



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson
FROM: Deborah Hart, Interim Finance Manager; Ben Ulrich, Interim General Accounting Supervisor; Aaron Balmer, Senior Accounting Analyst
DATE: August 24, 2018
SUBJECT: Investment Policy Update
OBJECTIVE: Board Direction

Issue

The Investment Policy provides guidance for staff to follow in the execution of investment decisions. If investments are made with a maturity beyond 18 months, ORS 294.135 calls for EWEB to have a written Investment Policy which should be submitted to the Oregon Short Term Fund (OSTF) Board for comment prior to adoption. In addition, the statute requires the Investment Policy to include terms for annual adoption by the Board.

Background

Financial Policies approved by the Board include an investment policy section (FP 3.3), however statute requires the Board approve the detailed policy on an annual basis. Research did show the Investment Policy was reviewed by the OSTF Board in 2000. However, the investment policy was not approved by the EWEB Board at that time and staff can find no evidence that it has been approved by the Board. In the second quarter Operational Report, Finance reported it was not fully compliant with a requirement to have the Board approve the detailed Investment Policy. There is no penalty associated with non-compliance, and beyond the noted annual approval exception, investment activities have been functioning in accordance with statute.

EWEB's Investment Policy creates the framework for excess cash to be invested and applies to the following funds:

- Trojan General Fund – Funds maintained under a Net Billing Agreement to decommission the Trojan Nuclear Plant (typical balance < \$500,000)
- EWEB Unrestricted Funds – Working cash balances for both utilities
- EWEB Designated Funds – Operating Reserve, Self-Insurance Reserve, Power Reserve, Capital Improvement Reserve, Rate Stabilization Fund, Pension Fund, etc.
- EWEB Restricted Funds – Debt Service Funds, Bond Construction Funds, System Development Charge Reserves, Customer Deposits, Harvest Wind Escrows

As stipulated in the policy, an investment committee has been formed since investing duties have been delegated beyond the Treasurer. The investment committee members include the Treasurer, Assistant Treasurer, Finance Manager, General Accounting Supervisor, and Investment Officer. They meet

quarterly to review the portfolio and cash flows. Staff actively invest with the following brokerage firms: Castle Oak Securities, Moreton Capital Markets, Piper Jaffray, and RW Baird. Staff receive solicitations from Vining Sparks and Wells Fargo but do not invest with them at this time.

Further, the Investment Policy ensures investment objectives are met. Investment Policy objectives in priority order are as follows:

- Preservation of invested capital
- Liquidity of funds
- Return on investment/yield

Statute provisions on the investment of public funds lay the foundation for the Investment Policy (ORS Chapter 294). They also establish the OSTF Board to guide in the management of the Oregon Short Term Fund, a cash investment vehicle for local governments and state agencies in Oregon. The OSTF Board also assists local governments in the development of investment policies and provides comment as a matter of best practice in governmental investing. Staff submitted an updated Investment Policy to the OSTF Board earlier this year and received comments last month. The EWEB Board has discretion in the details of the Investment Policy.

Discussion

Management is bringing the current draft policy to the Board for discussion and direction before finalizing the Investment Policy and requesting approval in October. Management will provide the Investment Policy to the EWEB Board for approval on an annual basis as required by statute.

The draft Investment Policy is modeled on the OSTF sample investment policy and following the OSTF Board review, includes all their recommendations, except one. Staff propose not to include the following recommendation:

- Inclusion of ORS 294.085 reference – The OSTF sample policy includes a reference to ORS 294.085. This statute was repealed in the 2015 session and has not been removed from the sample policy language. EWEB staff have notified state treasury staff of the technicality and the need to update their sample policy.

It should also be noted that the OSTF Board recommended EWEB policy incorporate language on selection criteria and periodic review of an investment adviser. EWEB does not currently engage an external investment adviser, however the language has been incorporated should EWEB choose to engage an investment adviser at a future date.

Recommendation and Requested Board Action

Management is requesting Board feedback on the Investment Policy, and there is no requested Board action at this time.

Attachments:

EWEB Investment Policy-DRAFT
OSTF Board Review Letter
OSTF Sample Investment Policy



**Eugene Water & Electric Board
Investment Policy
Revised August 2018**

**Eugene Water & Electric Board
Investment Policy**

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Eugene Water & Electric Board Investment Policy

The Eugene Water & Electric Board (EWEB) is chartered by the City of Eugene and is responsible for the operation of the water and electric utilities. The responsibilities delegated to EWEB pursuant to the City's charter are conducted under the direction of a publicly elected Board of five commissioners.

The Electric System and the Water System are accounted for as separate and independent entities. The investment and safeguarding of funds are performed in a joint manner, while maintaining accounting records to properly reflect system ownership.

This Investment Policy defines the parameters within which funds are to be invested by EWEB. This policy also formalizes the framework, pursuant to ORS 294.135 (Investment maturity dates), for EWEB's investment activities to ensure effective and judicious management of funds within the scope of this policy.

These guidelines are intended to be broad enough to allow designated investment staff to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

1.0 GOVERNING AUTHORITY

EWEB's investment program shall be operated in conformance with Oregon Revised Statutes and applicable Federal Law. Specifically, this Investment Policy is written in conformance with ORS 294.035 (Investment of funds of political subdivisions); 294.040 (Restriction on investments under ORS 294.035); 294.052 (Definitions); 294.135 (Investment maturity dates); 294.145 (Prohibited conduct for custodial officer); and 294.810 (Local governments authorized to place limited funds in pool). 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 the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

2.0 SCOPE

This Investment Policy applies to all cash and cash equivalents, short-term investments, operating and capital improvement funds, and funds restricted for construction purposes by bond indenture or otherwise. Funds held and invested by trustees are excluded from this policy; however, such funds are subject to the rules set forth by the applicable trust indenture, as well as Oregon law

Portfolios managed by EWEB include:

- Trojan General Fund
- EWEB Unrestricted Funds
- EWEB Designated Funds
- EWEB Restricted Funds

The amount of funds falling within the scope of this policy over the next three years is expected to range between \$120 million and \$220 million.

3.0 OBJECTIVES

The primary objectives, in priority order, of investment activities shall be:

3.1 Preservation of Invested Capital Investments shall be undertaken in a manner seeking to ensure the preservation of capital in the overall portfolio. The goal is to mitigate credit risk and interest rate risk.

3.2 Liquidity The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements. Furthermore, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in the Oregon Local Government Investment Pool (Oregon Short Term Fund) which offers next-day liquidity. Where possible and prudent, the portfolio should be structured so investments mature concurrent with anticipated demands.

3.3 Return / Yield (Performance Yardstick) The investment portfolio shall be designed with the objective of exceeding the one year Constant Maturity Treasury (CMT) rate, as published by the Federal Reserve Board, taking into consideration the safety and liquidity needs of the portfolio. The investment program shall seek to achieve returns above this rate, within the risk limitations described in this policy and prudent investment principles. When comparing the performance of EWEB's portfolio, all fees involved with managing the portfolio shall be included in the computation of the portfolio's rate of return. Although return consists of both principal return (gains and losses due to market value fluctuations) and income return (yield), this policy discourages active trading and turnover of investments. Investments should generally be held to maturity.

4.0 PRUDENCE

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. An investment official/officer is someone who has been delegated investing duties by the Treasurer. Investment Officers 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 expectations are reported and appropriate action is taken to control adverse developments within a timely fashion as defined in 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.”

5.0 ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and investment officials shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of EWEB. Employees and investment officials shall comply with ORS Chapter 244 (Government Ethics) and any Code of Ethics applicable to employees the Board may adopt in the future.

6.0 DELEGATION OF AUTHORITY

The Treasurer will retain ultimate fiduciary responsibility for invested funds. The Board will receive reports, pursuant to, and with sufficient detail to comply with 294.155 (Annual Audit Report).

This policy shall constitute a written order from the Board, per ORS 294.035 (Investment of Funds of Political Subdivisions), which has final authority in reviewing the managed portfolios. The Treasurer may further delegate authority to invest EWEB funds to additional investment officials. The Treasurer, or an Investment Officer who is responsible for the daily administration of this policy, will administer an active cash management program with the goal of maintaining historical cash flow information such as cash receipts, expenditures, debt service payments and extraordinary expenditures.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

6.1 Investment Committee

Should investing duties be delegated beyond the Treasurer, an Investment Committee shall be formed. The Investment Committee shall include all personnel to whom significant investment duties have been delegated. The Treasurer shall preside over the Investment Committee, which will meet on a quarterly basis to review EWEB's investment portfolio and cash flow, as well as set short and long term investment strategies.

6.2 Investment Advisers

A list will be maintained of approved advisers selected by conducting a process of due diligence.

- i. The following items are required for all approved Investment Advisers:
 - a. The investment adviser firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon; (Note: Investment adviser firms with assets under management >\$100 million must be registered with the SEC, otherwise the firm must be licensed by the state of Oregon)
 - b. All investment adviser firm representatives conducting investment transactions on behalf of EWEB must be registered representatives with FINRA
 - c. All investment adviser firm representatives conducting investment transactions on behalf of EWEB must be licensed by the state of Oregon
 - d. Certification, by all of the adviser representatives conducting investment transaction on behalf of this entity, have read, understood and agreed to comply with this Investment Policy
- ii. A periodic (at least annual) review of all authorized investment advisers will be conducted by the Investment Officer to determine their continued eligibility within the portfolio guidelines. Factors to consider would be:
 - a. Pending investigations by securities regulators
 - b. Significant changes in net capital
 - c. Pending customer arbitration cases
 - d. Regulatory enforcement actions
- iii. The Investment Officer may want to establish guidelines or policy for engaging investment advisers' services that are more restrictive than stated in this policy. Additional requisites or due diligence items may include:
 - a. Positive references from at least three other local government clients of a prospective investment adviser firm
 - b. As part of the periodic due diligence review, inquiries with other local government clients of approved investment advisers with regard to their recent experiences with the adviser and any change in the relationship status
 - c. Requirement that approved investment advisers provide notification within 30 days of a relationship termination by an Oregon based local government
 - d. Requirement that approved investment adviser provide notification within 30 days of any formal investigations or disciplinary actions initiated by federal or state regulators
 - e. Requirement that prospective investment advisers have an established history of advising local governments with similar amounts of assets under management.

7.0 TRANSACTION COUNTERPARTIES AND FINANCIAL INSTITUTIONS

7.1 Broker/Dealers

Broker/dealers and other financial institutions shall be selected by the Investment Officer on the basis of their expertise in public cash management and their ability to provide service for EWEB's account. It shall be the policy of EWEB to purchase securities only from institutions and firms that meet the following minimum criteria:

- i.** Broker/Dealer firms must meet the following minimum criteria:
 - a.** Be registered with the Securities and Exchange Commission (SEC);
 - b.** Be registered with the Financial Industry Regulatory Authority (FINRA);
 - c.** Provide most recent audited financials;
 - d.** Provide FINRA Focus Report filings.
- ii.** Approved broker/dealer employees who execute transactions with EWEB must meet the following minimum criteria:
 - a.** Be a registered representative with the Financial Industry Regulatory Authority (FINRA);
 - b.** Be licensed by the state of Oregon;
 - c.** Provide certification (in writing) of having read; understood; and agreed to comply with the most current version of this Investment Policy.
- iii.** Periodic (at least bi-annual) review of all authorized broker/dealers and their respective authorized registered representatives will be conducted by the Investment Committee. Factors to consider would be:
 - a.** Pending investigations by securities regulators
 - b.** Pending customer arbitration cases
 - c.** Regulatory enforcement actions
- iv.** Periodic (at least annual) review of all authorized broker/dealers and their respective authorized registered representatives will be conducted by the Investment Officer. Factors to consider would be:
 - a.** Pending investigations by securities regulators
 - b.** Significant changes in net capital
 - c.** Pending customer arbitration cases
 - d.** Regulatory enforcement actions

7.2 Depositories

All financial institutions who desire to become depositories must be qualified Oregon Depositories pursuant to ORS Chapter 295 (Depositories of Public Funds and Securities).

7.3 Competitive Transactions

The Investment Officer shall obtain and document competitive bid information on all investments purchased or sold in the secondary market. Competitive bids or offers should be obtained, when possible, from at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.

If EWEB is offered a security for which there is no other readily available competitive offering, then the Investment Officer shall document quotations for comparable or alternative securities.

When purchasing original issue instrument securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price.

If an investment adviser provides investment management services, the adviser must retain documentation of competitive pricing execution on each transaction and provide upon request.

8.0 ADMINISTRATION AND OPERATIONS

8.1 Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) by delivery vs. payment (DVP) to ensure securities are deposited in EWEB's safekeeping institution prior to the release of funds.

8.2 Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by EWEB. All securities will be evidenced by safekeeping receipts in EWEB's name. Upon request, the safekeeping institution shall make available a copy of its report under Statement on Standards for Attestation Engagements (SSAE) No. 18 AT-C sec 320 (Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting).

8.3 Internal Controls

The Treasurer is responsible for establishing and maintaining an adequate internal control structure designed to reasonably assure funds are invested within the parameters of this Investment Policy, and protected from loss, theft, or misuse. Specifics for the internal controls shall be documented in writing. The established control structure shall be reviewed and updated annually by the Investment Committee.

The concept of reasonable assurance recognizes the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- i.** Compliance with Investment Policy
- ii.** Control of collusion
- iii.** Separation of transaction authority from accounting and record keeping
- iv.** Custodial safekeeping.
- v.** Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary
- vi.** Clear delegation of authority to subordinate staff members

- vii. Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form
- viii. Dual authorizations of wire and automated clearing house (ACH) transfers
- ix. Staff training
- x. Review, maintenance and monitoring of security procedures both manual and automated

8.4 External Audit

An external auditor shall provide an annual independent financial audit of EWEB to assure compliance with Oregon state law and EWEB policies and procedures and internal controls. Such audit will include tests deemed appropriate by the auditor.

9.0 SUITABLE AND AUTHORIZED INVESTMENTS

The following investments are permitted pursuant to ORS 294.035, 294.040, and ORS 294.810.

EWEB has further defined the eligibility of investment types and transactions as follows:

i. State of Oregon Local Government Investment Pool (LGIP)

Organized pursuant to ORS 294-805 through 294.895 (Local Government Investment Pool). Participation in the Pool shall not exceed the maximum limit set annually by ORS 294.810 (Local governments authorized to place limited funds in pool). However, this limit may temporarily be exceeded by local governments for 10 business days due to pass-through funds. Investments of debt proceeds subject to arbitrage tracking requirements may be made in the LGIP in excess of the maximum limit as the law allows.

ii. U.S. Treasury Obligations

EWEB may invest in Treasury Bills, Treasury Notes, Treasury Bonds and Treasury Strips with maturities not exceeding three years from the date of settlement.

iii. US Government Agency Securities

Debentures, discount notes, callable securities and stripped principal or coupons with final maturities not exceeding three years issued by US federal agencies and instrumentalities or US government sponsored enterprises (GSE). Qualified agencies include, Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB), Federal Agricultural Mortgage Corporation (FAMCA), Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Resolution Funding Corporation (REFCORP), Financing Corporation (FICO) and Tennessee Valley Authority (TVA).

iv. Commercial Paper

Purchases of commercial paper must have maturities not exceeding 270 days from the date of purchase, and be issued in United States dollars (\$USD) by a commercial, industrial, or utility business or issued by or on behalf of a financial institution.

Commercial paper must be rated at least A-1 by Standard and Poor's, and P-1 by Moody's, for issuers outside the state of Oregon. Issuers within Oregon must have a Standard and Poor rating of A-2 and a Moody's P-2. Ownership of commercial paper and corporate bonds shall be limited to a combined total of thirty-five percent of the portfolio, with no more than five percent of the portfolio held in any one issuer or its affiliates or subsidiaries.

v. Corporate Bonds

Corporate Bonds issued by a commercial, industrial, or utility business or issued by or on behalf of a financial institution must have final maturities not exceeding three years from the date of settlement. Authorized corporate bonds shall be limited to obligations of United States dollar denominated corporations organized and operating within the United States. A bond must have one rating from Standard and Poor's, Moody's, or Fitch, of at least AA, Aa, or AA, respectively. Ownership of corporate bonds and commercial paper shall be limited to a combined total of thirty-five percent of the portfolio, with no more than five percent of the portfolio held in any one issuer or its affiliates or subsidiaries.

vi. Municipal Debt

Lawfully issued debt obligations of the agencies and instrumentalities of the State of Oregon and its political subdivisions with a long term rating of "single A" (A) or an equivalent rating or better or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization. Lawfully issued debt obligations of the agencies and instrumentalities of the States of California, Idaho, and Washington and their political subdivisions having a long term rating of "double A" (AA) or an equivalent rating or better or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization.

vii. Bankers Acceptances

Authorized Bankers Acceptances must: (a) be guaranteed by and carried on the books of a financial institution located and licensed to do banking business in the State of Oregon. (b) be eligible for discount by the Federal Reserve System; and (c) the institution issuing a letter of credit shall have a short term rating in the highest category by one or more nationally recognized statistical rating organizations. Maturities shall be limited to 180 days from the date of purchase and ownership of bankers acceptances shall not exceed twenty five percent of the portfolio, with no more than ten percent of the portfolio held in any one issuer.

viii. Time Deposit Open Accounts, Certificates of Deposit, and Savings Accounts

May only be made in insured institutions as defined in ORS 706.008 (Additional definitions for Bank Act) that maintain an office in Oregon. Certificates of deposit purchased by EWEB shall be FDIC/NCUA insured or collateralized through the state collateral pool in accordance with ORS 295.015 (Maintenance of securities by bank depository) and ORS 295.018 (Increase is required collateral of bank depository). Ownership of time certificates of deposit shall be limited to twenty-five percent of the

portfolio, with no more than ten percent with any one financial institution at the time of purchase, and maturities shall not exceed three years.

9.1 Approval of Permitted Investments

If additional types of securities are considered for investment, per Oregon state statute, they will not be eligible for investment until this policy has been amended and the amended version adopted by the Board.

9.2 Prohibited Investments

Private placement or “144A” Securities are not allowed for purposes of the policy SEC Rule 144A securities are defined to include commercial paper privately placed under section 4(a)(2) of the Securities Act of 1933.

US agency mortgage backed securities such as those securities issued by FNMA and FHLMC are not allowed.

The Board shall not lend securities nor directly participate in a securities lending program.

9.3 Demand Deposits and Time Deposits

All demand deposits and time deposits (Examples of time deposits are: certificates of deposit and savings accounts) shall be held in qualified Oregon depositories in accordance with ORS Chapter 295.

Demand deposits in qualified depository institutions are considered cash vehicles and not investments and are therefore outside the scope and restrictions of this policy. Pursuant to ORS 294.035(3)(d), time deposits, certificates of deposit and savings accounts are considered investments and within the scope of this policy.

10.0 RISKS MANAGED

10.1 Credit Risk

Credit risk is the risk a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. Credit risk will be mitigated by the following guidelines:

i. Diversification It is the policy of EWEB to diversify its investments. Where appropriate, exposures will be limited by security type; maturity; issuance, and issuer. Allowed security types and investment exposure limitations are detailed in the table below.

ii. Recognized Credit Ratings Investments must have a rating from at least one of the following nationally recognized statistical ratings organizations (NRSRO): Moody’s Investors Service; Standard & Poor’s; and Fitch Ratings Service as detailed in the table below. Ratings used to apply the guidelines below should be investment level ratings and not issuer level ratings.

iii. Portfolio Average Credit Rating The minimum weighted average credit rating of the portfolio’s rated investments shall be Aa/AA/AA by Moody’s Investors Service; Standard & Poor’s; and Fitch Ratings Service respectively.

iv. Exposure Constraints and Minimum Investment Credit Ratings.

The following table limits exposures among investments permitted by this policy.

Instrument Diversification

<u>Instrument Type</u>	<u>Maximum % Portfolio</u>	<u>Minimum Ratings Moody’s/S&P/Fitch</u>
US Treasury Obligations	100%	
US Government Agency Securities	100%	
Per Agency	33%	
Oregon Short Term Fund (LGIP) per ORS 294.810	Max allowed	
Commercial Paper	35%	A1/P1/F1
Corporate Bonds	35%	Aa/AA/AA
Municipal Bonds	10%	Aa/AA/AA
Bankers Acceptances	25%	A1+/P1/F1+
Time Certificates	25%	

v. Determining a Security’s Rating A single rating will be determined for each investment by utilizing the lowest security level rating available for the security from Standard and Poor’s, Moody’s Investor Services and Fitch Ratings respectively.

vi. Restriction on Issuers With Prior Default History Per ORS 294.040 (Restriction on investments under ORS 294.035), the bonds of issuers listed in ORS 294.035 (3) (a) to (c) (US Treasury, US Agency, OR/WA/CA/ID municipal securities) may be purchased only if there has been no default in payment of either the principal of or the interest on the obligations of the issuing county, port, school district or city, for a period of five years preceding the date of the investment.

10.2 Liquidity Risk

Liquidity risk is the risk an investment may not be easily marketable or redeemable. The following strategies will be employed to mitigate liquidity risks:

i. The value of at least 25% of funds available for investing will be invested in the Oregon Short Term Fund, with a qualified depository institution, or investments maturing in less than 180 days to provide sufficient liquidity for expected disbursements.

ii. Funds in excess of liquidity requirements are allowed for investments maturing in greater than one year. However, longer-term investments tend to be less liquid than shorter term investments. Portfolio investment maturities will be limited as follows:

Under 6 months	25% minimum
Under 1 year	40% minimum
Under 3 years	100%

iii. Reserve or Capital Improvement Project monies may be invested in securities exceeding the maximum term if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

iv. Larger issuance sizes enhance liquidity as there are likely to be a greater number of investors. Issuance sizes above a minimum amount qualify a corporate or municipal debt bond issuance for index eligibility. Index eligible bonds have a significantly larger investor base which improves liquidity.

v. Limiting investment in a specific debt issuance improves secondary market liquidity by assuring there are other owners of the issuance. Care should be taken to limit ownership of a particular issuance.

<u>Issue Type</u>	<u>Maximum % of issuance* (PAR)</u>
US Agency Securities	50%
Corporate Debt (Total)	-
Corporate Commercial Paper	100%
Corporate Bonds	25%
Municipal Bonds	25%

10.3 Interest Rate Risk

Longer-term investments have the potential to achieve higher returns but are also likely to exhibit higher market value volatility due to the changes in the general level of interest rates over the life of the investment(s). Interest rate risk will be mitigated by providing adequate liquidity for short term cash needs, and by making longer-term investments only with funds not needed for current cash flow purposes. Certain types of securities, including variable rate securities, securities with principal pay-downs prior to maturity, and securities with embedded options, will affect the interest rate risk profile of the portfolio differently in different interest rate environments. The following strategies will be employed to control and mitigate adverse changes in the market value of the portfolio due to changes in interest rates:

i. Where feasible and prudent, investment maturities should be matched with expected cash outflows to mitigate market risk.

ii. To the extent feasible, investment maturities not matched with cash outflows, including liquidity investments under one year, should be staggered to mitigate re-investment risk.

iii. No commitments to buy or sell securities may be made more than 14 business days prior to the anticipated settlement date, or receive a fee other than interest for future deliveries.

- iv. The maximum percent of callable securities in the portfolio shall be 20%;
- v. The maximum stated final maturity of individual securities in the portfolio shall be three years, except as otherwise stated in this policy.
- vi. The maximum portfolio average maturity (measured with stated final maturity) shall be 1.5 years.

11.0 INVESTMENT IN PROCEEDS FROM DEBT ISSUANCE

Investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. Bond proceeds shall be invested in accordance with the parameters of this policy and the applicable bond covenants and tax laws.

Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052 (Definitions). Investments of bond proceeds are typically not invested for resale and are maturity matched with outflows. Consequently, surplus funds within the scope of ORS 294.052 (Definitions) are not subject to this policy's liquidity risk constraints.

12.0 INVESTMENT OF RESERVE OR CAPITAL IMPROVEMENT FUNDS

Pursuant to ORS 294.135(1)(b) (Investment maturity dates), reserve or capital improvement project monies may be invested in securities exceeding three years when the funds in question are being accumulated for an anticipated use occurring more than 18 months after the funds are invested, then, upon the approval of the governing body of the county, municipality, school district or other political subdivision, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used.

13.0 GUIDELINE MEASUREMENT AND ADHERENCE

13.1 Guideline Measurement

Guideline measurements will use market value of investments.

13.2 Guideline Compliance

- i. If the portfolio falls outside of compliance with adopted Investment Policy guidelines or is being managed inconsistently with this policy, the Investment Committee shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.
- ii. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance and; reasoning for actions taken to bring the

portfolio back into compliance shall be documented and reported to the Treasurer and General Manager.

iii. Due to fluctuations in the aggregate funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure appropriate diversification is maintained.

14.0 REPORTING AND DISCLOSURE

14.1 Compliance

The Investment Officer shall prepare a report at least quarterly to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report should be made available to the Investment Committee. The report will include, at a minimum, the following:

- i.** A listing of all investments held during the reporting period showing: par/face value; accounting book value; market value; type of investment; issuer; credit ratings; and yield to maturity (yield to worst if callable).
- ii.** Average maturity of the portfolio at period-end.
- iii.** Maturity distribution of the portfolio at period-end.
- iv.** Average portfolio credit quality of the portfolio at period-end.
- v.** Average weighted yield to maturity (yield to worst if callable investments are allowed) of the portfolio.
- vi.** Distribution by type of investment.
- vii.** Transactions since last report.
- viii.** Distribution of transactions among financial counterparties such as broker/dealers.
- ix.** Violations of portfolio guidelines or non-compliance issues that occurred during the prior period or that are outstanding. This report should also note actions (taken or planned) to bring the portfolio back into compliance.

14.2 Marking to Market

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly.

15.0 POLICY MAINTENANCE AND CONSIDERATIONS

15.1 Review

The Investment Policy shall be reviewed at least annually by the Investment Committee to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

The annual review should also serve as a venue to suggest policies and improvements to the investment program.

15.2 Exemptions

Any investment held prior to the adoption of this policy shall be exempted from the requirements of the policy. At maturity or liquidation, such monies shall be reinvested as provided by the policy.

15.3 Policy Adoption and Amendments

This Investment Policy and any modifications to this policy must be formally approved by the Board as required by statute.

This policy must be submitted to the Oregon Short Term Fund (OSTF) Board for review if:

This policy allows maturities beyond 18 months unless the funds are being accumulated for a specific purpose, including future construction projects, and upon approval of the Board, the maximum maturity date matches the anticipated use of the funds (ORS 294.135(1)(b) and 294.135(3) (Investment maturity dates)).

And either:

- A. This policy has never been submitted to the OSTF Board for comment;
- Or
- B. Material changes have been made since the last review by the OSTF Board.

Regardless of whether this policy is submitted to the OSTF Board for comment, this policy shall be re-submitted as required by statute.



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OREGON SHORT TERM FUND BOARD

8/10/2018

Eugene Water & Electric Board
Aaron Balmer
PO Box 10148
Eugene OR 97440-2148

Subject: Eugene Water & Electric Board Investment Policy Review

Dear Mr. Balmer,

The Eugene Water & Electric Board policy was submitted by Aaron Balmer to the Oregon Short Term Fund ("OSTF") Board ("the Board") for review.

The OSTF Board's statutory obligation is to "review and comment to the governing body" (ORS 294.135(a)) on the written investment policy submitted to the Board. To assist in the policy revision process, the Board developed a model policy laying out the elements it believes are important in policies. These are also the elements against which submitted policies are reviewed. As part of the local government investment policy review process, resources of the Office of the State Treasurer's staff ("Staff") are provided to assist as needed on policy revisions or development.

The Oregon Short-Term Fund Board reviewed the Eugene Water & Electric Board investment policy at the OSTF Board meeting on July 10th, 2018 and the Board is pleased to inform you that the statutory policy review requirement has been satisfied.

During the review, the OSTF Board offered the following comments:

- Board Member Wojda commented on the absence of an External Investment Advisor regarding the sample policy.

Mr. Balmer acknowledged that they do not have an External Investment Advisor nor plans to hire one at this time.

- Board Member Sharon Wojda questioned the vagueness of the language used in regards to the decision matrix in the Competitive Transaction Section of the policy.

Mr. Balmer stated that keeping the policy "as is" is what is feasible for them at this time.



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- Board Member Wojda suggested that they add back in the sample policy's protective language in regards to "previously held investments" in the Policy Maintenance section of Eugene Water & Electric Board's policy, which protects them going forward to keep them in compliance with the policy.

Mr. Balmer confirmed and thanked her for her feedback.

- Board Member Deanne Woodring suggested that they clarify the investment advisor criteria and that they add in issuer constraints per statute to protect the issuer exposure. Ms. Woodring also noted the buckets on maturities are very tight; buckets of 25% under six months, 40% under one year, 55% under two years and 100% under three years, can be difficult to manage over time. She suggested doing 100% over three years and striking the two-year bucket. Also Ms. Woodring echoed what Board Member Wojda said regarding the addition of language to protect Eugene Water & Electric Board in keeping in compliance within the policy.
- Board Member Darren Bond agreed with everything previously stated and suggested that rather than go through each deviation at this time, that it would be better to include the Staff's recommendations in a letter back to the governing body and allow them to disclose and discuss why they chose not to follow staff recommendations.

Should any member wish to discuss the policy, please call Angela Schaffers at the Office of the State Treasurer. The phone number is (503) 431-7900.

Sincerely,

Darren Q. Bond
Deputy Treasurer, Oregon State Treasurer

cc: Eugene Water & Electric Board Member(s)
Eugene Water & Electric Board Representative Aaron Balmer
Ms. Angela Schaffers, Oregon State Treasury

Summary of Oregon State Treasury Staff Comments – Eugene Water & Electric Board Investment Policy Review July 10, 2018

- [Standards of Care] Governing Body – Staff recommends Eugene Water & Electric Board (EWEB) expand this section to also reference ORS 294.085; see section [V(3)(i)] of the Sample Policy.
- [Transaction Counterparties, Investment Advisors and Depositories] Broker/Dealer Maintenance - Similar to the Sample Policy, [VI(1)(iv)], OST staff recommends EWEB expand this section to include all factors to consider during the periodic review.
- [Transaction Counterparties, Investment Advisors and Depositories] Investment Advisers Criteria – Staff recommends EWEB incorporate this section similar to the Sample Policy; see section [VI(3)].
- [Transaction Counterparties, Investment Advisors and Depositories] Investment Advisers Maintenance – Similar to the Sample Policy, section [VI(3)(ii)], OST staff recommends incorporating this language into EWEB’s policy.
- [Transaction Counterparties, Investment Advisors and Depositories] Competitive Transactions – Staff recommends EWEB include language similar to the Sample Policy, section [VI(5)].
- [Authorized Investments] Specific Investment Products Authorized within IP – Similar to the Sample Policy, section [VIII(1)], OST staff recommends including the ORS references.
- [Authorization & Exposure Constraints] US Agency Obligations, Corporate Debt – Staff recommends EWEB include (Per Agency) Maximum % Holdings for these authorized investments; see section [VIII(1)] of the Sample Policy.
- [Authorized Investments] Cash Vehicles: Bank Demand Deposits vs. Time Deposits & [Authorization] Additional Investments – Similar to the Sample Policy (sections [VIII(2)] and [VIII(4)]), OST staff recommends including these sections.
- [Prohibited Investments] Private Placement or “144A” Securities, US Agency Mortgage-backed Securities, Securities Lending and Reverse Repurchase – OST staff recommends EWEB incorporate these sections in their policy; see section [VIII(3)(iii)] of the Sample Policy.
- [Investment Parameters] Determining a Security’s Rating – Staff recommends EWEB include language similar to the Sample Policy, section [IX(1)(v)].
- [Investment Parameters] Issuance Size – Staff recommends expanding this section to include a breakdown of Issue Type/Maximum % of Issuance, similar to section [IX(2)(v)] of the Sample Policy.
- [Policy Maintenance] Exemptions – Staff recommends including language similar to the Sample Policy; see section [XIV(2)].

This Sample Investment Policy is a template from which Local Governments may draw in formulating a comprehensive investment policy. The investment parameters in this Policy are generally more restrictive than Oregon Law and may not represent the full range of legally allowable investments for local governments in the state of Oregon. It is recommended that local governments adjust this template policy to conform to unique investment needs and consult legal counsel when creating or altering their investment policy to ensure compliance with applicable Oregon Law.

Key Elements of an Investment Policy should consist of the following:

- **Purpose:** Outlines the purpose for the policy document
- **Authority:** Identifies the authoritative guidance under which investing takes place
- **Scope:** Identifies funds under the authority of the policy
- **Objectives:** (Prioritized)
 - Safety
 - Liquidity
 - Return
- **Standards of Care:**
 - Prudence (Prudent Person Standard)
 - Ethics and Conflicts of Interest
 - Indemnification for investment decisions
 - Delegation of Authority
 - Internal controls
 - Separation of Investment decisions and recordkeeping
- **Safekeeping & Custody:**
 - Delivery vs. Payment protocol
 - Safekeeping/Custody by 3rd Party
- **Authorized investments:** Specific authorized investment types should be listed
- **Risk Parameters:**
 - Credit Risk:
 - Ratings requirements
 - Exposure limitations
 - Interest Rate Risk:
 - Maximum investment maturity
 - Maximum average maturity
 - Concentration Risk:
 - Diversification requirements
 - Liquidity Risk:
 - Minimum liquidity guidance
 - Maturity buckets
- **Transaction Counterparties:**
 - Minimum requirements to approve broker/dealers
 - Minimum requirements to approve Investment advisers
- **Policy Compliance:**
 - Reporting requirements:
 - Required data
 - Periodicity of reporting
 - Recipients of reports
 - Guideline violation resolution
- **Policy Maintenance:**
 - Periodic Policy Review

Sample Investment Policy for Local Governments

I. Purpose

This Investment Policy defines the parameters within which funds are to be invested by [Local Government]. The [Local Government] is a [Type of Local Government] whose purpose is to [Function of Local Government]. This policy also formalizes the framework, pursuant to ORS 294.135, for the [Local Government]'s investment activities to ensure effective and judicious management of funds within the scope of this policy.

These guidelines are intended to be broad enough to allow designated investment staff to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

II. Governing Authority

[Local Government]'s investment program shall be operated in conformance with Oregon Revised Statutes and applicable federal law. Specifically, this investment policy is written in conformance with ORS 294.035; 294.040; 294.052; 294.135; 294.145; and 294.810. All funds within the scope of this policy are subject to laws established by the state of Oregon. Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

III. Scope

This policy applies to activities of [Local Government] with regard to investing the financial assets of [operating funds / capital funds / bond proceeds / bond reserve funds]. Funds managed by [Local Government] that are governed by other investment policies are excluded from this policy; however, all funds are subject to Oregon Law. The amount of funds falling within the scope of this policy over the next three years is expected to range between \$xxx million and \$xxx million.

IV. General Objectives

The primary objectives, in priority order, of investment activities shall be:

1. Preservation of Invested Capital

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The goal is to mitigate credit risk and interest rate risk.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements. Furthermore, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in the Oregon Short Term Fund which offers next-day liquidity. Where possible and prudent, the portfolio should be structured so that investments mature concurrent with anticipated demands.

3. Return

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the safety and liquidity needs of the portfolio. Although return consists of both principal return (gains and losses due to market value fluctuations) and income return (yield), this policy discourages active trading and turnover of investments. Investments should generally be held to maturity

V. Standards of Care

1. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers 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 expectations are reported and appropriate action is taken to control adverse developments within a timely fashion as defined in 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.”

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. 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 [Local Government]. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244.

3. Delegation of Authority and Responsibilities

i. Governing Body

The [Designated Oversight Body or Position] will retain ultimate fiduciary responsibility for invested funds. The governing body will receive reports, pursuant to, and with sufficient detail to comply with ORS 294.085 and 294.155.

ii. Delegation of Authority

Authority to manage investments within the scope of this policy and operate the investment program in accordance with established written procedures and internal controls is granted to [Designated Position], hereinafter referred to as Investment

Officer, and derived from the following: ORS 294.035 to 294.053, 294.125 to 294.145, and 294.810.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

iii. Investment Committee

The [Designated Oversight Body or Position] may seek to establish an investment committee to provide guidance to the Investment Officer(s) and monitor investment policy compliance.

iv. Investment Municipal Adviser

The [Designated Oversight Body or Position] may engage the services of one or more external investment managers to assist in the management of the entity's investment portfolio in a manner consistent with this investment policy. Investment advisers may be hired on a non-discretionary basis. All investment transactions by approved investment advisers must be pre-approved in writing by the Investment Officer and compliant with this Investment Policy. If [Local Government] hires an investment adviser to provide investment management services, the adviser is authorized to transact with its direct dealer relationships on behalf of [Local Government].

Note: Oregon Revised Statutes (ORS) do not restrict hiring investment advisers on a discretionary basis. However, the OSTF Board cautions against hiring investment advisers on a fully discretionary basis. Therefore this sample policy only allows for non-discretionary investment advisers.

VI. Transaction Counterparties, Investment Advisers and Depositories

1. Broker/Dealers

The Investment Officer shall determine which broker/dealer firms and registered representatives are authorized for the purposes of investing funds within the scope of this investment policy. A list will be maintained of approved broker/dealer firms and affiliated registered representatives.

The following minimum criteria must be met prior to authorizing investment transactions. The Investment Officer may impose more stringent criteria.

- i. Broker/Dealer firms must meet the following minimum criteria:
 - A. Be registered with the Securities and Exchange Commission (SEC)
 - B. Be registered with the Financial Industry Regulatory Authority (FINRA)
 - C. Provide most recent audited financials
 - D. Provide FINRA Focus Report filings

- ii. Approved broker/dealer employees who execute transactions with [Local Government] must meet the following minimum criteria:
 - A. Be a registered representative with the Financial Industry Regulatory Authority (FINRA);
 - B. Be licensed by the state of Oregon;
 - C. Provide certification (in writing) of having read; understood; and agreed to comply with the most current version of this investment policy.
- iii. The Investment Officer may want to establish policy for engaging broker/dealer firms and registered representatives that are more restrictive than stated in this policy. Additional requisites or due diligence items may include:
 - A. Positive references from at least three other local government clients.
 - B. As part of the periodic due diligence review, inquiries with other local government clients with regard to their recent experiences with broker/dealer firms or registered representatives and any change in relationship status.
 - C. Requirement that approved registered representatives provide notification within 30 days of any formal investigations or disciplinary actions initiated by federal or state regulators.
 - D. Requirement that prospective registered representatives have an established history of advising local governments with similar amounts of assets under management.
- iv. Periodic (at least annual) review of all authorized broker/dealers and their respective authorized registered representatives will be conducted by the Investment Officer. Factors to consider would be:
 - A. Pending investigations by securities regulators
 - B. Significant changes in net capital
 - C. Pending customer arbitration cases
 - D. Regulatory enforcement actions

Professional conduct; regulatory filing history; and registration status for any registered broker/dealer firm or for an individual registered representative can be researched at the FINRA website using the FINRA BrokerCheck[®] service.

- www.finra.org/Investors/ToolsCalculators/BrokerCheck/

Additional information (including state issued Enforcement Orders) on brokers and registered representatives licensed by the state of Oregon may also be obtained from the Oregon Department of Consumer and Business Services Division of Finance and Corporate Securities.

- www.cbs.state.or.us/external/dfcs/

2. Direct Issuers

Obligations that are permitted for purchase by this policy may be purchased directly from the issuer.

3. Investment Advisers

A list will be maintained of approved advisers selected by conducting a process of due diligence.

- i. The following items are required for all approved Investment Advisers:
 - A. The investment adviser firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon (*Note: Investment adviser firms with assets under management > \$100 million must be registered with the SEC, otherwise the firm must be licensed by the state of Oregon*).
 - B. All investment adviser firm representatives conducting investment transactions on behalf of [Local Government] must be registered representatives with FINRA.
 - C. All investment adviser firm representatives conducting investment transactions on behalf of [Local Government] must be licensed by the state of Oregon.
 - D. Certification, by all of the adviser representatives conducting investment transactions on behalf of this entity, of having read, understood and agreed to comply with this investment policy.

- ii. A periodic (at least annual) review of all investment advisers under contract will be conducted by the Investment Officer to determine their continued eligibility within the portfolio guidelines. Factors to consider would be:
 - A. Pending investigations by securities regulators
 - B. Significant changes in net capital
 - C. Pending customer arbitration cases
 - D. Regulatory enforcement actions

Professional conduct and regulatory filing history for any registered investment adviser or for individual adviser representatives can be researched on the Securities and Exchange Commission's (SEC) Investment Adviser Public Disclosure website.

The SEC's Investment Adviser Public Disclosure website provides access to the registration form ("Form ADV") that the adviser filed. Form ADV contains information about an investment adviser and its business operations. Additionally, it contains disclosure about certain disciplinary events involving the adviser and its key personnel.

The website also allows users to search for an individual investment adviser representative and view that individual's professional background and conduct, including current registrations, employment history, and disclosures about certain disciplinary events involving the individual.

- www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx

- iii. The Investment Officer may want to establish guidelines or policy for engaging investment advisers' services that are more restrictive than stated in this policy. Additional requisites or due diligence items may include:
 - A. Positive references from at least three other local government clients of a prospective investment adviser firm.
 - B. As part of the periodic due diligence review, inquiries with other local government clients of approved investment advisers with regard to their recent experiences with the adviser and any change in the relationship status.

- C. Requirement that approved investment advisers provide notification within 30 days of a relationship termination by an Oregon based local government.
- D. Requirement that approved investment adviser provide notification within 30 days of any formal investigations or disciplinary actions initiated by federal or state regulators.
- E. Requirement that prospective investment advisers have an established history of advising local governments with similar amounts of assets under management.

4. Depositories

All financial institutions who desire to become depositories must be qualified Oregon Depositories pursuant to ORS Chapter 295.

5. Competitive Transactions

- i. The Investment Officer shall obtain and document competitive bid information on all investments purchased or sold in the secondary market. Competitive bids or offers should be obtained, when possible, from at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.
- ii. In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities.
- iii. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price. However, the Investment Officer is encouraged to document quotations on comparable securities.
- iv. If an investment adviser provides investment management services, the adviser must retain documentation of competitive pricing execution on each transaction and provide upon request.

VII. Administration and Operations

1. Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) by delivery vs. payment (DVP) to ensure that securities are deposited in the [Local Government]'s safekeeping institution prior to the release of funds.

2. Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by the [Local Government]. All securities will be evidenced by safekeeping receipts in the [Local Government] name. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16.

3. Internal Controls

The investment officer and [Designated Oversight Body or Position] are jointly responsible for establishing and maintaining an adequate internal control structure designed to

reasonably assure that invested funds are invested within the parameters of this Investment policy and, protected from loss, theft or misuse. Specifics for the internal controls shall be documented in writing. The established control structure shall be reviewed and updated periodically by the [Designated Oversight Body or Position].

The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

The internal controls shall address the following points at a minimum:

- i. Compliance with Investment Policy
 - ii. Control of collusion
 - iii. Separation of transaction authority from accounting and record keeping
 - iv. Custodial safekeeping
 - v. Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary
 - vi. Clear delegation of authority to subordinate staff members
 - vii. Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form
 - viii. Dual authorizations of wire and automated clearing house (ACH) transfers
 - ix. Staff training
 - x. Review, maintenance and monitoring of security procedures both manual and automated
4. An external auditor shall provide an annual independent review to assure compliance with Oregon state law and [Local Government] policies and procedures.

VIII. Suitable and Authorized Investments

1. Permitted Investments

The following investments are permitted pursuant to ORS 294.035, 294.040, and ORS 294.810. (Note: Permitted investments may be more restrictive than ORS 294.035 and 294.810).

- *US Treasury Obligations: U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the timely payment of principal and interest.*
- *US Agency Obligations: Senior debenture obligations of US federal agencies and instrumentalities or U.S. government sponsored enterprises (GSE).*
- *Oregon Short Term Fund*
- *Corporate Indebtedness*
 1. *Commercial Paper issued under the authority of section 3(a)2 or 3(a)3 of the Securities Act of 1933.*
 2. *Corporate Bonds*
- *Repurchase Agreements*
- *Municipal Debt*
- *Bankers Acceptances*
- *Qualified Institution Time Deposits/Savings Accounts/Certificates of Deposit*

A list of Investments allowed under ORS 294.035, 294.040 and 294.810 may be found on the Oregon State Treasury website at the following link:

<http://www.oregon.gov/treasury/Divisions/Investment/Audio/List%20of%20US%20Government%20and%20Agency%20Securities%20for%20Local%20Government%20Investment.pdf>

2. Approval of Permitted Investments

If additional types of securities are considered for investment, per Oregon state statute they will not be eligible for investment until this Policy has been amended and the amended version adopted by [Local Government].

3. Prohibited Investments

i. Private Placement or “144A” Securities

Private placement or “144A” securities are not allowed. For purposes of the policy, SEC Rule 144A securities are defined to include commercial paper privately placed under section 4(a)(2) of the Securities Act of 1933.

ii. US Agency Mortgage-backed Securities

US agency mortgage-backed securities such as those securities issued by FNMA and FHLMC are not allowed.

iii. Securities Lending

The [Local Government] shall not lend securities nor directly participate in a securities lending program.

4. Demand Deposits and Time Deposits

i. All demand deposits and time deposits (Examples of time deposits are: certificates of deposit and savings accounts) shall be held in qualified Oregon depositories in accordance with ORS Chapter 295.

ii. Demand deposits in qualified depository institutions are considered cash vehicles and not investments and are therefore outside the scope and restrictions of this policy. Pursuant to ORS 294.035(3)(d), time deposits, certificates of deposit and savings accounts are considered investments and within the scope of this policy.

5. Repurchase Agreements

i. ORS 294.035 (3)(j) requires repurchase agreement collateral to be limited in maturity to three years and priced according to percentages prescribed by written policy of the Oregon Investment Council or the Oregon Short Term Fund Board.

ii. ORS 294.135 (2) limits the maximum term of any repurchase agreement to 90 days.

iii. The OSTF Board has adopted the following margins:

A. US Treasury Securities: 102%

B. US Agency Discount and Coupon Securities: 102%

C. Mortgage Backed and Other*: 103%

*Limited to those securities described in ORS 294.035(1)

IX. Investment Parameters

1. Credit Risk

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. Credit risk will be mitigated by the following guidelines:

i. Diversification

It is the policy of [Local Government] to diversify its investments. Where appropriate, exposures will be limited by security type; maturity; issuance, issuer, and security type, Allowed security types and Investment exposure limitations are detailed in the table below.

ii. Recognized Credit Ratings

Investments must have a rating from at least [one/two] of the following nationally recognized statistical ratings organizations (NRSRO): Moody’s Investors Service; Standard & Poor’s; and Fitch Ratings Service as detailed in the table below. Ratings used to apply the guidelines below should be investment level ratings and not issuer level ratings.

iii. Portfolio Average Credit Rating

The minimum weighted average credit rating of the portfolio’s rated investments shall be Aa/AA/AA by Moody’s Investors Service; Standard & Poor’s; and Fitch Ratings Service respectively.

iv. Exposure Constraints and Minimum Investment Credit Ratings

The following table limits exposures among investments permitted by this policy.

(This table contains sample restraints. Local Governments should also consult applicable State Statutes and legal guidelines):

Issue Type	Maximum % Holdings	Minimum Ratings Moody’s / S&P / Fitch
US Treasury Obligations	100%	None
US Agency Securities	100%	-
Per Agency (Senior Obligations Only)	33%	-
Oregon Short Term Fund	Maximum allowed per ORS 294.810	-
Bankers’ Acceptances	25% ⁽¹⁾	A1+/P1/F1+
Time Deposits/Savings	50%	-
Accounts/Certificates of Deposit ⁽²⁾		
Per Institution	25%	
Repurchase Agreements	5%	-
Corporate Debt (Total)	15% ⁽³⁾	-
Corporate Commercial Paper	15% ⁽³⁾	
Per Issuer	2.5% ⁽⁴⁾	A1/P1/F1
Corporate Bonds	10% ⁽³⁾	
Per Issuer	2.5% ⁽⁴⁾	Aa/AA/AA
Municipal Debt (Total)	10%	-
Municipal Commercial Paper	10%	A1/P1/F1
Municipal Bonds	10%	Aa/AA/AA

- ⁽¹⁾ 25% Maximum per ORS 294.035(D)
- ⁽²⁾ As authorized by ORS 294.035(3)(d)
- ⁽³⁾ 35% Maximum per ORS 294.035(D)
- ⁽⁴⁾ 5% Maximum per ORS 294.035(D)

v. Determining a Security’s Rating

A single rating will be determined for each investment by utilizing the lowest security level rating available for the security from Standard and Poor’s, Moody’s Investor Services and Fitch Ratings respectively.

vi. Restriction on Issuers With Prior Default History

Per ORS 294.040, the bonds of issuers listed in ORS 294.035 (3)(a) to (c) may be purchased only if there has been no default in payment of either the principal of or the interest on the obligations of the issuing county, port, school district or city, for a period of five years next preceding the date of the investment.

2. Liquidity Risk

Liquidity risk is the risk that an investment may not be easily marketable or redeemable.

The following strategies will be employed to mitigate liquidity risks:

- i. The value of at least 25% of funds available for investing or [three/six/twelve] months of budgeted operating expenditures will be invested in the Oregon Short Term Fund, with a qualified depository institution, or investments maturing in less than [30/60/90] days to provide sufficient liquidity for expected disbursements.
- ii. Funds in excess of liquidity requirements are allowed for investments maturing in greater than one year. However, longer-term investments tend to be less liquid than shorter term investments. Portfolio investment maturities will be limited as follows:

Total Portfolio Maturity Constraints:

Maturity Constraints	Minimum % of Total Portfolio
Under [30/60/90] days	25% or [three/six/twelve] months Estimated Operating Expenditures
Under 1 year	50%
Under 3 years	100%

- iii. Reserve or Capital Improvement Project monies may be invested in securities exceeding the maximum term if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.
- iv. Larger issuance sizes enhance liquidity as there are likely to be a greater number of investors. Issuance sizes above a minimum amount qualify a corporate or municipal debt bond issuance for index eligibility. Index eligible bonds have a significantly larger investor base which improves liquidity.
- v. Limiting investment in a specific debt issuance improves secondary market liquidity by assuring there are other owners of the issuance.

Issue Type	Maximum % of Issuance* (Par)
US Agency Securities	50%
Corporate Debt (Total)	-
Corporate Commercial Paper	100%
Corporate Bonds	25%
Municipal Bonds	25%

*The par amount issued under a single CUSIP.

3. Interest Rate Risk

Longer-term investments have the potential to achieve higher returns but are also likely to exhibit higher market value volatility due to the changes in the general level of interest rates over the life of the investment(s). Interest rate risk will be mitigated by providing adequate liquidity for short term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. Certain types of securities, including variable rate securities, securities with principal pay-downs prior to maturity, and securities with embedded options, will affect the interest rate risk profile of the portfolio differently in different interest rate environments. The following strategies will be employed to control and mitigate adverse changes in the market value of the portfolio due to changes in interest rates:

- i. Where feasible and prudent, investment maturities should be matched with expected cash outflows to mitigate market risk.
- ii. To the extent feasible, investment maturities not matched with cash outflows, including liquidity investments under one year, should be staggered to mitigate re-investment risk.
- iii. No commitments to buy or sell securities may be made more than 14 days prior to the anticipated settlement date, or receive a fee other than interest for future deliveries.
- iv. The maximum percent of callable securities in the portfolio shall be xx%;
- v. The maximum stated final maturity of individual securities in the portfolio shall be three years, except as otherwise stated in this policy.
- vi. The maximum portfolio average maturity (measured with stated final maturity) shall be 1.5 years.

X. Investment of Proceeds from Debt Issuance

- 1. Investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. Bond proceeds shall be invested in accordance with the parameters of this policy and the applicable bond covenants and tax laws.
- 2. Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not

invested for resale and are maturity matched with outflows. Consequently, funds within the scope of ORS 294.052 are not subject to this policy's liquidity risk constraints within section IX (2).

XI. Investment of Reserve or Capital Improvement Funds

1. Pursuant to ORS 294.135(1)(b), reserve or capital improvement project monies may be invested in securities exceeding three years when the funds in question are being accumulated for an anticipated use that will occur more than 18 months after the funds are invested, then, upon the approval of the governing body of the county, municipality, school district or other political subdivision, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used.

XII. Guideline Measurement and Adherence

1. Guideline Measurement

Guideline measurements will use [par/market] value of investments.

2. Guideline Compliance

- i. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.
- ii. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance and; reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the [Designated Oversight Body or Position].
- iii. Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

XIII. Reporting and Disclosure

1. Compliance

The Investment Officer shall prepare a report at least [monthly/quarterly] that allows the [Designated Oversight Body or Position] to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment oversight body. The report will include, at a minimum, the following:

- i. A listing of all investments held during the reporting period showing: par/face value; accounting book value; market value; type of investment; issuer; credit ratings; and yield to maturity (yield to worst if callable).
- ii. Average maturity of the portfolio at period-end
- iii. Maturity distribution of the portfolio at period-end

- iv. Average portfolio credit quality of the portfolio at period-end
- v. Average weighted yield to maturity (yield to worst if callable investments are allowed) of the portfolio
- vi. Distribution by type of investment
- vii. Transactions since last report
- viii. Distribution of transactions among financial counterparties such as broker/dealers
- ix. Violations of portfolio guidelines or non-compliance issues that occurred during the prior period or that are outstanding. This report should also note actions (taken or planned) to bring the portfolio back into compliance.

2. Performance Standards/ Evaluation

At least annually, the Investment Officer shall report comparisons of investment returns to relevant alternative investments and comparative Bond Indexes. The performance of the portfolio should be compared to the performance of alternative investments such as available certificates of deposit; the Oregon Short Term Fund; US Treasury rates; or against one or bond indices with a similar risk profile (e.g., Bond indexes comprised high grade investments and maximum maturities of three years).

When comparing performance, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.

3. Marking to Market

The market value of the portfolio shall be calculated at least [monthly/quarterly] and a statement of the market value of the portfolio shall be issued at least [monthly/quarterly].

4. Audits

Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls. Such audit will include tests deemed appropriate by the auditor.

XIV. Policy Maintenance and Considerations

1. Review

The investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

The annual report should also serve as a venue to suggest policies and improvements to the investment program, and shall include an investment plan for the coming year.

2. Exemptions

Any investment held prior to the adoption of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested as provided by this policy.

3. Policy Adoption and Amendments

This investment policy and any modifications to this policy must be formally approved in writing by the [Designated Oversight Body or Position] of [Local Government].

This policy must be submitted to the Oregon Short Term Fund (OSTF) Board for review if:

- i. This policy allows maturities beyond 18 months unless the funds are being accumulated for a specific purpose, including future construction projects, and upon approval of the [Designated Oversight Body or Position], the maximum maturity date matches the anticipated use of the funds (ORS 294.135(1)(b) and 294.135(3)).

And either:

- A. This policy has never been submitted to the OSTF Board for comment;

Or

- B. Material changes have been made since the last review by the OSTF Board.

Regardless of whether this policy is submitted to the OSTF Board for comment, this policy shall be re-submitted not less than annually to the [Designated Oversight Body or Position] for approval.

XV. List of Documents Used in Conjunction with this Policy

(The following is a list of suggested documents that may be used in conjunction with this policy)

- Listing of authorized personnel
- Relevant investment statutes and ordinances
- Description of benchmark(s)
- Master repurchase agreements and tri-party agreements
- Listing of authorized broker/dealers and financial institutions
- Credit studies for securities purchased and financial institutions used
- Safekeeping agreements
- Wire transfer agreements
- Sample investment reports
- Methodology for calculating rate of return
- Broker confirmations and safekeeping receipts