

Renville County, MN

Investment Policy



Section 1. PURPOSE.

The purpose of this Policy is to set forth the investment objectives and parameters for the management of public funds of Renville County. This investment policy is designed to safeguard funds on behalf of the County, to assure the availability of operating and capital funds when needed, and provide an investment return competitive with comparable funds and financial market indices.

Section 2. SCOPE.

In accordance with Minnesota State Statute Chapter 118A, this investment policy applies to all cash and investments held or controlled by the Board on behalf of the County. This policy does not apply to funds related to the issuance of debt where there are other indentures in effect for such funds. Additionally, any future revenues, which have statutory investment requirements conflicting with this Investment Policy and funds held or controlled by Federal or State agencies (e.g., Department of Revenue), are not subject to the provisions of this policy.

Section 3. DEFINITIONS.

For purposes of this Policy, the following terms shall have the following meanings:

“Board” means the County Board of Renville County.

“Core portfolio” means long term investments that are held primarily as reserves and represent fund equity.

“County” means Renville County.

“Derivative” means a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or indices or asset values.

“Investment Officials” means any authorized designee of the Board, including the County’s staff of Finance and Accounting professionals.

“Master Repurchase Agreement” means the current standard Master Repurchase Agreement approved by the Public Securities Association or by any successor organization.

“Moody’s” means Moody’s Investors Service, a global credit rating, research and risk analysis firm, publishing credit opinions, research and ratings on fixed income securities, issuers of securities and other credit obligations.

“Qualified Institutions” means institutions meeting the requirements of Section 8 of this Policy.

“Reverse Repurchase Agreement” means an investment methodology by which the holder of a group of securities sells them to a broker-dealer under the provision that the customer shall repurchase them on a predetermined date for a specific price. The difference between the selling price and the repurchase price represents interest to the broker/dealer.

“Short term portfolio” means investment of cash that is needed for operating purposes within a twelve month period.

“Standard and Poor’s” means Standard and Poor’s Corp., an independent bond rating service which measures the probability of the timely payment of principal and interest.

“Third Party Custodian” means any financial institution which shall lawfully act as a depository chartered by the Federal Government, the State of Minnesota, or any other state or territory of the United States which has a branch or principal place of business in the State of Minnesota as defined in Minnesota State Statutes Chapter 118A.06.

Section 4. INVESTMENT OBJECTIVES.

The objectives of this Investment Policy are:

A. Safety of Principal.

The foremost objective of this investment program is the safety of the principal of funds. Investment transactions shall seek to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. To attain this objective, investments will be diversified to the extent practicable to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer, or financial institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

From time to time, securities may be traded for other similar securities to improve yields, adjust maturity or reduce risk. For these transactions, a loss may be incurred for accounting purposes, provided any of the following occurs with respect to the replacement security:

- i. The net projected yield has been increased;
- ii. Maturity has been favorably adjusted, or
- iii. Quality of the investment has been improved.

B. Return on Investment.

Investment portfolios 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. It is understood that return on investment is of lesser importance when compared to the safety objective as described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

C. Maintenance of Liquidity.

The funds shall be managed such that they are available to meet reasonably anticipated cash flow requirements. Periodic cash flow analyses shall be completed in order to ensure that the funds are positioned to provide sufficient liquidity.

Section 5. MANAGEMENT OF INVESTMENTS.

The Board shall establish an Investment Committee to oversee the day-to-day management of County investments. The Board shall be responsible for the transferring of appropriate funds to affect investment transactions, for the investment of operating funds, operating reserves funds, and bond proceeds, consistent with this policy and actions of the Investment Committee. Should the Board elect to select an investment advisor, such advisor or firm must be registered under the Investment Advisor's Act of 1940.

Section 6. STANDARDS OF 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 the overall investment program. Investment officials, acting in accordance with written procedures and this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectation are reported to the Investment Committee in a timely fashion and the liquidity and the sales of securities are carried out in accordance with the terms of this policy. 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 from the investment.

While the standard of prudence to be used by Investment Officials who are officers or employees is the Prudent Person standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of "Prudent Expert." This is a revised version of the Prudent Person standard required by ERISA to guide managers of pension and profit-sharing portfolios. The main addition is that the manager must act as someone with familiarity with matters relating to the management of money, not just prudence. The standard is that:

. . . in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the person or firm shall exercise the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

Section 7. ETHICS AND CONFLICTS OF INTEREST.

Investment Officials shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Also, Investment Officials shall disclose to the Investment Committee any material financial interests in Qualified Institutions that conduct business with the Board or the County, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the County's investment program.

Section 8 AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS.

Only firms meeting one of the following requirements shall be eligible to serve as Qualified Institutions:

- A. The firm must comply with all of the following requirements.
 - i. Primary and regional dealers that qualify under Securities and Exchange Commission Rule 15 C3-1 (uniform net capital rule);
 - ii. Capital of no less than \$10,000,000;
 - iii. Registered as a dealer under the Securities Exchange Act of 1934;
 - iv. A member of the National Association of Securities Dealers (NASD);
 - v. Registered to sell securities in Minnesota; and
 - vi. The firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years; or,
- B. Public Depositories qualified in accordance with Minnesota State Statute Chapter 118A.

All brokers, dealers and other financial institutions deemed to be Qualified Institutions shall be provided with current copies of this investment policy and shall provide in return to the Board, certification of having read, understood and agreement to comply with this investment policy.

Section 9. MATURITY AND LIQUIDITY REQUIREMENTS.

To the extent possible, an attempt shall be made to match investment maturities with known cash needs and anticipated cash flow requirements.

A. Maturity Guidelines.

Securities purchased shall have a final maturity of ten (10) years or less from the date of purchase. The overall weighted average duration of the entire portfolio shall be less than seven (7) years. The maturities of the underlying securities of a repurchase agreement shall follow the requirements of the Master Repurchase Agreement.

B. Liquidity Requirements.

The Investment Officials shall determine the approximate amount of funds required to meet the day-to-day expenditure needs of the County. All balances in the depository bank shall be maintained in an interest-bearing account. In order to have an available source of funds to meet unexpected cash requirements, a minimum of one-month's operating expenses shall be invested with the MAGIC fund, an authorized money market fund or other short-term alternatives. The balance of the County's funds shall be available for investment according to the guidelines incorporated within this policy.

Section 10. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS.

After Investment Officials have determined the approximate maturity date based on cash flow needs and market conditions and have analyzed and selected one or more optimal types of investments, a minimum of three (3) Qualified Institutions must be contacted and asked to provide bids/offers on the securities in question. The County shall utilize the competitive bid process to select the securities to be purchased or sold. However, if obtaining bids/offers are not feasible and appropriate, securities may be purchased/sold utilizing the comparison to current market price method on an exception basis. Selection by comparison to a current market price shall only be utilized when, in the judgment of the County, competitive bidding would inhibit the selection process.

- A. Examples of when this method may be used include:
 - i. When time constraints due to unusual circumstances preclude the use of the competitive bidding process,
 - ii. When no active market exists for the issue being traded due to the age or depth of the issue,
 - iii. When a security is unique to a single dealer, for example, a private placement, or
 - iv. When the transaction involves new issues or issues in the "when issued" market.

- B. Acceptable current market price providers include, but are not limited to:
 - i. Tradeweb Internet Pricing,
 - ii. Bloomberg Information Systems (Bloomberg Fair Value Pricing),
 - iii. Daily market pricing provided by the County's custodian or a third party pricing service.

Overnight sweep investment instruments shall not be separately bid, but may be placed with the County's depository bank relating to the demand account for which the investment instrument was purchased.

Section 11. AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION.

Investments should be made subject to cash flow needs and subject to revisions as market conditions and County needs change.

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the County. Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the Investment Committee. The Investment Committee shall have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies. The percentage allocation requirements for investment types and issuers are calculated based on the original cost of each investment at the time of purchase. Investments not listed in this policy are prohibited. The following requirements do not apply to funds derived from the sale of debt.

- A. The investment programs affiliated with the Minnesota Association of Governments Investing for Counties (MAGIC).

A maximum of 100% of available funds may be invested in The Minnesota Association of Governments Investing for Counties (MAGIC) Fund and any of its affiliated investment programs.

- B. United States Government Securities.

Negotiable direct obligations, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. These securities must have a liquid market with a readily determined market value.

A maximum of 100% of available funds may be invested in United States Government Securities.

The maximum length to maturity of any direct investment in the United States Government Securities is ten (10) years from the date of purchase.

C. United States Government Agencies.

Negotiable bonds, debentures, notes, callable securities, and mortgage-backed securities issued or guaranteed by United States government agencies, provided such obligations are backed by the full faith and credit of the United States. (Issuers including FNMA, FHLMC, FHLB and FFCB are not guaranteed by the U.S. Government and are considered Federal Instrumentalities)

A maximum of 50% of available funds may be invested in United States government agencies.

A maximum of 10% of available funds may be invested in any individual United States government agencies.

The maximum length to maturity for an investment in any United States government agency security is ten (10) years from the date of purchase. For mortgage-backed securities, the weighted average life must be no more than ten years (10) from the date of purchase.

D. Federal Instrumentalities (United States Government-Sponsored Enterprises).

Negotiable Senior debt obligations which include bonds, debentures, notes, callable securities, and mortgage-backed securities issued or guaranteed by United States Government-Sponsored Enterprises (Federal Instrumentalities), which are non-full faith and credit agencies, including but not limited to:

Federal Farm Credit Bank (FFCB).
Federal Home Loan Bank or its County banks (FHLB).
Federal National Mortgage Association (FNMA).
Federal Home Loan Mortgage Corporation (Freddie-Macs).

A maximum of 80% of available funds may be invested in Federal Instrumentalities.

A maximum of 30% of available funds may be invested in any one issuer and a maximum of 25% of available funds may be invested in callable securities.

The maximum length to maturity for an investment in any Federal Instrumentality security is ten (10) years from the date of purchase. For mortgage-backed securities, the weighted average life must be no more than ten years (10) from the date of purchase.

E. Certificates of Deposit.

Nonnegotiable interest-bearing time certificates of deposit of Public Depositories qualified in accordance with Minnesota State Statute Chapter 118A. Deposits must be either FDIC Insured, Collateralized or guaranteed by a Surety Bond executed by a financial institution authorized to do business in Minnesota. If Collateralized, the County will request a copy of the "Depository Pledge Agreement" (outlines the structure of the collateral, ex. treasury, agency etc. and the amount of collateral required). When Corporate Surety is provided as collateral, the County will request a copy of the "Bank's Deposit Guaranty Bond Agreement.

The County will eliminate investment Custodial Credit Risk by permitting brokers that obtained investments for the County to hold them only to the extent there is SIPC (Securities Investors Protection Corporation) Insurance and excess SIPC coverage available. Securities purchased that exceed available SIPC coverage shall be transferred to the County's custodian. Furthermore, CD's purchased through a deposit placement service, such as CDARS (the

Certificate of Deposit Account Registry Service), must meet FDIC requirements so that FDIC insurance coverage flows through from the issuing bank to the County.

A maximum of 25% of available funds may be invested in nonnegotiable interest-bearing time certificates of deposit.

A maximum of 10% of available funds may be deposited with any one institution.

The maximum maturity on any certificate shall be no greater than five (5) years from the date of purchase.

F. Repurchase Agreements.

Repurchase agreements composed of only those investments authorized in Minnesota State Statute Chapter 118A. All firms are required to sign the County's Master Repurchase Agreement prior to the execution of a repurchase agreement transaction.

A Third-Party Custodian with whom the County has a current custodial agreement shall hold the collateral in the County's name for all repurchase agreements with a term longer than one (1) business day. A clearly marked receipt that shows evidence of ownership must be supplied to the County and retained by the Third Party Custodian for so long as the custodian holds the security.

Securities authorized for collateral must have a market value for the principal and accrued interest of 102 percent of the value the term of the repurchase agreement. Immaterial short-term deviations from the 102 percent requirement are permissible only upon the approval of the Investment Officials.

The overnight sweep arrangement shall adhere to the agreement between the County and the County's depository bank.

A maximum of 20% of available funds may be invested in repurchase agreements excluding one (1)-business day agreements and overnight sweep agreements.

The maximum length to maturity of any repurchase agreement is 360 days from the date of purchase.

G. Commercial Paper.

Commercial paper denominated in U.S. dollars and issued by the United States branch or subsidiary of any company that is rated, at the time of purchase, Prime-1 by Moody's and A-1 by Standard & Poor's (prime commercial paper). If the commercial paper is backed by a letter of credit (LOC), the long-term debt of the LOC provider must be rated AA or better by at least two nationally recognized rating agencies.

A maximum of 30% of available funds may be directly invested in prime commercial paper.

A maximum of 5% of available funds may be invested with any one issuer.

The maximum length to maturity for prime commercial paper shall be 270 days from the date of purchase.

H. Bankers' Acceptances.

Bankers' acceptances issued by a domestic bank or a federally-chartered domestic office of foreign bank, which are eligible for purchase by the Federal Reserve System, a member of the federal deposit insurance corporation, and at the time of purchase the short-term paper is rated, at a minimum, P-1 by Moody's Investors Services and A-1 Standard & Poor's.

A maximum of 20% of available funds may be directly invested in Bankers acceptances.

A maximum of 5% of available funds may be invested with any one issuer.

The maximum length to maturity for Bankers' acceptances shall be 180 days from the date of purchase.

I. Registered Investment Companies (Money Market Mutual Funds).

Shares in open-end, no-load Money Market Mutual Funds provided such funds are registered under the Federal Investment Company Act of 1940 and operate in accordance with 17 C.F.R. 270.2a-7, which stipulates that money market funds must have an average weighted maturity of 90 days or less. In addition, the share value of the money market funds must equal to \$1.00.

A maximum of 100% of available funds may be invested in money market funds.

The money market funds shall be rated AAAM by Standard & Poor's, or the equivalent by another nationally recognized rating agency.

A thorough review of any money market fund is required prior to investing, and on a continual basis. A fund must be composed entirely of investment vehicles that are legal for direct investment by the County.

J. Investment Pools.

As authorized by the surplus funds investment pool act, Minnesota State Statute Chapter 118A, composed entirely of instruments that are legal for direct investment by a County.

Section 12. PERFORMANCE MEASUREMENTS.

In order to assist in the evaluation of the portfolios performance, the Board shall use performance benchmarks for short-term and core portfolios. The use of benchmarks shall allow the County to measure its returns against other investors in the same markets.

The short-term investment portfolio shall be designed with the annual objective of exceeding the yield of a 90-day U.S. Treasury Bill.

For the core investment portfolio, the County shall approve the use of a recognized industry benchmark that is suitable and appropriate based on the objectives of the County and as determined by cash flow need and analysis

Section 13. REPORTING.

Performance reports shall be prepared at least annually for the Board of County Commissioners that shall include securities in the portfolio by class or type, income earned, and market value as of the reporting date. The annual report shall provide all, but not limited to, the following: a complete list of all invested funds, name or type of security in which the funds are invested, the amount invested, the maturity date, earned income, the book value, the market value and the yield on each investment. The annual report shall show performance on both a book value and total rate of return basis and shall compare the results to the above-stated performance benchmarks. All investments shall be reported at fair value per Statements issued by the Governmental Accounting Standards Board.

Section 14. THIRD-PARTY CUSTODIAL AGREEMENTS.

Securities shall be held with a third party custodian. All securities purchased by and all collateral obtained by the County should be properly designated as an asset of the County. The securities must be held in an account separate and apart from the assets of the financial institution. The custodian shall accept transaction instructions only from those persons who have been duly authorized by Board and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping or permitted unless by a duly authorized person.

Monthly, the custodian shall provide the Board with detailed information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a delivery vs. payment basis, if applicable, to ensure that the custodian shall have the security or money, as appropriate, in hand at the conclusion of the transaction. Only after receiving written authorization from the County shall authorized securities be delivered. Securities held as collateral shall be held free and clear of any liens.