

INVESTMENT POLICY

The following Investment Policy for the City of Cherry Hills Village, Colorado addresses the methods, procedures and practices that must be exercised to ensure effective and judicious fiscal and investment management of the City's funds.

I. Scope

The Investment Policy governs the investment activities of the City with regard to investing the financial assets of all funds, with the exception of the retirement funds and deferred compensation funds.

II. Objectives

The overall objectives of the City's investment program, in order of priority are safety, liquidity, and yield.

A. Safety

Protection of principal is the primary objective of the City investment activities and is the single most important factor in determining any investment decisions of the investment officer. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. For purposes of this policy, the two most significant risks to the City for the purpose of this policy are:

1. **Credit Risk-** Credit risk shall be limited by restricting the credit ratings on securities that may be purchased and through diversification of investments to reduce exposure to any one security type, issuer or account.
2. **Interest Rate Risk-** Interest rate risk shall be limited 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 and by investing operating funds primarily with durations of no longer than five years, money market mutual funds, or similar investment pools.

B. 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 of the City. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. 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.

C. 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. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk 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.
- A security swap that would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

III. Standards of Care

A. Prudence

The standard of prudence to be used by the investment official shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

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."

B. 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. 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 of Cherry Hills Village.

C. Delegation of Authority

In accordance with Article VI Section 6.3 of the City of Cherry Hills Village Charter, the responsibility for conducting investment transactions resides with the City Treasurer/Director of Finance (investment officer). No person may engage in an investment transaction except as provided under the terms of this policy.

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

A. 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 (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 applicable or required by the investment officer:

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines.
- Proof of National Association of Securities Dealers (NASD) 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 the City of Cherry Hills Village investment policy and agreeing to comply with it.
- 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 investment officer.

B. Registered Investment Advisor

The City of Cherry Hills Village may elect to engage the services of a Registered Investment Advisor (RIA) to manage the City's portfolio. The RIA will manage the portfolio in conformance with State and Federal guidelines. Qualified RIA's must demonstrate the following:

- Domiciled in Colorado
- Primary focus should be local governments in Colorado
- At least five years of experience
- SEC registered
- Errors & Omissions insurance in an amount of at least \$5 million dollars and provide a copy for the City's files
- A third party custodian that meets the minimum capital requirements of \$10,000,000 in assets
- A copy of their audited financial statements

V. Safekeeping and Custody

A. 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.

B. Safekeeping

Securities will be held by an independent third-party custodian selected by the entity as evidenced by safekeeping receipts in the City of Cherry Hills Village'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).

C. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Cherry Hills Village are protected from loss, theft or misuse. Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures or alternatively, compliance should be assured through the City of Cherry Hills Village annual independent audit.

VI. Suitable and Authorized Investments

A. Investment Types

The following investments will be permitted by this policy and are those defined by state and local law where applicable:

1. U.S. Treasury obligations: Treasury Bills, Treasury Notes, Treasury Bonds and Treasury Strips which carry the full faith and credit guarantee of the United States government, are considered to be the most secure instruments available and have a final maturity not exceeding five years from the date of the trade settlement.
2. Federal Agency Securities: Debentures and mortgage-backed securities with a stated final maturity not exceeding five years from the date of trade settlement and issued by the Government National Mortgage Association (GNMA).
3. Federal Instrumentality Securities: Debentures, discount notes, callable, step-up, and stripped principal or coupons with a final maturity not exceeding five years from the date of trade settlement issued by the following only: Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA).
4. Certificates Of Deposit with a maturity not exceeding five years in any FDIC insured bank. Certificates of deposit that exceed FDIC insurance limits shall be collateralized as required by the Public Deposit Protection Act or the Savings and Loan Association Public Deposit Protection Act.
5. Commercial paper rated at least A-1, P-1, or the equivalent by at least two NRSROs (Nationally recognized statistical rating organization) and by each NRSRO that rates the commercial paper.
6. Investment-grade obligations of state, and local governments and public authorities. No security may be purchased pursuant to this paragraph unless, at the time of purchase, the security is rated in one of the three highest rating categories by a nationally recognized organization that regularly rates such obligations.
7. Money market mutual funds regulated by the Securities and Exchange Commission whose portfolios consist only of dollar-denominated securities and have a rating of AAAM or Aaa or the equivalent by each NRSRO that rates the fund.
8. Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation. They must be "no-load", have constant net asset value of \$1.00, limit assets of the fund to securities authorized by statute and have a rating of AAAM or Aaa or the equivalent by each NRSRO that rates the fund.

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

B. Collateralization

To qualify as a depository, financial institutions must be listed as eligible depositories by the State Commissioner of Financial Services or the State Division of Banking and must collateralize deposits in accordance with:

1. C.R.S. Section 11-10.5-101, et seq., The “Public Deposit Protection Act” or
2. C.R.S. Section 11-47-101, et seq., The “Savings and Loan Association Public Deposit Protection Act”

VII. Investment Parameters

A. Diversification

The investments shall be diversified by:

1. Limiting investments for any one type of security to 5% of the total portfolio to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities).
2. Limiting investment in securities that have higher credit risks.
3. Investing in securities with varying maturities.
4. Continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

B. Maximum Maturities

To the extent possible, the City of Cherry Hills Village shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Cherry Hills Village will not directly invest in securities maturing more than five (5) years from the date of purchase. The City of Cherry Hills Village shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be 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 City Council prior to investing.

C. Comparison to Market

In order to ensure fair institution execution, the investment officer shall compare to market, using Bloomberg, each purchase of investment instruments purchased on the secondary market.

If the City’s funds are being managed by an outside Investment organization, the Portfolio Manager will document secondary purchases and sales and provide a trade recap for the date of purchase or sale.

VIII. Reporting

A. Methods

The investment officer shall prepare an investment report 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 and provide it to the City Council. The report will include the following:

1. Listing of individual securities held at the end of the reporting period.
2. 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).

3. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
4. Listing of investment by maturity date.
5. Percentage of the total portfolio which each type of investment represents.
6. GASB 31 & 40 compliant.

B. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The City's cash management portfolio shall be designed to attain a market rate of return through budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities and cash flow requirements. The performance of the portfolio shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's weighted average effective maturity. When comparing the performance of the City's portfolio, all fees involved with managing the portfolio shall be included in the computation of the portfolio's rate of return net of fees.

C. Marking to Market

The market value of the portfolio shall be calculated monthly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

IX. Approval of Investment Policy

The City's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed by staff on an annual basis and any modifications made must be approved by the City Council.