

FIN 2.14 - INVESTMENT POLICY

CITY OF PORTLAND, OREGON

I. SCOPE AND OBJECTIVES

This Investment Policy (“Policy”) sets forth current criteria for the operation of the City of Portland’s investment activities. As economic conditions change, the Policy may need to be amended to reflect new trends and opportunities within the framework of this Policy. The primary objectives of the Policy shall be to establish a conservative set of investment criteria that will, in priority order, (1) prudently protect the City’s principal sums and ensure the preservation of capital, (2) provide ample liquidity to meet the City’s reasonably anticipated operating needs and daily cash requirements, and (3) enable the City to generate a market rate of return from its investment activities.

This Policy applies to the investment of all funds on deposit at the City of Portland Treasurer’s Office, as well as all trust funds for which the City has investment responsibility. All trust or custodial funds shall be invested and administered at the direction of the City Treasurer. Funds held by a Trustee or Fiscal Agents are excluded, if the City does not have investment control. Deferred Compensation funds are governed by separate rules and are not covered within this Policy. The estimated average balance of investments covered herein range from \$1.4 billion to \$1.9 billion.

Bond proceeds are included in the City’s portfolio, factored into its structure and managed to meet cash-flow requirements. Specific investments may on occasion be established to recognize the long-term nature of some funds (e.g. capital projects) and conform to legal restrictions (e.g. bond covenants). Securities subject to arbitrage may be sold prior to their maturity and reinvested in instruments with a lower yield to minimize arbitrage when the transaction cost of such action is economically acceptable.

II. RESPONSIBILITIES, GOVERNING AUTHORITY, STANDARDS OF CARE, INDEMNIFICATION, CONFLICT OF INTEREST AND ETHICS

The City Treasurer will be responsible for the implementation of this Policy. The City Treasurer and the Director of the Bureau of Revenue and Financial Services (Chief Financial Officer) (or designee) shall be authorized to perform the investment duties.

All investment activities shall be conducted in conformance with Oregon Revised Statutes and applicable Federal Law. Specifically, this Policy is written in conformance with ORS 294.035; 294.040; 294.046; 294.052; 294.135; 294.145; and 294.810. All funds within the scope of this Policy are subject to regulations established by the State of Oregon. Any revisions or extensions of these sections of ORS shall be assumed to be part of this Policy immediately upon being enacted.

All persons performing investment duties (“investment officers”) shall do so applying the “prudent person” standard in managing all funds for which the City has investment responsibility. Investment officers acting in accordance with written procedures and this 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 and appropriate action is taken to control adverse developments within a timely fashion.

The "prudent person" standard states: "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."

Investment officers 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. Investment officers shall disclose any material interests in financial institutions with which they conduct business, any personal financial/investment positions that could be related to the performance of the investment portfolio, and shall refrain from undertaking personal investment transactions with the same individuals with whom business is conducted on behalf of the City.

Investment officers shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244, and the City's Charter, Code, policies and administrative rules, which include, but are not limited to, the City's Code of Ethics.

Any amendments to this Policy must be approved by the City Council after seeking the advice of the Director of the Bureau of Revenue and Financial Services (Chief Financial Officer) (or designee), the City Treasurer, the City's Investment Advisory Committee (IAC), and the Oregon Short Term Fund Board. The City Council will adopt a City Investment Policy annually.

III. TYPES OF INVESTMENT AND DIVERSIFICATION

The following types of investments will be permitted in the City's investment portfolio:

A. United States Treasury Debt Obligations

- Maximum Percent of Portfolio 100%
- Maximum Maturity 7 Years
- (US Treasury Inflation Indexed Securities) 10 Years

B. United States Agency Debt Obligations

- Maximum Percent of Portfolio 100%
- Maximum Percent of Portfolio Per Issuer 35%
- Maximum Maturity 5 Years

C. Repurchase Agreements Secured by United States Treasury Debt Obligations

- Maximum Percent of Portfolio 25%
- Maximum Maturity 90 Days
- Only Primary Government Securities Dealers reporting to the Federal Reserve Bank of New York may be counterparties.
- Repurchase agreements cannot exceed 2% of counterparty's liabilities.
- A signed repurchase agreement will be obtained in advance of the initial execution of an investment.
- Securities which serve as collateral for repurchase agreements must be delivered to the City's Trust Account at the City's custodian bank on a delivery versus payment basis.
- Collateral for repurchase agreements may be US Treasury securities or US Agency Discount Notes or Coupon securities only. Maximum maturity for acceptable collateral is three years.
- The price paid by the City Treasurer for United States Treasury Securities in the repurchase agreement shall not exceed amounts or percentages prescribed by written policy of the Oregon Investment Council or the Oregon Short-Term Fund Board.

D. Interest-Bearing Deposits (Time Deposits, Interest-Bearing Deposits, or Certificates of Deposit) in Banks and Credit Unions in Compliance with the Provisions of ORS Chapter 295.

- Maximum Percent of Portfolio 50%
- Maximum Percent of Portfolio Per Issuer 25%
- Maximum Maturity 1 Year
- Deposits placed in banks or credit unions which do not participate in the Oregon State Treasurer's Public Funds Collateralization Program (PFCP) shall be limited to amounts insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA), as applicable.

E. Bankers' Acceptance Issued by Financial Institutions in Compliance With the Provisions of ORS 294.035

- Maximum Percent of Portfolio 25%
- Maximum Percent of Portfolio Per Issuer 5%
- Maximum Maturity 6 Months

F. Municipal Bonds. Taxable and Tax-Exempt Municipal Bonds Issued by Oregon state or local governments and their agencies and authorities, not to include conduit revenue bonds issued on behalf of a non-governmental entity.

- Minimum Ratings: ST: A-1/P-1 or better. LT: Aa/Aa2 or better. Only one rating from a Nationally Recognized Statistical Rating Organization (NRSRO) of the Securities and Exchange Commission (SEC) at the time of purchase is required. In the event of a split rating, the lowest rating will be used to evaluate investment compliance.
- Maximum Percent per Portfolio 25%
- Maximum Percent of Portfolio Per Issuer 5%
- Maximum Maturity 5 Years

G. State of Oregon Local Government Investment Pool(s)

- The permitted maximum(s) as prescribed by ORS 294.805 to 294.895 and all other applicable Oregon Revised Statutes.

IV. POLICY COMPLIANCE

Portfolio diversification requirements shall remain consistent with those described within Section III of this policy. Diversification requirements and policy compliance must be met on the settlement date of an investment transaction. If due to unanticipated cash flow requirements or other circumstances beyond the City Treasurer’s control, the investment in any security type or financial issuer exceeds the limitations of this policy, the City Treasurer is responsible for bringing the investment portfolio back into compliance as soon as is practical. Portfolio compliance is detailed in the Investment Report, which is produced monthly by the City’s Public Finance and Treasury Division.

V. DISTRIBUTION OF PORTFOLIO MATURITIES

Distribution, by maturity, of the investments is illustrated below:

<u>Maturity</u>	<u>Percentage of Funds</u>
0-2 Years	50-100%
2-10 Years	0- 50%

This maturity structure applies to the City Treasurer’s best projection as to the lowest cash balance the portfolio will reach during the ensuing five to ten year period. This projection shall be based in part upon historical balances and projected net cash flows. If, for example, the projected lowest cash balance is \$200 million, then up to \$100 million may be invested in the two to ten year maturity range. All other funds must be invested in less than two-year maturities and must meet the City’s cash flow requirements. The IAC will be

consulted prior to implementing a strategy of purchasing securities with maturities beyond two years. The portfolio's weighted average maturity shall not exceed twenty-four (24) months.

VI. QUALIFIED FINANCIAL DEPOSITORIES AND BROKER/DEALER COUNTERPARTIES

The Director of the Bureau of Revenue and Financial Services (Chief Financial Officer) (or designee) and City Treasurer, in consultation with the IAC, shall establish the maximum deposit level with each Oregon qualified financial depository and the criteria for determining which broker/dealer firms and affiliated registered representatives shall be eligible to conduct investment transactions with the City. The City Treasurer will maintain a current list of all broker/dealer firms and affiliated registered representatives that have been approved to conduct investment transactions with the City. The City Treasurer and the IAC shall conduct an annual review of each approved broker/dealer firm to determine whether it should remain on the approved list.

Broker/dealer firms must meet the following minimum criteria. Additional criteria may also be required:

1. Must be registered with the Securities and Exchange Commission (SEC);
2. Must be registered with the Financial Industry Regulatory Authority (FINRA);
3. Must provide most recent audited financial statements;
4. Must provide FINRA Focus Report filings.

Approved broker/dealer employees who execute transactions must meet the following minimum criteria:

1. Must be a registered representative with FINRA;
2. Must be licensed by the state of Oregon;
3. Must certify (in writing) that they have read, understand and agree to comply with the most current version of this Policy.
4. Must satisfy additional criteria as and if required.

IAC members associated with depository institutions or broker/dealer firms will address conflicts of interest by removing their firms from the list of financial institutions eligible to conduct depository or investment transactions with the City and agreeing not to provide the City with any investment advisory services for which a fee is collected during the term of their appointment.

Investment officers will strive for best execution of trades, and shall solicit competitive bids or offers for all investable assets. A minimum of three quotes from different financial institutions shall be obtained before executing transactions. Investment officers will also verify that the rates being offered to the City are rates comparable to those available for similar investments within the national market. If three quotes cannot be obtained for a given transaction, investment officers shall note that fact on forms documenting the transaction. The allocation of brokerage business will be based upon which brokerage firm offers the best price to the City on each particular transaction. Where two or more brokers have offered the same best price, allocation will go to the investment firm that has provided the best service to the City.

VII. METHOD OF ACCOUNTING

The City shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies including, but not necessarily limited to, the American Institute of Certified Public Accountants (AICPA); the Financial Accounting Standards Board (FASB); and the Government Accounting Standards Board (GASB).

VIII. REPORTING REQUIREMENTS

An Investment Report which provides a detailed review of the City's investments will be produced monthly. Copies of the report will be sent to the Chief Administrative Officer (or designee), the Director of the Bureau of Revenue and Financial Services (Chief Financial Officer), the City Treasurer, members of the City Council and members of the IAC. The report will provide a review of the investment portfolio including, but not limited to:

1. List of portfolio holdings.
2. Current yields and distributions.
3. Amortized cost, market value and realized and unrealized gains/losses.
4. List of transactions.
5. Diversification analysis.
6. Comparisons to benchmarks.
7. Demonstration of the investment portfolio's compliance with this Investment Policy.

Investment Reports will be posted monthly on the Public Finance and Treasury's section of the City of Portland's website.

IX. INTERNAL CONTROLS

The internal controls of the City's Public Finance and Treasury Division are reviewed and tested by the City's internal and external auditors.

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds. All deliverable securities will be held by the City's designated independent third-party custodian for safekeeping. All securities will be evidenced by safekeeping receipts in the City's name. Upon request, the safekeeping institutions shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16.

X. PERFORMANCE EVALUATION

The City's investment performance shall be reviewed monthly by the Director of the Bureau of Revenue and Financial Services (Chief Financial Officer) (or designee). Performance evaluations within the investment industry are commonly referred to as benchmarking. The benchmark used in the Investment Report is the Bank of America Merrill Lynch 0-3 Year U.S. Treasury Index (Bloomberg code G1QA) which is an index

of approximately 140 United States Treasury securities with maturities between 0 and 3 years. Additional comparative yield analysis includes U.S. Treasury Bills and Notes, US Government Agency obligations and top-rated Corporate Bonds. Historically, the City has also used the State of Oregon's Local Government Investment Pool yield.

XI. ANALYSIS OF INVESTMENT RISKS

In analyzing the City's Investment Portfolio, there are three areas of risk exposure that the City confronts through its investment activities. The first risk confronting the City is interest rate risk. This risk is the uncertainty of the size of future income from securities caused by fluctuations in the general level of interest rates in the capital markets.

Interest rates are subject to dramatic fluctuations and, therefore, the City's Investment Policy is designed to minimize interest rate risk. This is accomplished by limiting investments to a maximum maturity of seven years (ten years for Treasury Inflation Indexed Securities only), a weighted average maturity of the portfolio that does not exceed twenty-four (24) months, and by investing to meet the City's cash flow requirements. Weighted average maturity is calculated using the final maturity of all callable and variable rate securities.

The second area of risk exposure confronting the City can be termed purchasing power risk. It is predominantly the risk associated with inflation. This risk can be defined as the uncertainty of the purchasing power of interest and principal to be received in the future. It can be easily recognized that if the amount of income from a security in current dollars remains unchanged over a period of time while inflation is rising, then the amount of income in constant dollars declines and the constant value of the principal to be received also declines. The City's Investment Policy is designed to mitigate this risk through the short-term nature of the portfolio maturity requirements as well as the ability to invest in US Treasury Inflation Indexed Securities.

The final risk is credit risk or the financial risk of not receiving principal and interest when due from an issuer. The types of investments permitted by the Investment Policy seek to minimize this risk by the conservative nature of the permissible investments and by establishing safe limits on the level of investments with Oregon financial institutions and issuers of corporate indebtedness and monitoring their credit quality on an ongoing basis. A portfolio policy stressing a relatively short maturity serves to additionally minimize credit risk.

Therefore, it is the conclusion that the shorter the portfolio is in terms of maturity, the less risk exposure the City faces with regard to the all three major areas of risks confronting the City's investment activities. The policy of maintaining 100% of the funds in securities maturing in seven years or less (ten years for US Treasury Inflation Indexed Securities only), and keeping the portfolio's weighted average maturity at no more than twenty-four (24) months, provide ample flexibility to earn capital gains on the City's investments by extending funds out to longer maturities when interest rates are falling, yet avoids the extreme amount of exposure to interest rate risk and purchasing power risk that exist in longer-term portfolios.

XII. SECURITIES LENDING AND REINVESTMENT OF CASH COLLATERAL

A. General

The policy guidelines set forth below shall only govern the City of Portland's securities lending program ("SLP"). The following SLP guidelines shall only apply to the reinvestment of cash collateral within the context of the City's SLP. The City Treasurer, in conjunction with the City's SLP Agent, shall be responsible for implementing the SLP. In the absence of the City Treasurer, the Chief Administrative Officer (or designee) shall be responsible for the implementation of the SLP on behalf of the City.

The objective of the SLP is to utilize a prudent investment management approach to earn incremental income above that which is generated from the securities contained the City's investment portfolio. All reinvestment of cash collateral shall be made taking into consideration the following objectives: preservation of principal, liquidity and return on investment.

B. Program Management

In order to minimize disruption of cash and investment management operations, a single financial institution shall be selected to serve as the City's SLP agent and securities custodian. Subject to a form of loan agreement and in accordance with the City's SLP policy guidelines, the SLP agent will arrange the terms and conditions of security loans; monitor the market value of securities lent and the collateral received; and invest the cash received as collateral. The SLP agent will arrange for all loans of securities held in City's custodial account and may act upon authorized investment instructions consistent with provisions of this section of the policy. The SLP agent shall be required to indemnify the City from any loss as a result of borrower loan default or simple failure to return loaned securities. The SLP agent shall be responsible for monitoring, reporting and remedying circumstances of non-compliance with the City's policy. The SLP agent must provide monthly accounting, performance, compliance and management reports that will be submitted to the City Treasurer and Director of the Bureau of Revenue and Financial Services (Chief Financial Officer) (and/or designee).

C. Loan Guidelines and Authorized Investments of Cash Collateral

Securities may be placed on loan if the following criteria have been met:

1. The City receives U.S. dollar-denominated cash as collateral.
2. All borrowers must pledge and deliver cash collateral for each loan equal to at least 102 percent of the value of the loaned securities plus accrued interest, at the time the loan is initiated.
3. All securities are loaned on a fully collateralized basis. The market value of the collateral must be maintained by the SLP agent at a level that is not less than 102% of the market value of the securities loaned.
4. The SLP agent provides normal settlement liquidity (next day) for all loaned securities.

5. All lending counterparties must be primary dealers in United States Government Securities as recognized by the Federal Reserve Bank of New York, hereafter, "Primary Dealer", and have an executed master securities lending agreement in place prior to initiating any transactions. Net capital of all lending counterparties must be in excess of \$100 million.
6. No more than 25% of assets on loan are placed with the same lending counterparty.
7. No more than 75% of the City's total portfolio may be on loan at any given time.
8. Each security on loan must account for less than 50% of the total amount issued and outstanding.

The SLP agent is authorized to invest cash collateral in the following securities:

1. United States Treasury Bills, Notes and Bonds
 - A. Maximum maturity of 90 days.
 - B. Maximum % of collateral reinvestment Portfolio - 100%
2. United States Government Agency Securities
 - A. Federal National Mortgage Association (FNMA).
 - B. Federal Home Loan Bank (FHLB).
 - C. Federal Farm Credit Bank (FFCB).
 - D. Federal Home Loan Mortgage Corporation (FHLMC).
 - E. Government National Mortgage Association (GNMA).
 - F. Maximum final maturity of 90 days.
 - G. Maximum % of collateral reinvestment Portfolio - 100%
3. Repurchase Agreements
 - A. All counterparties must be Primary Dealer as recognized by the Federal Reserve Bank.
 - B. The counterparty must have an executed repurchase agreement in place.
 - C. Maximum maturity of repurchase agreements shall be 1 business day.
 - D. Maximum % of collateral reinvestment Portfolio - 100%
 - E. Reverse repurchase agreements are not permitted investments.
 - F. No more than 15% of loan-eligible assets shall be placed with a single counterparty.
 - G. Collateral must be delivered to the City's custodial account or to an account established for the benefit of the City pursuant to the terms of the specific repurchase agreement in the name of the City.
 - H. Collateral for repurchase agreements may include any combination of the following:

- a) United States Treasury Securities
 - (1) Collateralized at 102 percent
- b) United States Government Agency Securities.
 - (1) Collateralized at 102 percent
- c) United States Government Agency Mortgage Securities
 - (1) Collateralized at 102 percent
- d) Commercial Paper (“CP”)
 - (1) Collateralized at 102 percent.
 - (2) Rating must be A1/P1 or better by Standard & Poor’s and Moody’s Investors Services, respectively at the time of purchase.
- e) Corporate Fixed or Floating Rate Notes
 - (1) Collateralized at 105 percent.
 - (2) Rating must be “AA” or “Aa2” or higher by at least two NRSROs at the time of purchase.

The weighted average maturity of the securities on loan and the cash collateral reinvestments shall not exceed 30 days.