CITY OF APPLETON POLICY	TITLE: **INVESTMENT POLICY**	
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I. PURPOSE

To identify objectives, establish guidelines, assign responsibilities and authority for the investment of City financial assets.

II. POLICY

This policy applies to all activities of the City with regard to investing the City's financial assets.

Except for cash required to be segregated in certain restricted and special funds, the City will consolidate cash balances from all funds to maximize investment earnings and increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation in the pool and in accordance with Generally Accepted Accounting Principles (GAAP).

III. DISCUSSION

The Finance Director or his/her designee is the Investment Officer of the City and is responsible for the overall investment activities of the City. The Investment Officer is authorized to make investments in conformance with this policy. This authority also includes enlisting third party investment managers to manage all or a portion of the City's funds. Such managers must adhere to the guidelines of this policy and will be selected in accordance with the Purchasing Policy.

This policy shall conform with federal, state and other legal requirements, including Wisconsin State Statue 66.0603. The primary objective, in priority order, of investment activities shall be safety, liquidity and yield.

IV. DEFINITIONS

Custodial Credit Risk – **Category 1** – includes items that are insured or registered or which are evidenced by securities held by the City or its agent in the City's name.
Category 2 – includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.
Category 3 – includes uninsured and unregistered investments, with securities held by the counterparty or its trust department or agent but not in the City's name

Deposits – include all deposits in financial institutions – banks, savings and loans, and credit unions. This includes restricted and unrestricted funds, savings, checking, NOW, money market, nonnegotiable CDs and bank investment contracts.

Investments – are all other financial instruments that do not meet the definition of a deposit. These typically include external investment pools, open ended mutual funds, debt securities, traditional sweep accounts, equity securities, repurchase agreements (repos) and participating investment contracts including negotiable CDs purchased from a broker.

Investment Manager – Individual or Business selected in accordance to the City's Purchasing Policy to manage all or part of the City's deposits and investments. This includes buying and selling of securities held by third party custodians.

Investment Official – Any City employee or Investment Manager that is working with the City's deposits and investments.

Investment Officer – City official designated by this policy to be responsible for the overall management of the City's deposits and investments.

V. PROCEDURES

A. INVESTMENT OBJECTIVES

The overall objective of the City's investment management is to maximize the total return of designated funds and preserve capital within the guidelines of this policy.

1. 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 due to the failure of the security issues or backer by:
   - Limiting investments to the type of securities listed in Attachment A.
   - Diversifying the investment portfolio so that the 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 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, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio.

2. 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 the local government investment pool, which 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. The investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Any managed portion of the portfolio shall be designed with the objective of regularly meeting or exceeding the following benchmarks:

- US Government Money Market average and Local Government Investment Pool (LGIP) rate – Short-Term portfolios
- Lehman Brothers Intermediate Government Index – all other Portfolios
- The benchmark 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.

Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principle.
- A security swap would be allowed in order to improve the quality, yield or target duration in the portfolio
- If liquidity needs of the portfolio require that the security be sold.

B. COMMUNICATION & REPORTING

The Investment Manager retained by the City shall issue a quarterly report to the City reviewing the performance and investment strategy of the firm on behalf of the portfolios managed by the firm. The Investment Officer shall issue at minimum an annual report to the City reviewing the performance of investments that are not managed by a third party Investment Manager. These reports shall include information that will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy.

The reporting will include the following:

- Listing of individual securities held at the end of the reporting period including cost and market value.
- Total return on each fund as compared to applicable benchmarks.

The investment manager is expected to meet with designated employees and committees of the City to review the portfolio and discuss investment results in the context of these guidelines and objectives upon request. At all times, the contracted Investment Manager and Investment Officer are encouraged to communicate on significant matters pertaining to the investment policy and the management of the portfolios.

C. STANDARDS OF CARE

1. 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 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.

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.”

2. Conflicts of Interest

Investment Officials 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.

D. 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 financial institution prior to the release of funds.

2. Safekeeping

Securities will be held by an independent third-party custodian selected by the entity as evidenced by safekeeping receipts in the City's name. A Custody Agreement is required for all securities managed by the City's Investment Manager. The Custody Agreement must contain language that documents that all securities are held at a minimum of a Category 2 level of custodial credit risk.

3. 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 structure shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Clear delegation of authority to subordinate staff members
- Monthly detailed trust statements are reviewed and reconciled with in 10 days of receipt of statements. Wire transfer agreements with the lead bank and third-party custodian.

Accordingly, the investment officer shall assure compliance with policies and procedures through the City's annual independent audit.

Attachment A

City of Appleton – Authorized Investment Types

All Investment Funds

- U.S. Treasury obligations, which carry the full faith and credit, guarantee of the United States government and are considered to be the most secure instruments available.
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value.
- Commercial Paper rated by a nationally recognized rating agency.
- Investment-grade bonds and/or other obligations that meet all other requirements as part of this schedule.
- Money market mutual funds regulated by the Securities and Exchange Commissions and whose portfolios consist only of dollar-denominated securities
- Individual corporate bonds will have a 7-year maximum maturity or put (tender at option of holder) limit. Treasury and mortgage securities will have no maturity limit.
- All debt securities, excluding issues of the U.S. Government and its agencies, shall be rated AA or higher.
- Repurchase Agreements as part of a money market mutual fund.
- No single investment issuer, with the exception of the U.S. Government and its agencies, shall constitute more than 5% of the value of the fund (at the time of purchase).
- No single corporate industry group shall constitute more than 15% of the value of the fund (at the time of purchase).
- Certificates of deposit and other evidence of deposit at financial institutions. The Investment Officer shall obtain competitive bids for at least two financial institutions.
- Local Government Investment Pools.
- Investment in foreign currency is NOT allowed.

Additional Requirements for Stormwater Fund

1. Securities must be listed on the MBIA Insurance Corporation List of Permissible Investments for Indentured Funds. (Attachment B), in accordance with insurance provisions for the Stormwater Revenue Bonds.

Additional Requirements for Cash Management – General Fund

1. Maturity of investments to conform to cash flow projections of the City to provided liquidity.

Attachment B

MBIA

LIST OF PERMISSIBLE INVESTMENTS FOR INDENTURED FUNDS

A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (Eximbank)
   Direct obligations or fully guaranteed certificates of beneficial ownership

2. Farmers Home Administration (FmHA)
   Certificates of beneficial ownership

3. Federal Financing Bank

4. Federal Housing Administration Debentures (FHA)

5. General Services Administration
   Participation certificates

6. Government National Mortgage Association (GNMA or "Ginnie Mae")
   GNMA - guaranteed mortgage-backed bonds
   GNMA - guaranteed pass-through obligations
   (not acceptable for certain cash-flow sensitive issues.)

7. U.S. Maritime Administration
   Guaranteed Title XI financing

8. U.S. Department of Housing and Urban Development (HUD)
   Project Notes
   Local Authority Bonds
   New Communities Debentures - U.S. government guaranteed debentures
   U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
   Senior debt obligations

2. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
   Participation Certificates
   Senior debt obligations

3. Federal National Mortgage Association (FNMA or "Fannie Mae")
   Mortgage-backed securities and senior debt obligations

4. Student Loan Marketing Association (SLMA or "Sallie Mae")
   Senior debt obligations

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5. Resolution Funding Corp. (REFCORP) obligations

6. Farm Credit System
   Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

G. Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to MBIA (Investment Agreement criteria is available upon request).

H. Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P.

I. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

K. Repurchase Agreements for 30 days or less must follow the following criteria. Repurchase Agreements which exceed 30 days must be acceptable to MBIA (criteria available upon request)

Repurchase agreements provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

1. Repos must be between the municipal entity and a dealer bank or securities firm
   a. Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor's Corporation and Moody's Investor Services, or
   b. Banks rated "A" or above by Standard & Poor's Corporation and Moody's Investor Services.

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2. The written repo contract must include the following:
   a. Securities which are acceptable for transfer are:
      (l)Direct U.S. governments, or
      (2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC)
   b. The term of the repo may be up to 30 days
   c. The collateral must be delivered to the municipal entity, trustee (if trustee is not supplying the collateral) or third party acting as agent for the trustee (if the trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).
   d. Valuation of Collateral
      (l) The securities must be valued weekly, marked-to-market at current market price plus accrued interest
         (a) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.
3. Legal opinion which must be delivered to the municipal entity:
   a. Repo meets guidelines under state law for legal investment of public funds.

Additional Notes

(i) There is no list of permitted investments for non-indentured funds. Your own credit judgment and the relevant circumstances (e.g., amount of investment and timing of investment) should dictate what is permissible.

(ii) Any state administered pool investment fund in which the issuer is statutorily permitted or required to invest will be deemed a permitted investment.

(iii) DSRF investments should be valued at fair market value and marked to market at least once per year. DSRF investments may not have maturities extending beyond 5 years, except for Investment Agreements approved by the Insurer.

Attachment B

MBIA

GENERAL DOCUMENT PROVISIONS FOR SURETY BONDS AND LOCS IN PLACE OF DSRFS

A If the documents provide for the replacement of an existing funded DSRF in the future with either a surety bond or a letter of credit or provide for the use of a surety bond or letter of credit to fund the DSRF on parity issues, then a provision should be added to the documents that no such surety bond or letter of credit may be used without the written consent of the Insurer both as to the provider of such security and to its structure.

B As an alternative to I and in all cases where a surety bond or letter of credit is replacing a DSRF in an Insurer-insured issue, the following requirements apply:

1. The surety bond must be from an insurance company that is rated in the highest rating category by Standard & Poor's and Moody's, or the letter of credit must be from a bank approved by the Insurer.

2. The Insurer reserves the right to periodically review the LOC bank and if found unacceptable, require that:

   a. another LOC must be found within 45 days, or

   b. the issuer must draw upon the LOC to fund the DSR with cash, or

   c. the issuer must fund the DSR with cash over an acceptable period of time (to be negotiated on a deal-by-deal basis).

3. The surety bond or LOC must be unconditional and irrevocable. If the surety bond or LOC can expire earlier than the final maturity of the bonds, the provisions for funding a reserve should be examined for acceptability.

4. After the surety bond has been drawn down, any monies available to repay the surety bond or LOC provider must first be used to reinstate the surety bond or LOC to its original amount. Any interest or fees due to the surety or LOC provider, other than reinstatement, must be subordinate to any amounts required to be paid for the benefit of the bondholders.

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