CITY OF LOVELAND

INVESTMENT POLICY

June 7, 2019
Expiration of the Temporary Amendment (Three years following its approval by City Council)

June 7, 2016
Further Amended to the Temporary Amendment – Adopted by City Council 6-7-2016

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June 2019

I. PURPOSE

The purpose of this investment policy is to establish the City's official policy regarding the policy's scope, the objectives of the policy, the delegation of authority in regards to making investment decisions, what the City considers to be appropriate standards of prudence, ethics and conflict of interest, safekeeping and custody, and what are suitable and authorized investments and the parameters for those investments, and the reporting on investments and investment results. This policy will establish guidelines for the efficient management of the City's funds and for the purchase and sale of investments. This Policy Statement recognizes will reflect the fact that the performance of the investment portfolio is subject to public review and evaluation and that the overall program shall be designed and managed with a level of professionalism worthy of the public's trust.

II. SCOPE

This investment policy supersedes all previous investment policies. This investment policy applies to all investment transactions of the City of Loveland, except for certain employee retirement funds that are administered and managed by third party agreements. These pension funds are administered under agreements with outside agencies and are required to comply with specific state statutes concerning plan investments.

Specifically, the scope of this policy applies to all transaction and activities in the following funds:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Projects Funds
- Enterprise Funds
- Internal Service Funds
- Trust and Agency Funds
- Any new fund created by the Loveland City Council, unless specifically exempted by the Loveland City Council.

III. OBJECTIVES

This policy recognizes that within a diversified portfolio occasional measured losses are inevitable and must be considered within the context of the overall portfolio's investment return. With this recognition, safety of principal is set as the foremost objective of the City of Loveland's Investment Policy. Each investment transaction shall first seek to ensure that capital losses are avoided. Capital losses are defined as losses that result from securities defaults or the erosion of market value.

As a general rule, investments will be held until maturity but the trading of securities in an attempt to improve investment return through market timing is allowed. The sale of securities prior to maturity is also allowable where the funds are needed to meet the City's cash flow needs, or where there is an identifiable potential for capital loss.

Following safety of principal, the other two primary objectives to be considered in the investment decision process will be (1) whether the investments provides sufficient liquidity to meet operating needs and (2) given the safety and liquidity constraints is the yield appropriate. The investment portfolio of the City of Loveland shall be designed to include income type investments that will provide a market average yield at maturity while considering the City's safety of principal and liquidity constraints.

As a target, no more than 20% of the City's portfolio should be invested in overnight investments unless the yield of longer-term investments is such that it is unattractive to purchase long-term investments. These investments include the City's "sweep account" which is swept into a money market account nightly, other money market instruments and investment pools where funds are available within 24 hours.

The balance of the investment portfolio shall remain sufficiently liquid to meet all the projected cash flow needs of the City that can be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrently with the cash needs. Since all possible cash flow requirements cannot be anticipated, the portfolio shall consist of those securities with an active secondary market or resale market.

Securities shall not be sold prior to maturity unless (1) there is evidence of decline in the quality of the security and an early sale will minimize the loss of principal, (2) a security swap would improve the quality, yield, or target duration in the portfolio or (3) as previously noted, to meet the liquidity needs of the City.

IV. DELEGATION OF AUTHORITY

In accordance with Section 3.04.070 of the Loveland Municipal Code, the City Council has delegated the authority and responsibility for managing the investment program of the City of Loveland in the City Manager or designee. The City Manager or designee shall carry out the investment program in accordance with Colorado State law, C.R.S. 24-75-601, Section 3.04.070 of the Loveland municipal Code and this policy statement.

The City Manager or designee shall carry out his/her responsibilities through the issuance of procedures and internal controls consistent with this policy statement to assure that the priorities of this policy statement are adhered to. Appropriate procedures shall include, but not be limited to, (1) safekeeping of assets, (2) delivery of securities vs. payment, (3) accounting for investments, (4) selection of investments, (5) banking service contracts and appropriate internal control measures. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the City Manager or designee.

The City Manager or designee shall be responsible for all investment transactions undertaken and shall establish a system of controls to authorize and monitor all investment activity.

V. PRUDENCE

Investments shall be made applying an industry standard known as the "prudent investor rule". Under this rule, "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 acting in accordance with the written procedures and this investment policy, state law and local ordinances, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectation are reported in a timely fashion and appropriate action is taken to control and minimize losses. This action may include selling securities prior to maturity if it appears that there is a substantial risk of loss of capital and that selling a specific security can minimize that risk or to improve overall return on investment.

VI. ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal business activity that could, in any way, conflict with or compromise the proper execution and management of the City of Loveland's investment program, or that could impair their ability to make impartial decisions. These employees and investment officials shall disclose, upon occurrence, 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. These employees and officials are prohibited from undertaking personal investment transactions with the same individual with which business of the City is conducted.

VII. EXECUTION, SAFEKEEPING AND CUSTODY

1. Executions

The responsibility of the execution of security transactions shall rest with such qualified employees as designated by the City Manager or designee. The selection of outside professional investment services shall be made on the basis of a competitive selection process. The competitive selection shall consider factors in addition to commissions/cost profile and the low cost provider will not necessarily be the successful competitor. Nothing in this policy shall limit the City to only one outside investment professional.

Security orders shall be placed on the basis of accepted investment practices. The City Manager or designee shall approve investment firms with whom orders may be executed. A periodic review of the capital adequacy and any legal or regulatory discipline imposed on firms with whom transactions may be considered shall be conducted by the Finance Director and the results reported to the Citizens' Finance Advisory Commission The City Manager or designee shall report any changes to the list of approved firms, along with the reasons for the changes, to the Citizens' Finance Advisory Commission.

All confirmations of authorized trades of securities will include information on (1) the date of the trade, (2) the securities par value, (3) maturity date of the security, (4) the security's interest rate, (5) the price of the security, (6) the security's yield to maturity, (7) the settlement date of the trade, (8) a description of the security purchased or sold, (9) any agency's name, (10) the amount due or received , and (11) any third party custodial information. All confirmations must be received within three (3) business days after the trade date.

2. Authorized Financial Dealer and Institution

Depositories shall be selected through the City of Loveland's banking service procurement process, which shall include a formal request for proposal process to be conducted every five years. In selecting depositories, the credit worthiness of all institutions solicited shall be considered, and the City Manager or designee shall conduct a thorough and comprehensive review of all-prospective depositories credit characteristics and financial history. References will be required of all prospective depositories.

3. Internal Controls

The City Manager or designee is responsible for establishing and maintaining an internal control structure designed to ensure that the assets are protected for 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 control features should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

Accordingly, the City Manager or designee shall establish a process for annual independent review
by the City's external auditor to assure compliance with policies and procedures. The annual review shall address the following points:

- Control of collusion – Collusion is a situation where two or more individuals are working in conjunction with each other to defraud the employer.
- Separation of transaction authority from accounting and recordkeeping – By separating the person who authorizes or performs the transaction from the parties who record or otherwise account for the transaction, a separation of duties is achieved and works to minimize the opportunity for collusion.

- Custodial safekeeping – Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.

- Avoidance of physical delivery of securities – Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss is increased when securities are physically delivered. For these reasons, actual delivery should be avoided except for extraordinary circumstances, i.e. a contribution to the City made in the form of stocks.

- Clear delegation of authority to others – All staff members must have a clear understanding of their authority and responsibilities to avoid inappropriate or unauthorized actions. Clear delegation of authority is essential to preserve the internal control structure that is dependent on the proper separation of duties among staff members.

- Written confirmation for telephone transactions of investments and wire transfers – Due to the potential for error and/or improprieties arising from telephone transactions, all telephone transactions shall be documented with written confirmation and approved by the appropriate staff member. Written communications may be via fax if on the City's letterhead and if the safekeeping institution has a list of individuals authorized to make an investment or create a wire transfer.

- Development of a wire transfer agreement with the lead bank or third party custodian – This agreement should outline the various controls, security provisions and delineate responsibilities of each party making and receiving wire transfers.

4. Delivery versus Payment

All trades, where applicable, will be executed by delivery vs. payment. This ensures that securities are deposited in the eligible financial institution prior to the release of the funds. A third party custodian as evidenced by safekeeping receipts will hold securities.

VIII. SUITABLE AND AUTHORIZED INVESTMENTS

Most City funds are scheduled for specific purposes with maturities selected to coincide as closely as possible with the periods in which monies will be spent for their intended purpose, even though new money is coming in to replace the expended funds. Since the nature of the yield curve tends to be positive (i.e. the longer the term of investment the higher the rates that are available) the City will attempt to stagger the maturity dates on investments to meet the anticipated cash flow needs based on a cash flow analysis and the available yield curve information. However, it is the intention of the City to maximize investment return within the constraints delineated in this policy and according to investment marketability and diversification. In maximizing investment return, it is anticipated that specific securities may be sold prior to maturity.

Eligible Investments:

- All investments authorized by C.R.S. 24-75-601.1 and 24-75-702 (exhibit A)
- Fully insured and/or collateralized certificates of deposit of commercial banks who have submitted a letter documenting that they are a Colorado Banking Board Eligible Public Depository
- Interest bearing advances from one city fund to any other city fund
- The following investments will be permitted by this investment policy:

1. **United States Treasury and Agency Issues**
   Eligible Security Description:

   Securities that are issued by the United States Treasury or Agencies of the United States Government for which the full faith and credit of the United States Treasury guarantees fully all principal and interest payments.

   Credit Rating:

   Securities which carry two credit ratings with a minimum rating of AA-/Aa3/AA- respectively from Standard & Poor's, Moody's Investor service, or Fitch. Securities qualified under Section 2a-7 will be investment eligible on the agencies' short-term credit scale, requiring a minimum rating of A1/P1/F1 from the respective rating agencies.

   Maturity Risk Restriction:

   At the time of purchase, securities must have a maturity of no greater than five years from the date of settlement to the maximum possible maturity date.

   Diversification Limit:

   Up to 100% of the total portfolio may be invested in securities purchased in United States Treasury and Agency issues.

2. Government Sponsored Enterprises ("GSE")

Eligible Security Description:

Securities issued by federal government sponsored enterprises ("GSE") such as, but not limited to the Federal Agricultural Mortgage Corporation, Federal Farm Credit Bank, the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation. These securities are not guaranteed by the full faith and credit of the United States Government, however, they hold an implied federal guarantee.

Credit Rating:

Must be senior debt obligations which carry two credit ratings with a minimum rating of AA-/Aa3/AA- from standard & Poor's, Moody's, or Fitch. Securities qualified under Section 2a-7 will be eligible for investing on the agencies' short-term credit scale, requiring a minimum rating of A1/P1/F1 from Standard & Poor's, Moody's or Fitch.

Maturity Risk Restriction:

At the time of purchase, securities must have a maturity no greater than five years from the date of settlement to the maximum possible maturity date.

Diversification Limit:

Up to 75% of the portfolio may be invested in Government Sponsored Enterprises. No more than 35% of the total portfolio may be invested in the securities of any single GSE.

3. State and Local Debt Issues

Eligible Security Description:

General obligation or revenue obligation of any state of the United States, the District of Columbia, or any territorial possession of the United Stated, or, of any political subdivision, institution, department, agency, instrumentality, or authority or any such governmental entities.

Credit Rating:

Obligations which carry a minimum rating of AA-/Aa3/AA- respectively from Standard & Poor's Moody's or Fitch. Securities qualified under section 2s-7 will be eligible for investing on the agencies' short-term credit scale, requirement a minimum rating of A1/P1/F1 respectively from Standard & Poor's, Moody's, or Fitch. If a short-term rating has not been assigned, then apply the long-term credit scale.

The City may invest in its own bond, lease, or note issues, and those of its urban renewal authority without a rating, consistent with existing state law.

Maturity Risk Restriction:
At the time of purchase, such securities must have a maturity no greater than five years from the date of settlement.

Diversification Limit:

Up to 50% of the portfolio may be invested in State and Local Government debt issues. No more than 10% of the total portfolio may be invested in the securities of any single government entity.

4. Corporate Securities

Eligible Security Description:
United States dollar denominated debt instruments issued by a corporation or bank which is organized and operated within the United States and has a net worth is excess of two hundred fifty million dollars.

Credit Rating:
Must be obligations which carry two credit ratings with a minimum rating of AA-/Aa3/AA- respectively from Standard & Poor's, Moody's, or Fitch. Securities qualifies under section 2a-7 will be eligible for investing on the agencies' short-term credit scale, requiring a minimum rating of A1/P1/F1 respectively from Standard & Poor's, Moody's, or Fitch. If a 2a-7 security has no assigned short-term rating, then apply the long-term scale criteria.

Maturity Risk Restriction:

At the time of purchase such securities must have a maturity no greater than three years from the date of settlement to the maximum possible maturity date.

Diversification Limit:
Up to 25% of the portfolio may be invested in Corporate Debt, exclusive of any amount invested in GSE securities. No more than 5% of the total portfolio may be invested in the securities of any single corporation.

5. Local Government Investment Pools (LGIP)

Eligible Security Description:

Shares in local government investment pools organized and operated per Colorado Revised Statutes.

Credit Rating:

Must carry a minimum rating of AAAm/Aaa from Standard & Poor' or Moody's.

Maturity Risk Restriction:

At the time of purchase of shares in the LGIP, they must be fully redeemable on the next business day.

Diversification Limit:

Up to 100% of the portfolio may be invested in local government pools. No more than 50% of the total portfolio may be invested in shares of any single LGIP.

6. Money Market Funds

Eligible Security Description:

Accounts that pool money from many investors, have a fund manager, and trade the fund's assets in accordance with the fund's objective. The Fund must be actively controlled by a registered investment company under the "Investment Company Act of 1940", as amended, and Securities Exchange Commission rule 2a-7 (17 CFR 270.2a-7). The fund must have assets in excess of one billion dollars, hold only securities eligible under C.R.S. section 24-75-601.1, a maximum maturity no greater than three years, and shares redeemable the next business day.

Credit Rating:

Must carry a minimum rating of AAAm/Aaa respectively from Standard & Poor's or Moody's.

Maturity Risk Restriction:

At the time of purchase, shares must be fully redeemable on the next business day.

Diversification Limit:

Up to 50% of the portfolio may be deposited in Money Market Funds. No more than 20% of the total portfolio may be invested in any single fund.

7. Repurchase and Reverse Repurchase Agreements

Eligible Security Description:

Agreements between a seller and a buyer whereby the seller agrees to repurchase the securities at an agreed upon price and usually at a stated time. Such securities subject to these agreements must have a coupon rate that is fixed from the time of settlement until its maturity date, and must be marketable. The title to or a perfected security interest in such securities, along with any necessary transfer documents, must be transferred to the investing public entity or to a custodian acting on behalf of the investing public entity. Such securities must actually be delivered to a third-party custodian or third-party trustee for safekeeping on behalf of the public entity. The collateral securities of repurchase agreements must be collateralized at no less than one hundred two percent and marked to market no less frequently than weekly. Eligible securities consist of only those referenced in this Section: 1. United States Treasury and Agency Issues and, 2. Government Sponsored Enterprises.

Credit Rating:

The counter-party must carry two credit ratings with a minimum rating of AA-/Aa3/AA- respectively from Standard & Poor's, Moody's, or Fitch. Securities qualified under Section 2a.7 will be eligible for investing on the agencies' sort-term credit scale, requiring a minimum rating of A1/P1/F1 respectively from Standard & Poor's Moody's, or Fitch. If a 2a-7 qualified security has no assigned short-term rating, then apply the long-term scale criteria.

Maturity Risk Restriction:

For Repurchase Agreements, at the time of purchase such agreements must have a maturity no greater that one year from the date of settlement to the maximum possible maturity date. The forward delivery period on such securities may not exceed 60 days. For Reverse Repurchase Agreements, at the time of purchase, such agreements must have a maturity no greater than 90 days from the date of settlements to the maximum possible maturity date. Requirements for both Repurchase Agreements and Reverse Repurchase Agreements, at the time of purchase are 1) the forward delivery period on such securities may not exceed 30 days 2) securities must be fully marketable 3) City must have title to or a perfected interest in said securities 4) all required documents must be transferred to acting safekeeping agent 5) securities must be delivered versus payment into the City's safekeeping account 6) securities must be collateralized at no less than one hundred two percent and marked to market value no less frequently than weekly.

Diversification Limit:

Up to 50% of the portfolio may be invested in Repurchase Agreements and up to 20% of the portfolio may be invested in Reverse Repurchase Agreements. No more than 20% of the total portfolio may be invested in either of these agreements with any single counter-party.

8. Deposits in State or Nationally Chartered Depository Institutions

Eligible Security Description:

Such depositories must be participants in the State of Colorado Public Deposit Protection Act (PDPA) collateralization program as defined in C.R.S. Section 11-10.5-103, whereby, the bank must pledge their own securities.

Credit Rating:

As depositories are often unrated by nationally recognized credit rating agencies, any deposit and accrued interest above the Federal Depository Insurance Corporation (FDIC) maximum insured amount must be collateralized through the Public Deposit Protection Act. The Colorado Division of Banking and Colorado Division of Financial Services are responsible to monitor and assure adequate collateralization in reserve. For deposits above the FDIC limit and if a long-term credit rating is available from Standard & Poor's, Moody's, and Fitch, on the bank, then a minimum rating of A-/A3/A- respectively is required. If no such rating is assigned, then the bank must carry an acceptable rating from Bauer Financial.

Maturity Risk Restriction:

Demand Deposit, Savings, and Money Market accounts have n0o final maturity, therefore, can remain on deposit as long as the financial institution retains a Bauer financial rating of two stars for deposits fully insured by the FDIC or three stars for deposits subject to PDPA. All financial institutions must have an Adjusted Risk Based Capital (RBC) greater than eight as reported on their quarterly Call report.

Diversification Limit:

Up to 75% of the portfolio may be deposited in State of Nationally Chartered Depository institutions. No more than 30% of the total portfolio may be invested in any single type of bank instrument (Demand Deposit, Saving, Time Deposit, Money Market) at one depository.

Prohibited Investments:

- Purchases on margin or short sales –
- Derivative securities that are in effect a leveraged anticipation of future movements in interest rates or some price indices –
- Collateralized mortgage obligations due to their complexity and prepayment rate uncertainty –
- Lending securities with an agreement to buy them back after a stated period of time –
- If an eligible investment drops in its credit rating below the required level, the investment will be reviewed for possible retention or sale.

Retention of Investments that fall below required Credit Ratings for Investment:

Should a currently held investment have its credit rating reduced below the level allowed for purchase, a determination must be made to sell or retain the investment. The following actions will be followed to confirm a decision to retain the investment. Otherwise, the investment shall be sold as expeditiously as possible.

- First, an analysis shall be conducted to confirm that the investment remains consistent with the objectives of this investment policy.
- Second, should retention be determine the preferred action rather than realizing unacceptable losses, a report detailing those findings shall be provided to the City Manager. Accomplishing this within a reasonable timeframe following the notification of the credit rating downgrade is a goal, but not an inflexible timeline. Exceptional circumstances are within the purview of the City Manager.
- Third, the City Manager may not concur with the recommendation to retain an investment and direct the sale of the investment.

- Fourth, should the City Manager concur with the retention recommendation, the City Council shall be so informed, by communicating the City Manager's position, including the original recommendation and a copy of the report. Council may exercise its normal process to bring the matter before the Council for a Study Session, Special or Regular Meeting.
- This procedure shall apply to any subsequent reduction in the credit rating of an investment. There is no limitation on the number of times an investment may be reviewed using the retention procedures.

The temporary addendum to the investment policy, adopted by City Council by Ordinance No. 6018 on June 7, 2016, was deleted on June 7, 2019 upon expiration.

IX. INVESTMENT PARAMETERS

1. Diversification –

Investments should be diversified by security type and institution.

2. Maximum maturities –

Investments of the City shall be limited to maturities not to exceed five (5) years, unless specific authority is given by the Loveland City Council to exceed that limit. To the extent possible the City will attempt to match its investments with anticipated cash flow needs. Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than five (5) years from the date of purchase.

3. Pooling of City Monies –

For investment purposes, all City monies will be pooled and no investments will necessarily be directly those of any particular fund except in extraordinary circumstances that may legally or for some other particular reason require separate accountability. All funds will receive their proportionate share of investment earnings.

X. REPORTING

1. Methods

The City Manager or designee shall prepare an investment report no less than semi-annually, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made during the preceding period. This management summary will be prepared in a manner that will allow the entity to ascertain whether investment activities during the period are in conformance with this investment policy. The report shall be provided to the City Manager or designee, the Citizens' Finance Advisory Commission and the City Council. The report will include the following:

- A listing of investments sold prior to maturity and the resulting gains or losses
- A listing of individual securities held at the end of the period in descending order of maturity dates and include the following:
  - The cost basis of the investments
  - The current market value of the investments
  - The current credit rating
  - Unrealized gain or loss
  - The coupon rate of interest
  - The effective yield to maturity
- The average term of the portfolio as a whole
- A percentage breakdown of investments by type

Additional performance indicators may be provided to supplement the above information.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified with this policy. On average, the portfolio should obtain a market average rate of return on an annual basis. To measure performance, the portfolio should be compared to appropriate benchmarks on a regular basis.

XI. POLICY

1. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy until the security matures or is liquidated. All reinvestments of these funds after the date of this policy will be required to meet the requirements of this policy.

2. Amendment

This policy shall be reviewed on an annual basis and amendments recommended by the Citizens' Finance Advisory Commission from time to time as necessary. The City Council shall approve any changes.