

INTRODUCED BY ALDERMAN TOBEN

RESOLUTION NO. 19-0681

A RESOLUTION APPROVING AN INVESTMENT POLICY FOR THE CITY OF MANCHESTER

WHEREAS, the City desires to approve a formal Investment Policy for the City of Manchester; and,

WHEREAS, the Director of Finance presented a Draft Investment Policy to the Audit and Finance Committee on May 15, 2019 for their review and consideration; and,

WHEREAS, the Audit and Finance Committee after review and discussion directed the Director of Finance to seek formal approval by Resolution with the Board of Aldermen at a regularly scheduled Board meeting.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF ALDERMEN OF THE CITY OF MANCHESTER, MISSOURI, AS FOLLOWS:

Section One: The Board of Aldermen hereby approves the Investment Policy attached hereto as Exhibit A and incorporated herein as the Investment Policy for the City of Manchester.

Section Two: This Resolution shall be in full force and effect from and after its passage and approval as provided by law.

PASSED AND APPROVED THIS 17TH DAY OF JUNE, 2019.

CITY OF MANCHESTER, MISSOURI

By John Clement
Mayor

ATTEST:

Bob Baker
City Clerk

APPROVED AS TO LEGAL FORM:

Erin Seale
City Attorney

1.1 - Investment Policy

Section 1. Purpose

The purpose of this Investment Policy is to set forth the investment policies and objectives of the City of Manchester, Missouri (the "City"). Recognizing that economic conditions and securities markets are in a constant state of flux, this statement will outline the overall goals and objectives that will guide the City's investments. With the understanding that investments in virtually all securities entail some degree of credit risk, interest rate risk, market risk, and/or timing risk, this policy will provide realistic risk parameters to guide the City toward long-term rate of return objectives, which will serve as standards for evaluating investment performance. The policy also will establish certain investment restrictions and will outline procedures for policy and performance review. A system for investment management oversight and controls will be implemented.

Section 2. Scope of Investments

The City has established this Investment Policy to apply to all financial assets of the City that are not required for the immediate, day-to-day needs of the City. This pertains to all City funds currently existing or anticipated, unless excluded by legal or contractual restrictions such as moneys established under bond indentures or funds received from other governmental entities as a fiduciary. Specifically excluded from this Investment Policy are the funds of the City of Manchester, 401 Pension Plan, whose investments are covered by a separate contract with ICMA Retirement Corporation and all funds are directed by the individual employee.

Section 3. Delegation of Authority

Authority to manage the investment program is granted to the City's Director of Finance, hereinafter referred to as the "Investment Officer," and is subject to the superintending control of the City Administrator,

Responsibility for the operation of the investment program is hereby delegated to the Investment Officer, who, with the advice and consent of the City Administrator and the Audit and Finance Committee, shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the investment activities of subordinate officials.

Section 4. General Objectives

The primary objectives, in order of priority, of investment activities of the City shall be safety, liquidity, and yield:

1. 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. The objective will be to mitigate credit risk and interest rate risk.

A. Credit Risk

The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business.
- Diversifying the portfolio so that potential losses on individual securities will be minimized.

B. Interest Rate Risk

The City will minimize interest rate risk; the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that securities mature to meet 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 or similar investment pools.

2. **LIQUIDITY** - The investment portfolio shall remain sufficiently liquid to enable the City 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). A portion of the portfolio also may be placed in local government investment pools, bank deposits or repurchase agreements that offer same-day liquidity for short-term funds.
3. **YIELD** - 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. Investment return is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Securities may not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- A security swap would improve the quality, yield or target duration in the portfolio;
- Liquidity needs of the portfolio require that the security be sold;
- Other extenuating circumstances requiring such a sale in the determination of the Investment Officer with the advice and consent of the City Administrator and the Audit and Finance Committee.

Section 5. Standards of Care**1. Prudence**

The standard of prudence to be used by the Investing Officer and any municipal advisor or investment advisor engaged by the City shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investments shall be made with the 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.

The Investing Officer, acting in accordance with the investment policy and exercising due diligence, shall not be held personally responsible for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate actions are taken to control adverse developments.

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 to the City Administrator any material interests in financial institutions with which they do business. 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 which business is conducted on behalf of the.

3. Communication of Policy to Advisors

The Investing Officer shall provide this Investment Policy to any municipal advisor or investment advisor engaged by the City and obtain sufficient acknowledgement of receipt of the Policy by the advisor.

Section 6. Safekeeping and Custody**1. Authorized Financial Dealers and Institutions**

The Investment Officer, with the advice and consent of the Audit and Finance Committee, will select the financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

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

- Audited financial statements

- Proof of FINRA certification
- Proof of state registration
- Proof of SEC municipal advisory registration (if necessary)
- Certification of having read and understood and agreeing to comply with this investment policy.

A periodic review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the investment officer.

2. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. 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.

The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Clear written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

3. Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

Section 7. Suitable and Authorized Investments

1. Investment Types

Investment Instruments should be chosen for their ability to preserve capital, maintain liquidity and maximization of yield. Funds for the City may be invested only in the following authorized types of investments:

- A. United States Treasury Securities: Obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.
- B. United States Agency Securities: Obligations issued or guaranteed by an agency/instrumentality of the United States Government.

- C. Repurchase Agreements: Contractual agreements with commercial banks. The purchaser in a repurchase agreement (repo) enters into a contractual agreement to purchase Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices.
- D. Collateralized Public Deposits (Certificates of Deposit): Instruments issued by financial institutions, which state that specified sums have been deposited for specified periods of time, and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by State statute.
- E. Local Government Investment Pool ("LGIP"): Securities invested by the LGIP, either state-administered or through joint powers statutes and other intergovernmental agreement legislation as permitted under the Missouri Constitution.

2. Security Selection

The following list represents the entire range of United States Agency Securities that the City will consider and which shall be authorized for the investment of funds by the City. Additionally, the following definitions and guidelines should be used in purchasing the instruments:

- A. Govt. Agency Coupon and Zero Coupon Securities. Bullet coupon bonds with no embedded options.
- B. U.S. Govt. Agency Discount Notes. Purchased at a discount with maximum maturities of one (1) year.
- C. U.S. Govt. Agency Callable Securities. Restricted to securities callable at par only with final maturities up to three (3) years.
- D. U.S. Govt. Agency Step-Up Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed term. Restricted to securities with final maturities of up to three (3) years.
- E. U.S. Govt. Agency Floating Rate Securities. The coupon rate floats off one index. Restricted to coupons with no interim caps that reset at least quarterly.
- F. U.S. Govt. Mortgage Backed Securities. Restricted to securities with final maturities of up to three (3) years.

3. Investment Restrictions and Prohibited Transactions

To provide for the safety and liquidity of the City funds, the investment portfolio will be subject to the following prohibited investments and transactions:

- A. Borrowing for investment purposes ("Leverage");

- B. Instruments known as Structured Notes (e.g. inverse floaters, leveraged floaters, and equity-linked securities) are not permitted. Investment in any instrument, which is commonly considered a "derivative" instrument (e.g. options, futures, swaps, caps, floors, and collars);
- C. Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market ;
- D. Investing in common stocks or other equity interests of foreign or domestic corporations; or
- E. Investing in Mutual Funds or Investment Pools where the underlying investment(s) include common stocks or other equity interests of foreign or domestic corporations.

4. Collateralization

All investments which exceed the financial institution's insurance limits shall be secured through eligible collateral. The market value of the collateral must be equal to or greater than the value of the investment instrument plus accrued interest, less the amount of insurance coverage. Eligible collateral shall mean securities otherwise qualified for purchase under this policy, preferably U.S. Government securities, and shall also include the State Treasurer's list of Securities Acceptable as Collateral to Secure State Deposits. (The City will maintain an updated version of this list).

All Investments purchased under this policy are to be verified in writing by the financial institution indicating clearly the amount, rate of return maturity date and itemized collateral.

Collateral will always be held by an independent third party. A clearly marked evidenced of ownership (safekeeping receipts) must be supplied to the City and retained.

The right of collateral substitution may be granted, provided that the Director of Finance and City Administrator approve of the substitution in writing. Any substituted collateral must otherwise meet all the criteria contained in this policy.

5. Repurchase Agreements

The securities for which repurchase agreements will be transacted will be limited to Treasury and government agency securities that are eligible to be delivered via the Federal Reserve's Fed wire book entry system. Securities will be delivered to the City's designated Custodial Agent. Funds and securities will be transferred on a delivery vs. payment basis.

Section 8. Investment Parameters

1. Diversification

The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of

securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

- A. U.S. treasuries and securities having principal and/or interest guaranteed by the U.S. government - up to 100%
- B. Collateralized time and demand deposits - up to 100%
- D. U.S. Government agencies, and government sponsored enterprises - up to 100%
- E. Collateralized repurchase agreements - maximum of 50%
- F. U.S. Government agency callable securities - no more than 15%

2. Maximum Maturities

To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. All investments shall mature and become payable not more than five (5) years from the date of purchase, unless circumstances warrant other consideration, as approved by the City Administrator. The City shall adopt weighted average maturity limitations that should not exceed two and one half (2.5) years and is consistent with the investment objectives.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as in Local Government Investment Pools (LGIP), bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

Section 9. Reporting

1. Methods

The Investment Officer shall maintain, at all times, a list of all current investments and shall file same with the City Administrator. This list shall include, for each investment: the Cost, Principal, stated interest rate or yield calculation, for zero-coupon issues, Purchase date, Maturity date, and the name of the firm holding the investment.

The Investment Officer shall be responsible for providing a year-end summary of investment activity and returns to the Audit & Finance Committee, City Administrator, Mayor and Board of Alderman of the City. The report will include information on the issuing financial institution, the type of security, the term to maturity, the interest rate, the amount of principal, performance, and interest earnings, etc.

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.

3. Marking to Market

The market value of the portfolio shall be calculated at least annually and a statement of the market value of the portfolio shall be issued at that time.

Section 10. Policy Considerations

1. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempt from the requirements of this policy. At maturity or liquidation, such moneys shall be reinvested only as provided by this policy.

2. Adoption & Amendments

This policy shall be adopted by a resolution of the City's Board of Aldermen. This policy shall be reviewed at a minimum annually by the Director of Finance and the Audit and Finance Committee. Any changes must be approved by Resolution of the Board of Aldermen.