

## MEMORANDUM

DATE: January 12, 2017

TO: William Stowe, CEO and General Manager

FROM: Peggy Freese, CFO

SUBJECT: Reserve Funds Investment Policy

The Investment Policy contained in Section 6 of the Board Policy Manual requires that the Board review the investment policy annually at the time of approving the depositories each year. The policy is attached, but the following is a brief summary:

- The Investment Policy will comply with Chapter 12B of the Code of Iowa.
- The primary objectives of the policy, in order of importance, are safety, liquidity, and return.
- Eligible investment instruments are:
  1. Interest-bearing accounts with banks in the State of Iowa
  2. Obligations of the U.S. government
  3. Certificates of Deposit at banks in the State of Iowa
  4. Repurchase agreements
- Operating fund investments must mature in no more than 397 days.
- Non-operating fund investments must mature in no more than 1,726 days.
- Board authorizes the staff to use its best judgment in the selection of securities within these guidelines.
- Staff will report monthly to the Board on the status of all reserve funds.

Attachment

608 Investment Policy.

608.1 Scope of Investment Policy.

608.1.1 The Investment Policy of the Board of Trustees of the City of Des Moines, Iowa ("Board") shall apply to all operating funds, bond proceeds and other funds and all investment transactions involving operating funds, bond proceeds and other funds accounted for in the financial statements of Board of Trustees. Each investment made pursuant to this Investment Policy must be authorized by applicable law and this written Investment Policy.

608.1.2 The investment of bond funds or sinking funds shall comply not only with this Investment Policy, but also be consistent with any applicable bond resolution.

608.1.3 This Investment Policy is intended to comply with Code of Iowa, Chapter 12B.

608.1.4 Upon passage and upon future amendment, if any, copies of this Investment Policy shall be delivered to all of the following:

608.1.4.1 Board of Trustees.

608.1.4.2 All depository institutions or fiduciaries for public funds of Board of Trustees.

608.1.4.3 The auditor engaged to audit any fund of Board of Trustees.

608.1.5 In addition, a copy of this Investment Policy shall be delivered to every fiduciary or third party assisting with or facilitating investment of the funds of Board of Trustees.

608.2 Delegation of Authority.

608.2.1 In accordance with Code of Iowa, Section 12B.10(1), the responsibility for conducting investment transactions resides with the Treasurer. Only the Treasurer and those authorized by resolution may invest public funds and a copy of any empowering resolution shall be attached to this Investment Policy. All contracts or agreements with outside persons investing public funds, advising on the investment of public funds, directing the deposit or investment of public funds, or acting in a fiduciary capacity for Board of Trustees shall require the outside person to notify in writing Board of Trustees within thirty (30) days of receipt of all

communication from the Auditor of the outside person or any regulatory authority of the existence of a material weakness in internal control structure of the outside person or regulatory orders or sanctions regarding the type of services being provided to Board of Trustees by the outside person.

608.2.2 The records of investment transactions made by or on behalf of Board of Trustees are public records and are the property of Board of Trustees whether in the custody of Board of Trustees or in the custody of a fiduciary or other third party.

608.2.3 The Treasurer shall establish a written system of internal controls and investment practices. The controls shall be designed to prevent losses of public funds, to document those officers and employees of Board of Trustees responsible for elements of the investment process and to address the capability of investment management. The controls shall provide for receipt and review of the audited financial statement and related report on internal control structure of all outside persons performing any of the following for this public body:

608.2.3.1 Investing public funds.

608.2.3.2 Advising on the investment of public funds.

608.2.3.3 Directing the deposit or investment of public funds.

608.2.3.4 Acting in a fiduciary capacity for this public body.

608.2.4 A bank, savings and loan association or credit union providing only depository services shall not be required to provide an audited financial statement and related report on internal control structure.

608.3 Objectives of Investment Policy. The primary objectives, in order of priority, of all investment activities involving the financial assets of Board of Trustees, shall be the following:

608.3.1 Safety: Safety and preservation of principal in the overall portfolio is the foremost investment objective.

608.3.2 Liquidity: Maintaining the necessary liquidity to match expected liabilities is the second investment objective.

608.3.3 Return: Obtaining a reasonable return is the third investment objective.

- 608.4 Prudence. The Treasurer, when investing or depositing public funds, shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a person acting in a like capacity and familiar with such matters would use to attain the 608.3 investment objectives. This standard requires that when making investment decisions, the Director of Finance/Treasurer shall consider the role that the investment or deposit plays within the portfolio of assets of Board of Trustees and the investment objectives stated in 608.3.
- 608.5 Instruments Eligible for Investment. Funds of Board of Trustees may be invested in the following:
- 608.5.1 Interest-bearing savings accounts, interest-bearing money market accounts, and interest-bearing checking accounts at any bank in the State of Iowa. Each bank must collateralize public funds in excess of the amount federally insured in accordance with Code of Iowa, Chapter 12C. Each financial institution shall be properly declared as a depository by the Board of Trustees. Deposits in any financial institution shall not exceed the amount approved by the Board of Trustees.
  - 608.5.2 Obligations of the United States government, its agencies and instrumentalities.
  - 608.5.3 Certificates of deposit and other evidences of deposit at federally insured Iowa depository institutions approved and secured pursuant to Code of Iowa, Chapter 12C.
  - 608.5.4 Repurchase agreements, provided that the underlying collateral consists of obligations of the United States government, its agencies and instrumentalities and Board of Trustees takes delivery of collateral either directly or through an authorized custodian.
  - 608.5.5 All instruments eligible for investment are further qualified by all other provisions of this Investment Policy, including 608.7 Investment Maturity Limitations and 608.8 Diversification Requirements.
- 608.6 Prohibited Investments and Investment Practices.
- 608.6.1 Funds of Board of Trustees shall not be invested in the following:
    - 608.6.1.1 Reverse repurchase agreements.
    - 608.6.1.2 Futures and options contracts.

- 608.6.2 Funds of Board of Trustees shall not be invested pursuant to the following investment practices:
- 608.6.2.1 Trading of securities for speculation of the realization of short-term trading gains.
  - 608.6.2.2 Pursuant to a contract providing for the compensation of an agent or fiduciary based upon the performance of the invested assets.
  - 608.6.2.3 If a fiduciary or other third party with custody of public investment transaction records of Board of Trustees fails to produce requested records when requested by this public body within a reasonable time, Board of Trustees shall make no new investments with or through the fiduciary or third party and shall not renew maturing investments with or through the fiduciary or third party.

608.7 Investment Maturity Limitations.

- 608.7.1 Operating funds must be identified and distinguished from all other funds available for investment. Operating funds are defined as those funds, which are reasonably expected to be expended during a current budget year or within fifteen (15) months of receipt.
- 608.7.2 All investments authorized in 608.5 are further subject to the following investment maturity limitations:
- 608.7.2.1 Operating funds may only be invested in instruments authorized in 608.5 of this Investment Policy that mature within three hundred ninety-seven (397) days.
  - 608.7.2.2 The Director of Finance/Treasurer may invest funds of Board of Trustees that are not identified as operating funds in investments with maturities longer than three hundred ninety-seven (397) days, but less than one thousand seven hundred twenty-six (1,726) days. However, all investments of Board of Trustees shall have maturities that are consistent with the needs and use of Board of Trustees.

- 608.8 Diversification. Investments of Board of Trustees are subject to the following diversification requirements should Board of Trustees hereafter determine to invest in them:

608.8.1 Where possible, it is the policy of Board of Trustees to diversify its investment portfolio. Assets shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. In establishing specific diversification strategies, the following general policies and constraints shall apply:

608.8.1.1 Portfolio maturities shall be staggered in a way that avoids undue concentration of assets in a specific maturity sector. Maturities shall be selected which provide stability of income and reasonable liquidity.

608.8.1.2 Liquidity practices to ensure that the next disbursement date and payroll date are covered through maturity investments, marketable U.S. Treasury bills or cash on hand shall be used at all times.

608.8.1.3 Risks of market price volatility shall be controlled through maturity diversification so that aggregate price losses on instruments with maturities approaching one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

#### 608.9 Safekeeping and Custody.

608.9.1 All invested assets of Board of Trustees involving the use of a public funds custodial agreement, as defined in Code of Iowa, Section 12B.10, shall comply with all rules adopted pursuant to Section 12B.10C. All custodial agreements shall be in writing and shall contain a provision that all custodial services be provided in accordance with the laws of the State of Iowa.

608.9.2 All invested assets of Board of Trustees eligible for physical delivery shall be secured by having them held at a third-party custodian. All purchased investments shall be held pursuant to a written third-party custodial agreement requiring delivery versus payment and compliance with all rules set out elsewhere in 608.9 of this Investment Policy.

608.10 Ethics and Conflict of Interest. The Director of Finance/Treasurer and all officers and employees of Board of Trustees involved in the 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.

608.11 Reporting. The Director of Finance/Treasurer shall submit monthly an investment report that summarizes recent market conditions and investment strategies employed since the last investment report. The investment report shall set out the current portfolio in terms of maturity, rates of return and other features and summarize all investment transactions that have occurred during the reporting period and compare the investment results with the budgetary expectations.

608.12 Investment Policy Evaluation.

608.12.1 At the regular January Board meeting, the Board of Trustees shall evaluate existing guidelines for the investment of funds. The Board of Trustees shall determine the types of securities to be invested in, and the maturities expected. Any changes to the fund investment guidelines shall be made by Resolution, which shall be entered in the official minutes of the Board.

608.13 Glossary of Terms.

608.13.1 Agency: securities issued by government-sponsored corporations such as Federal Home Loan Banks or Federal Land Banks. Agency securities are exempt from Securities and Exchange Commission (SEC) registration requirements.

608.13.2 Agent: individual authorized by another person, called the principal, to act in the latter's behalf in transactions involving a third party.

608.13.3 Banker's Acceptance: time draft drawn on and accepted by a bank, the customary means of effecting payment for merchandise sold in import-export transactions and a source of financing used extensively in international trade.

608.13.4 Commercial Paper: short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted, although some are interest bearing.

608.13.5 Delivery Versus Payment (DVP): securities industry procedure, common with institutional accounts, whereby delivery of securities sold is made to the buying customer's bank in exchange for payment, usually in the form of cash.

608.13.6 Fiduciary: person, company or association holding assets in trust of a beneficiary.

- 608.13.7 Futures Contract: agreement to buy or sell a specific amount of a commodity or financial instrument at a particular price on a stipulated future date.
- 608.13.8 Open-End Management Company: investment company that sells mutual funds to the public. The term arises from the fact that the firm continually creates new shares on demand. Mutual fund shareholders buy the shares at net asset value and can redeem them at any time at the prevailing market price, which may be higher or lower than the price at which the investor bought.
- 608.13.9 Option: right to buy or sell property that is granted in exchange for an agreed-upon sum. If the right is not exercised after a specific period, the option expires and the option buyer forfeits the money.
- 608.13.10 Portfolio: combined holding of more than one stock, bond, commodity, real estate investment, cash equivalent, or other asset by an individual or institutional investor.
- 608.13.11 Repurchase Agreement: agreement between a seller and a buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed-upon price, and, usually, at a stated time.
- 608.13.12 Safekeeping: storage and protection of a customer's financial assets, valuables, or documents, provided as a service by an institution serving as agent and, where control is delegated by the customer, also as custodian.
- 608.13.13 Speculation: assumption of risk in anticipation of gain but recognizing a higher than average possibility of loss.