

CITY OF GAINESVILLE
INVESTMENT POLICY STATEMENT
2020
Budget & Finance Department
Pensions & Investments Division

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I. INTRODUCTION

The intent of this Investment Policy is to define the parameters within which the investment of City funds is to be performed. This Policy outlines the procedures and practices required to ensure the judicious and proficient investment and fiscal management of City funds. The guidelines are intended to provide safeguarding of City investment assets, and to allow investment staff to function effectively and responsibly.

II. GOVERNING AUTHORITY

The City investment program shall be operated in conformance with federal, state, local legal requirements, including Section 218.415, Florida Statutes which provides for local government investment and deposit activity, and specifically allows chartered municipalities to adopt separate and distinct investment policies.

The City has adopted investment ordinances which are codified in Section 2-438, of the City of Gainesville Code of Ordinances which references this investment policy.

Sections 2-227 and 2-438 of the City's Code of Ordinances consign authority to invest and deposit City funds to the Finance Director, and permits the delegation of City investment program management to subordinates assigned by the Finance Director.

III. SCOPE

This Investment Policy applies to the investment of operating and capital funds under the control of the City that are in excess of those required to meet current expenses. The investment policy shall not apply to pension or retirement funds, OPEB funds, certain special use funds, or funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds. Funds held by trustees or fiscal agents are excluded from these rules; however, all funds are subject to regulations established by the State of Florida. The covered funds, and any new funds created by the City, unless specifically exempted by the City, are defined in the City's Comprehensive Annual Financial Report. Except for excluded funds, and restricted and special funds, the City commingles its funds for investment purposes to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income is allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

IV. GENERAL INVESTMENT OBJECTIVES

The City's investment program shall be managed in a manner responsive to public trust and consistent with all federal, state and local laws. The primary objectives of the City's investment activities, in priority order, shall be:

1. Safety

Safety of capital 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 goal will be to mitigate market risk, credit risk and interest rate risk through research, analysis, and diversification.

2. Liquidity

The investment program shall be managed to provide sufficient liquidity to meet all operating requirements and obligations that may be reasonably anticipated.

3. Return

The investment program shall be managed with the objective of optimizing return on investments throughout budgetary and economic cycles, taking into account the investment risk constraints of safety and liquidity.

V. 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. The "prudent person" standard requires 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.” The Pensions & Investments Officer 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.

2. Ethics and Conflicts of Interest

Employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the City Manager, who shall inform the City Commission. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees shall not undertake any personal investment transactions with the same individuals with whom investment business is conducted on behalf of the City.

VI. INVESTMENT PROGRAM ADMINISTRATION & OPERATION

1. Administration

The Finance Director has authority over and general responsibility for the City's investment program. In accordance with Sections 2-227 and 2-438, of the City's Code of Ordinances, the Finance Director has delegated investment program management and operation to the Investment Officer of Budget & Finance's Pensions & Investments Division.

2. Operations

The Investment Officer is authorized to purchase and sell securities on behalf of the City, in accordance with established written procedures and internal controls consistent with this Investment Policy. Investment activity shall be consistent with strategic objectives and legal limitations, and security trades shall be reported to the Finance Director on a daily basis. All participants in the investment process shall seek to act responsibly as custodians of the public trust. No investment transactions shall be made except as provided under the terms of this Investment Policy and supporting procedures.

The Investment Officer shall determine appropriate investments based on market conditions and cash-flow needs, analyze and select optimal types of investments, and competitively bid securities when feasible and appropriate. The Investment Officer shall incorporate relevant research and analysis into the investment program, including economic and market research, and security valuation & yield analysis. The Investment Officer shall manage investments to provide sufficient liquidity to pay obligations of the City as they come due, and shall to the extent possible, attempt to match investment maturities with known cash needs and anticipated cash-flow requirements. The Investment Officer shall outline and document investment procedures and processes.

The Investment Officer shall monitor investment performance and measure it against relevant benchmarks. Investment performance reports and other reports as may be deemed necessary shall be prepared by the Pensions & Investments Division.

A Pensions & Investments Committee has been established for the purpose of reviewing investment activity, monitoring investment performance, formulating investment strategies, and procedural compliance. The Committee meets quarterly and consists of the Finance Director, Pensions & Investments staff, and any other staff specified by the Finance Director.

The Accounting Division of the Budget & Finance Department is responsible for financial accounting and reporting activities for all City funds, including the preparation of the Comprehensive Annual Financial Report. The Accounting Division performs reconciliations of investment accounts and distributes investment earnings to City funds through the general ledger. The Accounting Division shall have access to all investment activity records and monthly statements for reporting purposes.

3. Continuing Education

Pensions & Investments staff shall annually complete a minimum of 10 hours of continuing education related to investment management and securities. This education may include investment consultant and investment manager discussions concerning security analysis, economic & market analysis, portfolio construction and compliance with applicable laws.

4. Internal Controls

The Finance Director is responsible for establishing and maintaining internal controls and operational procedures designed to ensure that the assets of the City are protected from loss, theft or misuse. The controls and procedures shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees and officers of the City. The controls shall also ensure that functional duties are adequately segregated for separation of duties between investment and accounting operations.

5. Audit Procedures

Review of compliance with investment policy and related procedures is a part of the annual audit process performed by external independent auditors. Testing of the investment controls and procedures is performed by the external auditors during the annual audit process. Internal auditors and the Accounting Division also periodically examine and test investment controls and procedures.

VII. ALLOWABLE INVESTMENTS & PARAMETERS

Any funds of the city may be invested and reinvested in any investments authorized by Section 218.415(16), Florida Statutes, and Section 2-438, of the City's Code of Ordinances.

A. Diversification & Minimum Credit Ratings

It is the policy of the City to diversify its investment portfolios. To minimize risk of loss related to the over-concentration of assets in a specific maturity, issuer, or class of securities, City investment assets shall be diversified by maturity, issuer, and class of security. To further minimize risk, securities must also meet minimum credit ratings to be considered for investment. Diversification strategies and credit rating requirements shall be reviewed and revised periodically by the Investment Officer and the Pensions and Investments Committee.

Investment Portfolio Diversification and Credit Rating Constraints

1. United States Treasury Debt Obligations

- Maximum Percent of Portfolio 100%
- Maximum Remaining Maturity 15 years

Securities will be held by the City's third party custodian in the City's name.

2. Municipal Debt Obligations

Required AA/Aa2 Rating by two or more Nationally Recognized Statistical Rating Organizations (NRSRO)

Maximum Percent of Portfolio 20%

Maximum Issuer Percent of Portfolio 5%

Maximum Remaining Maturity 7 Years

Securities will be held by the City's third party custodian in the City's name.

3. United States Agency Securities

Maximum Percent of Portfolio 100%

Maximum Issuer Percent of Portfolio 35%

Maximum Remaining Maturity 15 years

Securities will be held by the City's third party custodian in the City's name.

4. Mortgage Backed Securities/Collateralized Mortgage Obligations/Asset Backed Securities

Required AAA/Aaa Rating by a Nationally Recognized Statistical Rating Organization (NRSRO)

Investments in securities that derive value and/or yield from an underlying asset must fall into one of the following categories: 1) security obligations that float with interest rates or external indexes such as LIBOR, Treasury Bills, CMT, Fed Funds, or Prime Rate; 2) security obligations that have call or option features; or 3) security obligations that have step-up features at pre-determined intervals.

Securities will be held by the City's third party custodian in the City's name.

US Agency Mortgage Backed Securities & Collateralized Mortgage Obligations

Maximum Percent of Portfolio 30%

Maximum Issuer Percent of Portfolio 10%

Maximum Remaining Maturity 15 years

Maximum Current PSA Weighted Average Life 10 years

Private Mortgage Backed Securities/Collateralized Mortgage Obligations/Asset Backed Securities

Maximum Percent of Portfolio 15%

Maximum Issuer Percent of Portfolio 5%

Maximum Remaining Maturity 10 years

Maximum Current PSA Weighted Average Life 5 years

5. Interest Bearing Bank Deposits with Qualified Public Depository.

Maximum Percent of Portfolio 100%

Maximum Remaining Maturity Daily Liquidity

6. Certificates of Deposit

Maximum Percent of Portfolio 30%

Maximum Issuer Percent of Portfolio 1%

Maximum Remaining Maturity 3 years

Limited to amounts insured by the Federal Deposit Insurance Corporation (FDIC).

7. Corporate Debt Obligations

Required A/A2 Rating by two or more Nationally Recognized Statistical Rating Organizations (NRSRO)

Maximum Percent of Portfolio 30%

Maximum Sector Percent of Portfolio 20%

Maximum Issuer Percent of Portfolio 5%

Maximum Remaining Maturity 10 Years

Limited to corporations with capitalization of at least \$1,000,000,000.

Securities will be held by the City's third party custodian in the City's name.

8. Repurchase Agreements

Maximum Percent of Portfolio 25%

Maximum Remaining Maturity 30 days

Maximum Remaining Maturity of Underlying Collateral 3 years

Collateral Pricing Daily

Only US Treasury and US Government Agency securities may be accepted as collateral.

Collateral equal to 102% of the repurchase agreement must be delivered to the City's third party custodian if less than 30 days.

Securities will be purchased only from primary government securities dealers under a written Master Repurchase Agreement.

Collateral securities will be held by the City's third party custodian, or through a tri-party arrangement in the City's name.

8. Bankers Acceptances

Required Investment Grade Rating of the accepting bank's short-term obligations by two or more Nationally Recognized Statistical Rating Organizations (NRSRO)

Maximum Percent of the Portfolio 25%

Maximum Issuer Percent of Portfolio 10%

Maximum Remaining Maturity 180 Days

Securities will be held by the City's third party custodian in the City's name.

9. Commercial Paper

Required A-1/P-1/F-1 Rating by a Nationally Recognized Statistical Rating Organization (NRSRO)

Maximum Percent of Portfolio 30%

Maximum Issuer Percent of Portfolio 5%

Maximum Remaining Maturity 270 Days

Securities will be held by the City's third party custodian in the City's name.

10. Florida Local Governmental Investment Pools

Maximum Percent of Portfolio 100%

Pool's investment policy must be obtained and reviewed.

11. Money Market Funds

Required AAA/Aaa Rating by a Nationally Recognized Statistical Rating Organization (NRSRO)

Maximum Percent of Portfolio 50%

- Maximum Issuer Percent of Portfolio 5%
- Maximum Remaining Maturity Daily Liquidity
- Securities will be held by the City's third party custodian in the City's name.

12. United States Government & Agency Mutual Funds

- Required AAA/Aaa/5Star Rating by a Nationally Recognized Statistical Rating Organization (NRSRO)
- Maximum Percent of Portfolio 30%
- Maximum Issuer Percent of Portfolio 5%
- Maximum Remaining Maturity Daily Liquidity
- Funds may only invest in US Treasury and US Government Agency securities.
- Securities will be held by the City's third party custodian in the City's name.

NRSROs used for credit ratings include Moody's, Standard and Poor's, and Fitch. The City uses Morning Star for Mutual Fund ratings.

The City may invest in securities issued by U.S. Government Agencies and corporations that contain embedded calls or options, or step-ups. Callable and step-up securities shall not exceed 50% of the cost value of the portfolio. Callable securities which have passed their final call date and are no longer callable will not be included when calculating the 50% limit.

The City may invest in floating-rate securities whose coupon resets are based upon a single fixed income index such as LIBOR, Treasury Bills, CMT, Fed Funds, or Prime Rate provided that the security is not leveraged or has a coupon that resets inversely to the underlying index. Floating rate securities shall not exceed 50% of the cost value of the portfolio.

It is the City's full intent, at the time of purchase, to hold investments until maturity in order to ensure the return of all invested principal. However, it is realistically anticipated that market prices of investment securities will vary depending on economic conditions, interest rate fluctuations, or individual security credit factors. Even in well-diversified investment portfolios, variations in market value may result in unrealized losses on securities at certain points in time. Through the maintenance of sufficient liquidity and diversification, the forced liquidation of investments at a loss should be avoided. However, from time to time, changes in economic or market conditions may dictate that it is in the City's best interest to sell a security prior to maturity. The Investment Officer may sell a security prior to maturity at prevailing market prices when they deem it advisable. The selling price may be at, above or below the purchase price of the security when in the determination of the Investment Officer the sale of the security is necessary to:

- (1) Meet unanticipated cash flow demands and ensure sufficient cash balances necessary for immediate use.
- (2) Book unrealized gains or enhance the overall portfolio yield.
- (3) Minimize further erosion of value and loss of investment principal.
- (4) Minimize the City's exposure to market and credit risks.
- (5) Invest the proceeds of the sale in more optimal securities.

The portfolio and issuer limits listed above shall be complied with at the time of a security purchase. Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. No sale of securities shall be required to meet revised limits due to a decrease in the total size of the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Investment Officer shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Investment Officer will apply the general objectives of safety, liquidity, yield and legality to make the decision.

B. Market Risk

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. 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 Investment Officer shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments with funds that are not needed for current cash flow purposes. Also, 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 Investment Officer will take into account the specific risks associated with each security, and how that those risks impact the investment portfolio overall.

Total Portfolio Maturity Constraints

<u>Maturity</u>	<u>Minimum % of Total Portfolio</u>
Under 30 Days	10%
Under 3 Years	20%
Under 5 Years	40%
Under 10 Years	80%

Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular security. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made.

C. Social Responsible Investing

In 2018, the City Commission expressed a preference for limiting the City’s exposure to investments in fossil fuel companies and private prison companies. Consistent with this

objective, there will be no direct investment in securities issued by fossil fuel companies or private prison companies.

VIII. AUTHORIZED FINANCIAL INSTITUTIONS & BROKER/DEALERS

1. Financial Institutions

The Pensions & Investments Division will maintain a list of financial institutions authorized to provide depository and investment services to the City. Selection of financial institutions authorized to provide services for and engage in transactions with the City shall be at the sole discretion of the City. A periodic review of the financial condition and registration of all authorized financial institutions will be conducted by the Investment Officer. Institutions eligible to transact investment business with the City include:

- a. Nationally or state chartered banks;
- b. The Federal Reserve Bank;
- c. Primary government dealers designated by the Federal Reserve Bank;
- d. Regional dealers that qualify under SEC Rule 15C3-1;
- e. Direct issuers of securities eligible for purchase.

A. Financial institutions who desire to become depositories for the City must be a qualified public depository, as defined in Florida Statute 280.02, and must be a nationally or state-chartered bank insured by the Federal Deposit Insurance Corporation (FDIC). Depository institutions should be economically viable and have practices that would not impair the safety of investments. Qualified Depositories must supply the following:

1. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
2. Proof of state registration
3. Evidence of adequate insurance coverage

B. All broker/dealers who desire to become qualified for investment transactions with the City must certify that the firm and broker have the required Financial Industry Regulatory Authority (FINRA), SEC, and other appropriate licenses and qualifications. These broker/dealers may include ‘primary’ dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). They must immediately notify the City if at any time the firm or broker is not in compliance with SEC rule 15C3-1, the firm’s capital position falls short of the Capital Adequacy or uniform Net Cap Rule standard, or a material control weakness is identified by the firm’s independent auditor. The Pensions & Investments Division will maintain a list of approved security broker/dealers selected by conducting a process of due diligence. Evaluation criteria include a firm’s prior experience and financial stability, and broker’s qualifications and experience. Each approved institution must provide the City with a copy of the following:

1. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
2. Proof of all FINRA and SEC registrations and certifications
3. Proof of state registration
4. Broker background, qualifications, and experience
5. Certification of having read and understood, and agreeing to comply with the City's investment policy.

2. Competitive Transactions

A. Pension & Investment Officers shall make their best effort to obtain competitive offers/bids on all purchases and sales of investment instruments transacted in the secondary market. A competitive offer/bid process should include pricing from three separate brokers/financial institutions or the use of a nationally recognized trading platform such as Bloomberg. The guiding principle with choosing any bid for any investment transaction is the quality of the bid and the assurance that the bidder can complete the investment transaction.

B. If the City buys or sells a security for which there is no readily available competitive offering on the same specific issue, 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 as the same original issue price.

IX. SAFEKEEPING AND CUSTODY

Investment securities shall be held with a third party, and all securities purchased by, and all collateral obtained by the City shall be properly designated as an asset of the City. No withdrawal of securities, in whole or in part, shall be made from safekeeping or custody, except by the Investment Officer, the Finance Director or the Assistant Finance Director.

1. Third-Party Safekeeping/Custody

Securities will be held by an independent third-party safekeeping institution selected by the City. Safekeeping will be documented by a written service agreement. All securities will be evidenced by safekeeping receipts. The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports.

2. 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 City's safekeeping institution prior to the release of funds.

X. PERFORMANCE STANDARDS & REPORTING

1. 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 and credit profile as the portfolio. The benchmarks may vary over time depending on the composition of the investment portfolio. Potential benchmarks include:

Federal Funds Rates

Florida Local Government Investment Pools

BofA Merrill Lynch U.S. Treasury Bill Index

BofA Merrill Lynch 1-3 Year U.S. Treasury Index

BofA Merrill Lynch 1-5 Year U.S. Treasury Index

BofA Merrill Lynch 3-7 Year U.S. Treasury Index

2. Pensions and Investments staff shall prepare investment reports at least quarterly, 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. This management summary will be prepared in a manner which indicates whether investment activities during the reporting period have conformed to the investment policy. The reports will be submitted to the Finance Director and the Pensions and Investments Committee, and will include, at a minimum, the following:
 1. List of portfolio holdings.
 2. Amortized cost, market value and realized and unrealized gains/losses.
 3. Current yields and distributions.
 4. List of transactions.
 5. Diversification analysis.
 6. Comparisons to benchmarks.
3. Quarterly investment reports shall be submitted to the City Manager and to the Audit & Finance Committee.

XI. APPROVAL OF INVESTMENT POLICY

1. This investment policy and any modifications to the policy shall be reviewed and approved by the City Manager and the City Commission.
2. This policy shall be reviewed at least annually and in response to market changes. Any policy changes shall be approved by the City Manager and the City Commission.

XII. FUELS HEDGING PROGRAM SECURITIES

The City approved the establishment of a Fuel Hedging Program in 2020. Implementation of the Fuel Hedging Program requires the use of futures and options contracts which are hereby permitted investment instruments subject to the provisions in the City's Petroleum Fuel Hedging Policy.

Subject to appropriate authorization, and to the advice of a qualified advisor, the City may use the following instruments in the execution of its Fuel Hedging Program:

1. Exchange Traded Futures and Options on Futures ("Exchange Hedges"). These are contracts traded on a central exchange, such as the New York Mercantile Exchange (NYMEX). If the City chooses to use exchange traded contracts:

a. The City will establish and maintain a Futures Account with a Futures Broker (Futures Commission Merchant or FCM)

b. Within this account, the City will acquire, hold and dispose of positions in exchange-traded futures and option contracts on Diesel and Gasoline or other fuel commodities as deemed appropriate by staff and the advisor.