

## **TOWN OF WATERFORD INVESTMENT POLICY**

### **I. Introduction:**

The purpose of this investment policy is to provide a written document establishing the guidelines governing the short-term investing procedures and best practices for the Town of Waterford ("The Town"). This investment policy is designed to conform to standards set by the Government Finance Officers Association and the requirements of the Government Accounting Standards Board.

### **II. Governing Authority:**

This investment program shall be operated in conformance with federal, state and other legal requirements. Specifically, the Treasurer of the Town of Waterford is responsible for managing short-term investments. The scope of those investments is mandated under Connecticut General Statutes 7-400 and 7-403a and 7-362, which outline the type and term of permissible investments.

### **III. Scope:**

This policy refers to the investment of Town's operating and administrative funds, hereafter referred to as investment funds and specifically excluding the investment of employees' retirement funds and post-employment benefit funds. Proceeds from bond issues as well as separate foundation or endowment assets are not specifically addressed in this policy.

Consolidation (though no co-mingling) of investment funds for investment purposes shall occur except for cash in certain restricted and special funds. The purpose of this is to maximize earnings potential and increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income is allocated to various funds dependent on their respective and proportional participation and in accordance with general accepted accounting principles (GAAP).

The Town of Waterford segregates individual endowments made to the Town over time to distinguish them from investment funds. The Town has the option to choose an outside investment manager to handle these investment funds or may handle them internally.

### **IV. General Objectives:**

**The primary objectives of the Town of Waterford Investment activities shall be safety, liquidity and yield. There may be other factors, which can influence investing decisions but none that would violate the inherent principles of safety, liquidity and yield.**

#### **1. Safety:**

Safety of principal is the top objective of the Town of Waterford's investment program. The methods of preserving principal are through limiting credit risk and interest rate risk.

#### A. Credit Risk including Concentration Risk:

Credit risk can be defined as the potential loss due to failure of the security issuer or backer. Pre-qualifying institutions with which the Town may do business limit credit risk. This authorization process will be defined in a later section.

- 1) Credit risk is also lessened by limiting the type of acceptable investments by type of financial vehicle or security, which the Town is authorized to invest in. This is governed by Connecticut General Statutes.
- 2) Credit Risk can also be limited by avoiding concentration risk in a portfolio e.g. having too much of one type of security or one institutional issuer or backer. The explicitly stated exception is the **Connecticut Short-Term Investment Fund**, which is a short-term fund rated AAA by Standard and Poors and run by the Treasurer of the State of Connecticut. The **Connecticut Short-Term Investment Fund** ("STIF") represents a diverse pool of assets and underlying investments. The Treasurer, in coordination with the Finance Department, will set up credit/concentration limits for each institution the Town of Waterford does business with in a separate document. Those credit limits shall be reviewed from time to time.
- 3) Credit risk also involves pre-qualifying and authorizing transactions with broker/dealers, intermediaries and advisors who do business with the Town.

#### B. Interest Rate Risk:

- 1) The Town of Waterford will minimize interest rate risk, which is the risk that the market value of the securities will fall due to changes in the market interest rate, by structuring the investment portfolio so that the securities mature to meet cash requirements for ongoing operations and avoiding the need to sell securities on the open market prior to maturity.
- 2) Investing in short-term securities, money market funds or similar investment pools and limiting the average maturity in the portfolio in accordance with this policy minimizes interest Rate Risk.
- 3) This policy does not expressly state when the Treasurer may move the portfolio into fixed or floating rate securities that would be impacted by interest rates, as that is a market condition or trend left to the expertise and discretion of the Treasurer. The Treasurer would be expected, in strategizing, to react to market conditions to make investments that are prudent and without incurring unnecessary interest rate swings. Further, the Treasurer must adjust investments due to the seasonal nature of the Town's cash flow needs.

#### **2. Liquidity:**

The second objective of the investment program is that the portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated, including express seasonal needs. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Further, since all cash demands cannot always be anticipated, the portfolio should consist of securities with active secondary or resale markets. Alternatively, a portfolio in parts or its entirety may be invested in money market mutual funds or local government investment pools that offer same-day liquidity for short-term funds. It is a pre-requisite that all investment vehicles meet Connecticut General Statute standards, regardless of liquidity.

#### **3. Yield:**

The third objective of the investment program is that the investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance to the primary importance of safety and liquidity as described above. The portfolio should be limited to low risk securities. These securities should earn a fair return relative to the risk being assumed. Securities should be held to maturity with the following express exceptions:

- A. A security with declining credit may be sold early to minimize potential loss of principal.
- B. A security purchase and sale that would improve the quality, yield or target duration in the portfolio. (Security purchase and sale means trading one investment for another investment, not the “swap” connoted as a derivative product. Derivatives are not allowed in the portfolio.
- C. Unforeseen liquidity needs of the portfolio requiring that the security be sold.

## **V. Portfolio Construction:**

### **1. Maximum Maturities:**

The maximum maturity value of all investments exceeding 2 years shall not be more than 5% of the total budget for current Fiscal Year. The average weighted maturity of all investments exceeding 2 years shall not be more than 5 years and no more than 50% of the maturity value of those investments may exceed 5 years in duration.

### **2. Foreign Currency Risk:**

The Town does not and will not invest in any foreign investment pursuant to statute. The Town does not accept payment for Town services in any foreign currency, only US dollars. The Town of Waterford will not engage in any foreign currency risk.

## **VI. Standards of Care:**

### **1. Prudence**

The standard to be used by investment officials shall be the “uniform prudent investor act” standard and shall be applied in the context of managing an overall portfolio. The treasurer 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 in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

### **2. Ethics and Conflicts of Interest**

Town officials and town employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. Employees and officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/ investment positions that could be related to the performance of the investment portfolio. Employees and officials are prohibited from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the Town of Waterford.

### **3. Delegation of Authority**

Authority to manage the investment program is granted to the Treasurer of the Town of Waterford by provision of the following CT General Statutes: CGS 7-400. The Treasurer (Investment Officer) shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with the Town's investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements and collateral/ depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures. The investment officer shall be responsible for all investment transactions undertaken and shall establish a system of controls with the cooperation of the Director of Finance of the Town of Waterford to regulate the activities of subordinate officials.

In the event of an absence, the Treasurer may expressly transfer specific powers and responsibilities to an appropriate person in the Finance Office, either the Director or Staff Accountant. However, that transfer must be made in writing (or electronically) and state specifically the time and duration of the transfer powers. The Director and Staff Accountant during that period would be bound by all the same rules and standards to which the Treasurer would be subject en absentia. Further, the Director of Finance and Staff Accountant must report all actions and transactions to the Treasurer upon the Treasurer's return.

## **VII. Authorized Financial Institutions, Depositories and Broker/Dealers**

### **1. Authorized Financial Institutions, Depositories and Broker/Dealers**

A list will be maintained by the Treasurer of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g. a minimum capital requirement of \$10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under the Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- A. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
- B. Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit or Bank money fund counter parties)
- C. Proof of state registration
- D. Completed broker/dealer questionnaire (not applicable to Certificate of deposit or bank money fund counter parties).
- E. Certification of having read and understood and agree to comply with the Town's investment policy.
- F. Evidence of adequate insurance coverage.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Treasurer in coordination with the Director of Finance.

**2. *Minority and Community Financial Institutions:***

From time to time, the Treasurer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to certain parts of the criteria listed above may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law. These types of investment purchases would require the express approval of relevant Boards (both Selectmen and Finance Boards). In addition the Treasurer would take into account any advice of the Director of Finance.

**VIII. Safekeeping and Custody**

**1. *Delivery vs. Payment***

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to release of funds.

**2. *Safekeeping***

Securities will be held by an independent third party custodian selected by the Town and accepted by the Town, evidenced by safekeeping receipts in the Town of Waterford's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls.

**3. *Internal Controls***

The Treasurer/Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town of Waterford are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of the control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls structure include the following points:

- A. Control of collusion
- B. Separation of transaction authority from accounting and record keeping
- C. Custodial safekeeping
- D. Avoidance of physical delivery securities
- E. Clear delegation of authority to subordinate staff members
- F. Printed confirmation of transactions for investments and wire transfers authorizations of wire transfers
- G. The wire transfer agreement with the lead bank and third-party custodian which is usually required by the bank.

The Director of Finance shall oversee an annual independent review by an external auditor to assure compliance with policies and procedures or alternatively, compliance should be assured through Town of Waterford's annual independent audit.

## **IX. Suitable and Authorized Investment**

### ***Investment Types:***

The Town of Waterford investments are consistent with and in accordance with Connecticut General Statutes. Please refer to the CGS 7-400, 403a, 362, which delineates the parameters of the Town of Waterford's investment activities.

### ***Collateralization:***

Collateralization for Town of Waterford investments is consistent and in accordance with Connecticut General Statute 36a-336.

### ***Repurchase Agreements:***

Repurchase agreements for the Town of Waterford should be consistent and in accordance with Connecticut General Statute 7-400. Additionally, repurchase agreements should follow the required need for collateral that is put aside to back up any repurchase agreement. The amount of collateral depends on the type of collateral that is pledged (Treasuries, Ginny Mae's etc.).

## **X. Investment Parameters**

### ***Diversification:***

Investments shall conform to state statute and further be diversified by:

- A. Limiting investments to avoid over concentration from a specific issuer or business sector (excluding U.S. Treasury securities and the State of Connecticut Short-Term Investment Fund also known as "STIF")
- B. Limiting investments in securities that have higher credit risks
- C. Investing in securities with varying maturities (the exception being keeping the portfolio in daily funds which are completely liquid)
- D. Making sure at least a portion of funds is liquid enough to meet ongoing obligations of the Town of Waterford.
- E. Appropriate portfolio diversification should also take into account the seasonality of the Town of Waterford's funds and invested to complement that cash cycle.

### ***Maturity:***

- A. All maturities must conform to state statute.
- B. There must always be funds invested on a daily basis to ensure liquidity since cash forecasting cannot always accurately predict all calls on the Town's financial needs.
- C. When contemplating an investment the Treasurer must look at two or more sources (institutions) before placing money.

## **XI. Reporting**

### ***Methods***

The Treasurer shall prepare an investment report at least quarterly including a management summary that provides an analysis of the status of the current investment portfolio. This management summary will be prepared in a timely manner and will be prepared in a way that will allow comparison to the Town's investment policy. The report should be provided to the

Board of Selectmen of the Town of Waterford, the Board of Finance and the Representative Town Meeting as well as others upon request.

The report should show where the portfolio is currently placed (by institution) and the revenue generated during the quarterly period. Individual transactions will be available for audit.

***Performance Standards:***

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during the market/economic environment. The standard benchmark for determining whether market yields are being achieved will be the yields of the State Treasurer's Investment Fund (STIF).

**XII. Policy Consideration**

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

**XIII. Approval of Investment Policy**

The investment policy shall be formally approved by the Board of Finance and Treasurer and reviewed annually. The opinions and advice of the Director of Finance will be included in the review.

Adopted: November 12, 2008  
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