

INVESTMENT POLICY

Effective September 1, 2017

OVERVIEW

This policy describes the parameters for investing government funds and identifies the investment objectives, preferences or tolerance for risk, constraints on the investment portfolio, and how the investment program will be managed and monitored. The document serves as a communication tool for staff, elected officials, the public, rating agencies, bondholders, and any other stakeholders on investment guidelines and priorities. An investment policy enhances the quality of decision making and demonstrates a commitment to the fiduciary care of public funds, making it the most important element in a public funds investment program.

I. Governing Authority

The investment program shall be operated in conformance with governing legislation and other legal requirements.

II. Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds if applicable.

- a. Pooling of Funds - Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all 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.

III. General Objectives

The primary objectives of investment activities shall be safety, liquidity, and return:

- SAFETY - Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.
 - a. Credit Risk - The City will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:
 - Limiting investments to the types of securities listed in Section VII of this Investment Policy.
 - Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with Section V.
 - Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

- b. Interest Rate Risk - The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
- Structuring the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
 - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with this policy (see section VIII).
- LIQUIDITY - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.
- RETURN - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:
- A security with declining credit may be sold early to minimize loss of principal;
 - Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
 - Unanticipated liquidity needs of the portfolio require that the security be sold.

IV. Standards of Care

1. Prudence

The standard of prudence to be used by investment officials shall be the "uniform prudent investor act" 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 responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process 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. Employees

and investment officials shall disclose any material interests in financial institutions with which they conduct business, in accordance with applicable laws. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

3. Delegation of Authority

Authority to manage the investment program is granted to the Finance Director. Responsibility for the operation of the investment program is hereby delegated to the Finance Director, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

V. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. *Authorized Financial Institutions, Depositories, and Broker/Dealers*

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness and/or other factors, such as FINRA broker check.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the City's investment policy.
- Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Finance Director.

VI. Safekeeping and Custody

1. *Delivery vs. Payment*

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible custody account prior to the release of funds.

2. *Safekeeping*

Securities will be held by an independent third-party custodian selected by the entity as with all securities held in the City's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. *Internal Controls*

The Finance Director shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed annually by the Budget Subcommittee, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, mis-representation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

VII. Suitable and Authorized Investments

1. *Investment Types* – The following investments will be permitted by this policy:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Certificates of deposit and other evidences of deposit at financial institutions,
- Bankers' acceptances;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
- Corporate Bonds;
- Obligations of state, provincial and local governments and public authorities rated A or better;
- Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation;
- Other investment types or asset classes as approved by the City Council.

Investment in derivatives of the above instruments shall require authorization by the City Council.

VIII. Investment Diversification & Constraints

1. *Diversification*

It is the policy of the City to diversify its investment portfolios. To eliminate risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all City's funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the Finance Director for all funds except for the employee retirement fund.

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

- Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.
- Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification and duration management.
- The investment committee/investment officer shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than repurchase agreements, Treasury bills or collateralized certificates of deposit. The committee shall conduct a quarterly review of these guidelines and evaluate the probability of market and default risk in various investment sectors as part of its considerations.

The following diversification limitations shall be imposed on the portfolio:

- **Maturity:** No more than xx percent of the portfolio may be invested beyond xx months, and the weighted average maturity of the portfolio shall never exceed xx years.
- **Default risk:** No more than xx percent of the overall portfolio may be invested in the securities of a single issuer, except for securities of the U.S. Treasury. No more than xx percent of the portfolio may be invested in each of the following categories of securities:
 - a) Commercial paper,
 - b) Negotiable certificates of deposit,
 - c) Bankers' acceptances,
 - d) Any other obligation that does not bear the full faith and credit of the United States government or which is not fully collateralized or insured and
- **Liquidity risk:** Based on liquidity needs, at least xx percent of the overall portfolio shall be invested in overnight instruments or in marketable securities which can be converted to cash within one day.

2. Maximum Maturities

To the extent possible, the [entity] shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the [entity] will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with governing legislation. The [entity] shall adopt weighted average maturity limitations consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be segregated into a long-term "core" investment portfolio and invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities

shall be disclosed in writing to the legislative body. (See the GFOA Recommended Practice on "Maturities of Investments in a Portfolio" in Appendix.)

3. *Competitive Bids*

The investment officer shall obtain competitive bids from at least three brokers or financial institutions on all purchases and sales of investment instruments transacted on the secondary market.

IX. Reporting

1. *Methods*

The investment officer shall prepare an investment report at least quarterly [*or monthly*], including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter [*or month*]. This management summary will be prepared in a manner which will allow the [entity] to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the entity's chief administrative officer, the legislative body, the investment committee and any pool participants. The report will include the following:

- Listing of individual securities held at the end of the reporting period including type, acquisition cost, book cost, and market value.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted return on investments as compared to applicable benchmarks.
- Percentage of the total portfolio which each type of investment represents.
- A statement that the investment portfolio is in compliance with the investment policy and is meeting the investment policy objectives

2. *Performance Standards*

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis. The benchmarks shall be reflective of the actual securities being purchased and risks undertaken, and the benchmarks shall have a similar weighted average maturity as the portfolio.

3. *Marking to Market*

The market value of the portfolio shall be calculated at least quarterly [*or monthly*] and a statement of the market value of the portfolio shall be issued at least quarterly [*or monthly*]. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." (See GFOA Recommended Practices in Appendix.) In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

X. Policy Considerations

1. Amendments

This policy shall be reviewed on an annual basis. Any changes must be submitted by the investment officer and approved by the investment oversight committee or authoritative body acting in such capacity.

XI. Approval of Investment Policy

The investment policy shall be formally approved and adopted by the governing body of the [entity] and reviewed annually.

XII. List of Attachments

The following documents, as applicable, are attached to this policy:

- Listing of authorized personnel;
- Relevant investment statutes and ordinances;
- Listing of authorized broker/dealers and financial institutions;
- Detailed listing of authorized investment classes, sectors, and types;
- Internal Controls;
- Glossary

XIII. Other Documentation

- Master Repurchase Agreement, other repurchase agreements and tri-party agreements,
- Broker/Dealer Questionnaire,
- Credit studies for securities purchased and financial institutions used,
- Safekeeping agreements,
- Wire transfer agreements,
- Sample investment reports,
- Methodology for calculating rate of return,