



# City of Beaverton Investment Policy

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# City of Beaverton Investment Policy

## **1. INTRODUCTION**

The City of Beaverton, Oregon (hereinafter referred to as the City), incorporated in 1893, operates under the provision of its own charter and applicable State law, with a Strong Mayor form of government. The charter provides for five councilors elected at large to serve a four-year term. The Mayor is the Chief Executive of the City and chairs City Council meetings. The Mayor and Council are elected at regular elections for four year terms. Beaverton is located approximately nine miles west of downtown Portland in Washington County.

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the prudent management and investment of the funds of the City.

The average monthly balance of cash invested in the City's general portfolio, including proceeds from bond issues, is approximately \$80 million. The highest balances in the portfolio occur in November and December after property taxes are collected. The portfolio ranges between \$59 and \$99 million.

No officer or designee may engage in an investment transaction except as provided under the terms of this policy. All participants in the investment process will seek to act responsibly as custodians of public trust. The City may select a qualified firm to serve as investment advisor on a non-discretionary basis.

## **2. GOVERNING AUTHORITY**

The investment program shall be operated in conformance with federal, state, and other legal requirements. 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 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.

This Policy has been adopted by Resolution No. 4560 by the City Council of Beaverton, Oregon on February 19, 2019 by the City Council of Beaverton, Oregon and replaces the City's previous Resolutions No. 4483 (January 16, 2018), No. 4426 (January 10, 2017), No. 4269 (October 21, 2014) and No. 2684 (December 19, 1988).

### **3. SCOPE**

The provisions of this Investment Policy will apply to all investable funds of the City of Beaverton and any component units (when applicable). Funds held by a Trustee or Fiscal Agents are excluded, if the City does not have investment control. Included under the provisions of this policy are financial assets of the General Funds, enterprise funds, special revenue funds, capital project funds, debt service funds, internal service funds, and other funds recognized in the City's Comprehensive Annual Financial Report (CAFR).

Except for restricted funds, excluded funds and special accounts, all excess cash will be pooled into one account for investment purposes. The net investment income derived from the pooled investment account will be allocated pro-rata to the contributing funds based upon their average daily cash balances and in accordance with generally accepted accounting principles

### **4. OBJECTIVES**

The City's principal investment objectives are as follows in priority order:

#### **4.1 Safety**

- Preservation of capital and protection of investment principal
- Diversification to avoid incurring unreasonable risks regarding specific security types or individual financial institutions, and to mitigate credit and interest rate risk

#### **4.2 Liquidity**

- Maintenance of sufficient liquidity to meet all operating requirements reasonably anticipated. Investments should include securities with active secondary markets. Where possible and prudent the portfolio should be structured so that investments mature concurrent with anticipated demands.

#### **4.3 Yield/Return**

- Attainment of a market value rate of return throughout economic and fiscal cycles consistent with the constraints imposed by the City's safety objective and cash flow requirements.

#### **4.4 Legality**

- Conformance with Federal, State and other legal requirements.

## 5. STANDARDS OF CARE

### 5.1 Delegation of Authority

- a. *Governing Body*: The ultimate responsibility and authority for the investment of City funds resides with the City Council. The City hereby designates the Finance Director as the "Investment Officer" for the City's funds. The Investment Officer shall invest City funds in accordance with ORS Chapter 294, Public Financial Administration, and with this Investment Policy. This Policy shall constitute a "written order" from City Council per ORS 294.035. The Finance Director, as the Investment Officer, with the consent of the City Mayor or designee, may further delegate the authority to invest City funds to additional City Finance personnel.
- b. *Investment Advisor ("Advisor")*: Subject to required procurement procedures, the City may engage the support services of outside professionals in regard to its financial program, so long as it can be demonstrated or anticipated that these services produce a net financial advantage or necessary financial protection of the City's resources. External investment advisors shall be subject to Oregon Revised Statutes and the provisions of this Investment Policy. The investment advisor shall provide non-discretionary advisory services, which require prior approval from the Investment Officer or designee on all transactions.

In order to optimize total return through active portfolio management, resources shall be allocated to the cash management program. This commitment of resources shall include financial and staffing considerations.

### 5.2 Prudence and Indemnification

The standard of prudence to be used, by the Investment Officer, in the context of managing the overall portfolio is the prudent person rule which 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."

The City's Investment Officer (ORS 294.004 (2)) and staff acting in accordance with this Investment Policy, written procedures, and Oregon Revised Statutes 294.035 and 294.040 and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price change or other loss in accordance with ORS 294.047.

### 5.3 Ethics and Conflicts of Interest

City staff involved in the investment process will refrain from personal business activity that could conflict with proper execution of the investment program or create the appearance of an impairment of their ability to make impartial investment decisions. City staff involved in the investment process will disclose in writing to the Mayor any material financial interests they have in financial institutions that conduct business with the City. They will further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. City staff involved in the investment process and their immediate families will refrain from undertaking personal investment transactions with any individuals or firms with whom business is conducted on behalf of the City.

Employees will at all times comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244, and any Code of Ethics applicable to employees adopted by the City.

## **6. TRANSACTION COUNTERPARTIES**

The City or its Investment Advisor will maintain a list of all authorized dealers that are approved by the Investment Officer for investment purposes. Any firm is eligible to make an application to the Investment Officer or Investment Advisor and upon due consideration and approval, will be added to the list. Additions and deletions to the list will be made at the Advisor's discretion and the City may direct the Investment Advisor to consider additions and deletions at any time. The advisor shall provide the City with the broker dealer criteria and annual review process. This process must provide proof as to all the necessary credentials and licenses held by employees of the brokers/dealers who will have accounts open on behalf of the City of Beaverton as specified by but not necessarily limited to the Financial Industry Regulatory Authority (FINRA), Securities and Exchange Commission (SEC), etc. The advisor will provide the City with an updated approved broker dealer list annually. The financial bank institution approved list is the Public Funds Collateralization Program, which is maintained by the State Treasurer's Office.

### 6.1 Broker/Dealers:

Primary and secondary dealers must be registered with FINRA and meet the Securities and Exchange Commission (SEC) rule 15c3-1 (uniform net capital rule). The Investment Officer will periodically review the approved list for due diligence regarding financial condition, registration and ethical conduct. If the City's Investment Advisor is contracted to provide securities transactions on behalf of the City, the Advisor's broker/dealer list must be provided to the Investment Officer for approval.

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.

- a. Broker/Dealer firms must meet the following minimum criteria:
  - i. Be registered with the Securities and Exchange Commission (SEC);
  - ii. Be registered with the Financial Industry Regulatory Authority (FINRA).
  - iii. Provide most recent audited financials.
  - iv. Provide FINRA Focus Report filings.
  
- b. Approved broker/dealer employees who execute transactions with the City must meet the following minimum criteria:
  - i. Be a registered representative with the Financial Industry Regulatory Authority (FINRA);
  - ii. Be licensed by the state of Oregon;
  - iii. Provide certification (in writing) of having read; understood; and agreed to comply with the most current version of this investment policy.
  
- c. If the City's investment advisor is contracted to provide securities transactions on behalf of the District, the advisor's broker/dealer list must be provided to the Investment Officer for approval. The Investment Officer can assign the responsibility of broker/dealer due diligence process to the Advisor, and all licensing information on the counterparties will be maintained by the Advisor and available upon request.

The advisor broker/dealer review should include:

- i. FINRA Certification check
- ii. Firm Profile
- iii. Firm History
- iv. Firm Operations
- v. Disclosures of Arbitration Awards, Disciplinary and Regulatory Events
- vi. State Registration Verification
- vii. Financial review of acceptable FINRA capital requirements or letter of credit for clearing settlements.

The advisors must provide the City with any changes to the list prior to transacting on behalf of the City.

## 6.2 Financial Bank Institutions:

All financial banks that provide bank deposits, certificates of deposits or any other deposit of the bank to the City must either be fully covered by the FDIC, National Credit Union Association (NCUA) or the bank must be a participant of the Public Funds Collateralization Program (PFCP). ORS Chapter 295 governs the collateralization of Oregon public funds

and provides the statutory requirements for the PFCP. Bank depositories are required to pledge collateral against any public funds deposits in excess of deposit insurance amounts. This provides additional protection for public funds in the event of a bank loss. ORS Chapter 295 sets the specific value of the collateral, as well as the types of collateral that are acceptable. ORS Chapter 295 creates a shared liability structure for participating bank depositories, better protecting public funds though still not guaranteeing that all funds are 100% protected.

### 6.3 Direct Issuers

The City is allowed to purchase commercial paper and bank products directly from issuers that meet the authorized and suitable investments criteria requirements.

### 6.4 Investment Advisors:

An Investment Advisor may be utilized to manage funds and will be selected through a competitive RFP process. The Advisor must meet the following criteria:

- a. The investment advisor firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon; (Note: Investment Advisor 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 advisor firm representatives conducting investment transactions on behalf of City must be registered representatives with FINRA;
- c. All investment advisor firm representatives conducting investment transactions on behalf of the City must be licensed by the state of Oregon;
- d. Contract terms will include that the Investment advisor will comply with the City's Investment Policy.

A periodic (at least annual) review of all authorized investment advisors will be conducted by the Finance director to determine their continued eligibility within the portfolio guidelines. The Investment Advisor must notify the City immediately if any of the following issues arise while serving under a City Contract:

- a. Pending investigations by securities regulators.
- b. Significant changes in net capital.
- c. Pending customer arbitration cases.
- d. Regulatory enforcement actions.

### 6.5 Beaverton Community Deposit initiative

This initiative places a portion of the City's investment portfolio in local banks and credit unions making City resources available to support community reinvestment efforts. Banks

and credit unions in the Beaverton area eligible for participation in the program appear in Exhibit II along with a description of the program.

#### 6.6 Competitive Transactions:

The Investment Officer or Investment Advisor will obtain telephone, faxed or emailed quotes before purchasing or selling an investment. The Investment Officer or Advisor will select the quote which best satisfies the investment objectives of the investment portfolio within the parameters of this policy. The Investment Officer and the Investment Advisor will maintain a written record of each bidding process including the name and prices offered by each participating broker dealer.

In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, the Investment Officer shall document quotations for comparable or alternative securities.

Securities that are primary offerings direct from the issuer do not need to be priced through a competitive process. These securities include: Commercial Paper, Banker's Acceptance and New Issue Agency securities. Documentation of comparable securities at the time of purchase will be maintained by the Advisor.

The City's investment advisor must provide documentation of competitive pricing execution on each transaction. The investment Advisor will retain documentation and provide upon request.

### **7. SAFEKEEPING, CUSTODY AND CONTROLS**

#### 7.1 Safekeeping of Securities and Delivery vs. Payment

Securities purchased by the City shall be held in a segregated account for the City's benefit at a third party trustee as safekeeping agent. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16. The approved broker/dealer or investment advisor shall provide the City with a confirmation ticket listing the specific instrument, issuer, coupon, maturity, CUSIP number, purchase or sale price, transaction date, and other pertinent information. The broker/dealer, who executes the transaction on the City's behalf, shall deliver all securities on a delivery versus payment method to the designated third party trustee at the direction of the Investment Officer.

All trades of marketable securities will be executed on a delivery vs payment (DVP) basis to ensure that securities are deposited in the City of Beaverton's safekeeping institution prior to the release of funds. The City will have online access through the safekeeping bank for verification of the account holdings and transactions.

## 7.2 Bank Deposits, Certificates of Deposit and Repurchase Agreement Collateralization:

The City may only hold bank deposits and Certificates of deposits in banks that participate in the Public Funds Collateralization Program (PFCP) which ORS Chapter 295 governs and provides the statutory requirements for the PFCP.

Collateral for repurchase agreements will be limited in maturity and priced in compliance with ORS 294.035 (3) (j) (for a maximum of 90 days). The purchased securities shall have an original minimum market value including accrued interest of 102 percent of the dollar value of the transaction, as prescribed by written policy of the Oregon Short Term Fund Board. Collateral shall be held delivery versus payment in the City's custodian bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.

## 7.3 Accounting Method:

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

Pooling of Funds: Except for cash in certain restricted and special funds, the City will consolidate balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

## 7.4 Internal Controls:

The Investment Officer will establish and maintain a system of written internal controls consistent with this Policy designed to prevent the loss of public funds due to fraud, error, misrepresentation or imprudent actions by third parties or by employees of the City. The internal control structure will be designed to provide reasonable assurance that these objectives are met. The system of internal controls will be published and available for review by the City Auditor. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by Investment Officer.

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

1. Compliance with Investment Policy
2. Control of collusion
3. Separation of transaction authority from accounting and record keeping

4. Custodial safekeeping
5. Avoidance of physical delivery of securities whenever possible and control requirements of physical delivery where necessary.
6. Clear delegation of and limits on authority given to subordinate staff members
7. Confirmation of transactions for investments and wire transfers in written or digitally verifiable and reviewable electronic form
8. Dual authorization of wire and ACH transfers
9. Staff training
10. Review, maintenance, and monitoring of internal control and security procedures both manual and automated

An independent auditor shall review and test written internal controls at least annually or upon any extraordinary event such as turnover of key personnel or the discovery of inappropriate or non-compliant activity.

## **8. AUTHORIZED AND SUITABLE INVESTMENTS**

### 8.1 Authorized Investments:

All investments of the City will be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.135 (Investment maturity dates), ORS 294.145 (Prohibited conduct for Investment Officer), ORS 294.805 to 294.895 (Local Government Investment Pool) and 294.052 bond proceeds.

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 City Council.

Deposit accounts in excess of deposit insurance limits may only be maintained at financial institutions included in the State Treasurer's list of qualified depositories for public funds.

### 8.2 Suitable Investments:

This policy recognizes S&P and Moody's as the major Nationally Recognized Statistical Ratings Organizations (NRSRO).

In the case of split ratings, where the major NRSROs issue different ratings, the higher rating shall apply. Minimum credit ratings and percentage limitations apply to the time of purchase.

The City is empowered to invest in the following types of securities:

*U. S Treasury Obligation:* Direct obligations of the United States Treasury whose payment is guaranteed by the United States, ORS 294.035(3) (a).

*US Agency Obligations - Primary:* US Government Agencies, Government Sponsored Enterprises (GSEs), Corporations or Instrumentalities of the US Government – Federal Instrumentality Securities include, but are not limited to Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Bureau (FFCB), ORS 294.035(3)(a).

*US Agency Obligations - Secondary:* Other US government sponsored enterprises that are less marketable are considered secondary GSEs. They include, but are not limited to: Private Export Funding Corporation (PEFCO), Tennessee Valley Authority (TVA), Financing Corporation (FICO) and Federal Agricultural Mortgage Corporation, (Farmer Mac).

*Municipal Debt:* Lawfully issued debt obligations of the states of Oregon, California, Idaho and Washington and political subdivisions of those states that have a long-term rating on the settlement date of AA- or better by S&P or Aa3 or better by Moody's. ORS 294.035(3) (b).

*Corporate Indebtedness:* Corporate Indebtedness must have a long-term rating on settlement date of AA- or better by Standard and Poor's or Aa3 or better by Moody's. ORS 294.035(3) (i).

*Commercial Paper:* Commercial Paper that is rated A1 by Standard and Poor's or P1 by Moody's. Issuer constraints for commercial paper combined with corporate notes will be limited by statute to 5% of market value per issuer.

*Time Deposit Open Accounts and Savings Accounts:* Time deposit open accounts and savings accounts in insured institutions as defined in ORS 706.008, in credit unions as defined in ORS 723.006 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state. ORS 294.035(3)(d)

*Bankers Acceptances:* Issues which are (a) guaranteed by and carried on the books of a financial institution located and licensed to do banking business in the State of Oregon; or a financial institution located in the States of California, Idaho or Washington that is wholly owned by a bank holding company that owns a financial institution that is located and licensed to do banking business in the State of Oregon. (b) Banker's acceptances shall be eligible for discount by the Federal Reserve System; and (c) the institution issuing a letter of credit shall have a short term rating of at least A-1 by Standard and Poor's or P-1 by Moody's. In the case where both rating agencies provide ratings on the corporation, the lowest rating will be used.

*Local Government Investment Pool:* State Treasurer's local short-term investment fund up to the statutory limit per ORS 294.810

*Repurchase Agreements:* Repurchase Agreements with maturities of 90 days or less collateralized by U.S. Treasury securities with the maturity of the collateral not exceeding three years. For the

purpose of this section, the term collateral shall mean purchased securities under the terms of the City approved Master Repurchase Agreement. Broker/dealers and Financial Institutions must have an executed Master Repurchase Agreement with the City maintained by the Investment Officer.

## 9. INVESTMENT PARAMETERS

### 9.1 Diversification:

The City will diversify investments across maturities, security types and institutions to avoid incurring unreasonable risks. All credit and concentration limits shall apply at time of purchase.

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P	Ratings Moody's
US Treasury Obligations	100%	None	N/A	N/A
US Agency Primary Securities FHLB, FNMA, FHLMC, FFCB	100%	33%	N/A	N/A
US Agency Secondary Securities FICO, FARMER MAC etc.	10%	5%	Security must be rated	Security must be rated
Municipal Bonds (OR, CA, ID, WA)	20%	5%	AA-	Aa3
Corporate Bonds	25%	5%*	AA-	Aa3
Commercial Paper	10%		A1	P1
Bank Time Deposits/Savings Accounts	20%	5%	Oregon Public Depository	Oregon Public Depository
Certificates of Deposit	20%	10%	Oregon Public Depository	Oregon Public Depository
Banker's Acceptance	20%	10%	A1 AA-Underlying	P1 Aa3 Underlying
Oregon Short Term Fund	Maximum allowed per ORS 294.810	None	N/A	N/A
Repurchase Agreements	10%	5%	AA-	Aa3

\*Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

### 9.2 Investment Maturity

The City will not directly invest in securities maturing more than five (5) years from the date of purchase.

- The maximum weighted maturity of the total portfolio shall not exceed 2.0 years. This maximum is established to limit the portfolio to excessive price change exposure.
- Liquidity funds will be held in the State Pool or in money market instruments maturing six months and shorter. The liquidity portfolio shall, at a minimum, represent six month budgeted outflows.
- Core Investment funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between 1 day and 5 years and will be only invested in high quality and liquid securities.
- Total Portfolio Maturity Constraints:

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5 years	100%
Maturity Constraints	Maximum of Total Portfolio
Weighted Average Maturity	2.0 years
Security Structure Constraint	Maximum % of Total Portfolio
Callable Agency Securities	25%

- Exception to 5 year maturity maximum: Reserve or program monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

### 9.3 Prohibited Conduct and Investments

Oregon State Statutes have addressed several areas of prohibited conduct for the Investment Officer when making investments, ORS 294.145. Specifically, the Investment Officer will not:

- Invest in any investments not described herein, including, but not limited to, stocks, inverse floaters, range notes, commercial mortgage-backed, interest-only strips, or any security that could result in zero interest accrual if held to maturity.
- Make a commitment to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement of the purchase or sale transaction; or
- Enter into any agreement to invest funds or sell securities for future delivery for a fee other than interest; or
- Invest in "144A" private placement securities, this includes commercial paper privately placed under section 4(a)(2) of the Securities Act of 1933; or
- Lend securities to any person or institution, except on a fully collateralized basis, and except when such lending is specifically permitted under an investment policy adopted pursuant to ORS 294.135 (1)(a); or

- Purchase, per ORS 294.040, any bonds of issuers listed in ORS 294.035(3)(a) to (c) that have a prior default history; or
- Deliver securities to the purchaser upon sale prior to receiving payment in full. However, the Investment Officer may deliver the securities to any custodian bank, defined in ORS 295.001 upon instructions to hold the same pending receipt by the institution of full payment therefore.

#### 9.4 Investing Bond Proceeds

The City recognizes that bond proceeds may be subject to the provisions of the Tax Reform Act of 1986, Federal Arbitrage Regulations, as amended. Due to the legal complexities of arbitrage law and the goal to match investments to required cash flow disbursements.

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 maturity matched with expected outflows.

Information will be maintained for arbitrage rebate calculations.

#### 9.5 Investment of Reserve or Capital Improvements

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.

### **10. POLICY COMPLIANCE, PERFORMANCE STANDARDS AND REPORTING**

#### 10.1 Compliance Report

A compliance report shall be maintained quarterly to document the portfolio's characteristics compared to the investment policy. Additional reports will include:

- Transactions
- Holdings Report
- Mark To Market Values
- Earnings Rate

#### 10.2 Compliance Measurement and Adherence

- a. Compliance Report: A compliance report documenting the portfolio versus the investment policy shall be maintained quarterly.

- b. Compliance Measurement:  
Guideline measurements will use market value of investments.
- c. Compliance Procedures:
- 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 City Council.
  - 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.
  - iv. As determined on any date that the security is held within the portfolio. If the credit rating of a security is subsequently downgraded below the minimum rating level for a new investment of that security, the Finance Director shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Finance Director will apply the general objectives of Safety, Liquidity, Yield and Legality to make the decision.

### 10.3 Performance Measurement:

- The liquidity component yield will be compared quarterly to the LGIP average yield.
- The core portfolio will be invested into a predetermined structure that will be measured against a selected benchmark portfolio. The structure will be based upon a chosen minimum and maximum duration (average maturity) and will have the objective to achieve market rates of returns over investment horizons consistent with this policy. The purpose of the benchmark is to appropriately manage the risk in the portfolio given interest rate cycles. The core investment portfolio is expected to provide similar returns to the benchmark over interest rate cycles, but may underperform or outperform in certain periods. The portfolio will be positioned to first provide for safety and liquidity and then achieve market rates of return. The benchmark used will be a 0-3 year or 0-5 year standard market index and comparisons will be calculated monthly and reported quarterly.

- When comparing the performance of the City's portfolio, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.
- The mark to market pricing will be calculated monthly and be provided in a monthly report.

#### 10.4 Reporting Requirements:

The Finance Director will retain and provide quarterly investment reports to the City Council in a similar manner as outlined in ORS 208.090. The reports also will be available upon request. Securities holdings and cash balances held in the investment portfolio will be provided on the reports.

The minimum quarterly reporting requirements for total portfolio are as follows:

- Earnings Yield
- Holdings Report (including mark to market)
- Transactions Report
- Weighted Average Maturity or Duration
- Compliance Report

## **11. POLICY ADOPTIONS**

This Investment Policy will be formally adopted by the City Council; and thereafter, this policy will be reviewed and readopted annually in accordance with ORS 294.135 (1) (a), even if there are no changes. Prior to adoption by the City Council, if significant changes to the Investment policy require review and comment by Oregon Short-Term Fund Board, such review will be sought prior to formal adoption by the City Council. The Investment Officer may update information in the exhibits to this document, provided the changes in no way affect the substance or intent of the policy.

**12. EXHIBIT I: GLOSSARY OF KEY INVESTMENT TERMS**

**Accrued Interest.** Interest earned but which has not yet been paid or received.

**Agency.** See "Federal Agency Securities."

**Bankers' Acceptance (BA's).** A draft or bill of exchange drawn upon and accepted by a bank. Frequently used to finance shipping of international goods. Used as a short-term credit instrument, bankers' acceptances are traded at a discount from face value as a money market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

**Basis Points.** A basis point is a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form. In most cases, it refers to changes in interest rates and bond yields.

**Benchmark.** A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance and duration of the actual portfolio's investments.

**Bond Ratings: Agency's Ability to Meet its Financial Obligation**

	<u>S&amp;P</u>	<u>Moody's</u>
Extremely Strong Capacity, Highest Quality Minimal Credit Risk	AAA	Aaa
Very Strong Capacity, High Quality Low Credit Risk	AA+	Aa1
	AA	Aa2
	AA-	Aa3
Strong Capacity, Upper Medium Grade Subject to Low Credit Risk	A+	A1
	A	A2
	A-	A3
Weakened Capacity, Medium Grade Subject to Moderate Credit Risk	BBB+	Baa1
	BBB	Baa2
	BBB-	Baa3
Exposure to Adverse conditions, Subject to Substantial Credit Risk	BB+	Ba1
	BB	Ba2
	BB-	Ba3

**Broker/Dealer.** A person or firm transacting securities business with customers. A "broker" acts as an agent between buyers and sellers, and receives a commission for these services. A "dealer"

buys and sells financial assets from its own portfolio. A dealer takes risk by owning inventory of securities, whereas a broker merely matches up buyers and sellers. See also "Primary Dealer."

**Certificate of Deposit (CD).** Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity).

**Collateral.** Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.

**Commercial Paper.** Short term unsecured promissory note issued by a company or financial institution. Issued at a discount and matures for par or face value. Usually a maximum maturity of 270 days, and given a short-term debt rating by one or more NRSROs

**Corporate Note.** A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years.

**Counterparty.** The other party in a two party financial transaction. "Counterparty risk" refers to the risk that the other party to a transaction will fail in its related obligations. For example, the bank or broker/dealer in a repurchase agreement.

**Current Yield.** Annual rate of return on a bond based on its price. Calculated as (coupon rate / price), but does not accurately reflect a bond's true yield level.

**Custody.** Safekeeping services offered by a bank, financial institution or trust company, referred to as the "custodian." Service normally includes the holding and reporting of the customer's securities, the collection and disbursement of income, securities settlement and market values.

**Delivery Versus Payment (DVP).** Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

**Depository Trust Company (DTC).** A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs and BAs clear through DTC.

**Discount Notes.** Unsecured general obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Discount Notes typically have very large primary (new issue) and secondary markets.

**Diversification.** Dividing investment funds among a variety of security types, maturities, industries and issuers offering potentially independent returns.

**Federal Agency Security.** A debt instrument issued by one of the federal agencies. Federal agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

**Federal Agency.** Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets.

**Federal Farm Credit Bank (FFCB).** A Government Sponsored Enterprise (GSE) system that is a network of cooperatively owned lending institutions that provide credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. Consists of the consolidated operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks. Frequent issuer of discount notes, agency notes and callable agency securities. FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and agricultural industry. Also issues notes under its "designated note" program.

**Federal Home Loan Bank System (FHLB).** A Government Sponsored Enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its "global note" and "TAP" programs.

**Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac").** One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "reference note" program.

**Federal National Mortgage Association (FNMA or "Fannie Mae").** One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "benchmark note" program.

**Federal Reserve Bank.** One of the 12 distinct banks of the Federal Reserve System.

**Federal Reserve System (the Fed).** The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven member Board of Governors known as the "Federal Reserve Board" and headed by its Chairman.

**Government Sponsored Enterprise (GSE).** Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries. Some consider GSEs to be stealth recipients of corporate welfare. Examples of GSEs include: FHLB, FHLMC, FNMA and SLMA.

**Government Sponsored Enterprise Security.** A security issued by a Government Sponsored Enterprise. Considered Federal Agency Securities.

**Index.** A compilation of statistical data that tracks changes in the economy or in financial markets.

**Investment Advisor.** A company that provides professional advice managing portfolios, investment recommendations and/or research in exchange for a management fee.

**Liquidity.** Relative ease of converting an asset into cash without significant loss of value. Also, a relative measure of cash and near-cash items in a portfolio of assets. Also, a term describing the marketability of a money market security correlating to the narrowness of the spread between the bid and ask prices.

**Market Value.** The fair market value of a security or commodity. The price at which a willing buyer and seller would pay for a security.

**Maturity Date.** Date on which principal payment of a financial obligation is to be paid.

**Municipal Obligations.** A debt instrument issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

**NRSRO.** A "Nationally Recognized Statistical Rating Organization." A designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating such as Moody's, S&P, Fitch and Duff & Phelps.

**Par Value.** Face value, stated value or maturity value of a security.

**Principal.** Face value of a financial instrument on which interest accrues. May be less than par value if some principal has been repaid or retired. For a transaction, principal is par value times price and includes any premium or discount.

**Prudent Person Standard.** Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee will act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. More stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

**Rate of Return.** Amount of income received from an investment, expressed as a percentage of the amount invested.

**Repurchase Agreement (Repo).** A short-term investment vehicle where an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral. Can be DVP, where securities are delivered to the investor's custodial bank, or "tri-party" where the securities are delivered to a third party intermediary. Any type of security can be used as "collateral," but only some types provide the investor with special bankruptcy protection under the law. Repos should be undertaken only when an appropriate approved master repurchase agreement is in place.

**State of Oregon Local Government Investment Pool.** The LGIP is organized pursuant to ORS 294.805 through 294.895. Participation in the Pool will not exceed the maximum limit annually set by ORS 294.810.

**Safekeeping.** Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

**Total Return.** Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

**Treasuries.** Collective term used to describe debt instruments backed by the U.S. Government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, and Treasury bonds. Also a benchmark term used as a basis by which the yields of non-Treasury securities are compared (e.g., "trading at 50 basis points over Treasuries").

**Treasury Bills (T-Bills).** Short-term direct obligations of the United States Government issued with an original term of one year or less. Treasury bills are sold at a discount from face value and

do not pay interest before maturity. The difference between the purchase price of the bill and the maturity value is the interest earned on the bill. Currently, the U.S. Treasury issues 4-week, 13-week and 26-week T-Bills.

**Treasury Bonds.** Long-term interest-bearing debt securities backed by the U.S. Government and issued with maturities of ten years and longer by the U.S. Department of the Treasury. The Treasury stopped issuing Treasury Bonds in August 2001.

**Treasury Notes.** Intermediate interest-bearing debt securities backed by the U.S. Government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. The Treasury currently issues 2-year, 5-year and 10-year Treasury Notes.

**Yield to Maturity (YTM).** Calculated return on an investment, assuming all cash flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.

### **13. EXHIBIT II: COMMUNITY DEPOSIT INITIATIVE PROGRAM CRITERIA**

#### **Beaverton deposit guidelines:**

Maximum amount available for transfer under Deposit Program: \$20 million

Maximum amount deposited in any one bank or credit union: \$10 million

#### **Banks:**

Headquarters in California, Washington or Oregon

Branch office in Beaverton or vicinity

History of Community Reinvestment Act (CRA) or similar community based activity in Washington County

Qualified as public depository under Oregon State law

Deposit interest rate meets requirements established by City Investment Officer

#### **Credit Unions:**

Headquarters in Washington or Oregon

Branch in Beaverton

History of community based activity in Beaverton

Qualified as public depository under Oregon State law

Deposit interest rate meets requirements established by City Investment Officer

#### **Approved Custodians (2019)**

Advantis Credit Union

Bank of the West

Banner Bank

Columbia Bank

Heritage Bank

Northwest Community Credit Union

OnPoint Community Credit Union

Opus Bank

Rivermark Community Credit Union

Umpqua Bank

Unitus Community Credit Union

US Bank

Wells Fargo