quarterly reports. These reports will include, at a minimum, the following:

1. An asset listing showing par value, cost and accurate and complete market value of each security, type of investment, issuer, and interest rate
2. Average maturity of the portfolio and effective duration of the portfolio
3. Maturity distribution of the portfolio
4. Average portfolio credit quality
5. Confirmation that the portfolio is invested in compliance with the Code of Virginia and the Investment Policy
6. Time-weighted total rate of return for the portfolio for the reporting period and trailing periods compared to the portfolio's benchmark returns for the same periods
7. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks
8. Distribution by type of investment
9. Performance relative to established benchmarks
10. Performance attribution analysis

U. PERFORMANCE STANDARDS

The investment portfolio will be managed in accordance with the parameters specified within this Policy. The Investment Officer shall establish investment performance benchmarks for the Authority that appropriately represent the use and objectives of the funds invested and are consistent with the investment parameters described in this Policy. The portfolio's performance against these benchmarks will be reviewed on a quarterly basis. Short-term funds and other funds that must maintain a high degree of liquidity will be compared to the return on the three-month U. S. Treasury Bill. Medium term investments and other funds that have a longer-term investment horizon will be compared to an index of U. S. Treasury securities having a similar duration or other appropriate benchmark comprised of the permitted security types and having a similar duration to VPA's portfolio.

V. POLICY CONSIDERATIONS

This policy shall be reviewed on an annual basis by the Investment Officer. Any changes must be approved by the Finance and Audit Committee and any other appropriate authority, as well as the individuals charged with maintaining internal controls.

W. INVESTMENT POLICY ADOPTION

This policy is enacted by the Virginia Port Authority, this 23rd day of March, 2021, and will become effective April 1, 2021.

Rodney W. Oliver

Rodney W. Oliver, Chief Financial Officer
Virginia Port Authority

Glossary of Terms

Bankers' Acceptance: a draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Benchmark: a comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Broker: brings buyers and sellers together for a commission.

Certificate of Deposit (CD): a time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

Collateral: securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Commercial Paper: An unsecured promissory note with a fixed maturity no longer than 270 days. Public offerings are exempt from SEC regulation.

Corporate Notes: Unsecured promissory notes issued by corporations to raise capital.
Dealer: acts as a principal in all transactions, buying and selling for his own account.

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

Delivery versus Payment: delivery of securities with an exchange of money for the securities. (See also "Delivery versus Receipt")

Delivery versus Receipt: delivery of securities with an exchange of a signed receipt for the securities. Also known as "free" delivery. (See also "Delivery versus Payment).

Diversification: allocation investment funds among a variety of securities offering independent returns.

Federal Agency: government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets, also referred to as Government Sponsored Enterprises or GSEs. The largest are Ginnie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Banks, Federal Farm Credit Bank, Tennessee Valley Authority.

Federal Funds: funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.

Federal Funds Rate: the rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open – market operations.

Liquidity: the ability of ease with which an asset can be converted 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 size can be transacted at those quotes.

Market Value: the price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: a written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

Maturity: the date upon which the principal or stated value of an investment becomes due and payable.

Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency which issues credit ratings that the U.S. Securities and Exchange Commission (the “SEC”) permits other financial firms to use for certain regulatory purposes. Several examples include Moody’s Investor Service, Standard & Poor’s and Fitch Ratings.

Portfolio: collection of securities held by an investor.

Primary Dealer: a group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Rate of Return: the yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (RP or REPO): an agreement under which the holder of securities sells these securities to an investor with a commitment to repurchase the securities at a fixed price on a fixed date. The security’s “buyer” in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

Safekeeping: a service rendered by banks for a fee whereby securities and valuables of all types and descriptions are held by the bank for protection.

SEC Rule 15C3-1: see “Uniform Net Capital Rule”.

Securities and Exchange Commission (“SEC”): agency created by Congress to protect investors in securities transactions by administering securities legislation.

Treasury Bills: a non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

Treasury Bonds: long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

Treasury Notes: medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

Yield: the rate of annual income return on an investment, expressed as a percentage. Income/current yield is obtained by dividing the current dollar income by the current market price for the security. Net yield or yield to maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.