

ADA COUNTY, IDAHO



Investment Policy

Effective Date:

October 16, 2018

ADA COUNTY
INVESTMENT POLICY

TABLE OF CONTENTS

	Page
1.0 Policy Statement.....	4
2.0 Scope of the Investment	4
3.0 Delegation of Authority.....	4
4.0 Objectives.....	5
4.1 Safety	
4.2 Liquidity	
4.3 Yield	
4.4 Legality	
5.0 Standard of Prudence.....	6
6.0 Instruments Eligible for Investment and Concentration Limits.....	6
6.1 U.S. Treasury Bills, Notes, Certificates of Indebtedness	
6.2 State of Idaho Bonds	
6.3 Idaho Counties, Cities and District Bonds	
6.4 U.S Federal Agency Securities	
6.5 Corporate Bonds and Notes	
6.6 Repurchase Agreements	
6.7 State Tax Anticipation Notes	
6.8 Local Government Tax Anticipation Notes	
6.9 Time Deposits and Certificate of Deposits	

6.10	Idaho Education Bonds	
6.11	Money Market Funds	
6.12	LGIP	
6.13	DBF	
7.0	Prohibited Investment Practices.....	10
8.0	Portfolio Maturity and Structure.....	10
9.0	Safekeeping and Custody.....	10
10.0	Ethics and Conflict of Interest.....	10
11.0	Investment Policy and Review.....	11
12.0	Approved Broker/Dealers.....	11
13.0	Reporting	11
14.0	Audit and Internal Controls.....	11
15.0	Performance Evaluation.....	12
16.0	Glossary.....	13

ADA COUNTY
INVESTMENT POICY

1.0 Policy Statement

The purpose of this Investment Policy is to establish investment guidelines for the County Treasurer, who is responsible for the stewardship of the Ada County Investment Program. Each transaction and the entire portfolio must comply with Idaho law and this Policy. All investment program activities will be judged by the standards of the Policy and ranking of Primary Investment Objectives. Those activities that violate its spirit and intent will be deemed to be contrary to the Policy. This Policy conforms to customary standards of prudent investment management. Should the provisions of the Idaho law change from those contained herein; such provisions will be considered incorporated in this Policy. This Policy shall remain in effect until the Ada County Commission approves a subsequent revision.

2.0 Scope of Investment Policy

The Investment Policy of Ada County shall apply to the following investment funds; Ada County Investment Fund, LGIP, DBF, and potential funds opened with the approval of the Board of County Commissioners and the Treasurer. Applicable law and this written Investment Policy authorize each investment made pursuant to this Investment Policy.

3.0 Delegation of Authority

The County Treasurer shall deposit county funds in accordance with Idaho Title 57, Chapter 1, Sections 57-101, *et seq.* and this Ada County Investment Policy. Idaho Code Section 57-127, 57- 127A and 57-128, empower the County Treasurer to invest surplus or idle funds in instruments and investments permitted by Idaho Code Section 67-1210. The Treasurer, or by dual control, staff designated by the Treasurer, may invest public funds. If necessary, a copy of any empowering resolution shall be established.

The Ada County Treasurer, or designated staff selected by the Treasurer, is further permitted to invest in authorized securities with primary or regional dealers, or through an internally managed portfolio using existing custodians. Investments are to be made with banks designated by the Board of County Commissioners as a depository in accordance with 57-128. The list of Public Depositories and transactions made by or on behalf of Ada County are public record.

4.0 Objectives

The primary goals, in priority order, of all investment activities involving the financial assets of Ada County shall be safety, liquidity, yield, and legality:

4.1 Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to manage credit and interest rate risk, and diversify against unsystematic risk.

- *Credit Risk*
 - Credit Ratings will be addressed for applicable securities under 6.0 Eligible Investments.
- *Interest Rate Risk*
- *Diversification*
 - Concentration limits will be addressed for specific investments in 6.0 Eligible Investments.

4.2 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

4.3 Yield

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 third in importance compared to the safety, liquidity, and legality objectives described above. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk assumed and market conditions.

4.4 Legality

Investments shall only be made in securities legally permissible by the Idaho Code(IC), Section 67-1210. In recognition of a rapidly changing and expanding marketplace, new concepts or securities shall be reviewed for compliance and possible consideration. Legality issues shall be resolved with the Prosecuting Attorney's Office.

5.0 **Standard of Prudence**

The Treasurer of Ada County or designated staff, shall invest and manage assets as a prudent investor would, by considering the purposes, terms, distribution requirements and other market circumstances. In satisfying this standard, reasonable care, skill and caution will be exercised. The prudent investor, acting in a like capacity and familiar with such matters, would use to attain the goals listed in Section 3 and of Idaho Code Title 68 Chapter 5 Uniform Prudent Investor Act.

6.0 **Instruments Eligible for Investment with Concentration Limits and Credit Ratings where Applicable**

(All percentage limitation are considered at the time of purchase)

6.1 U.S. Treasury Bills, Notes, Certificates of Indebtedness

U.S. Treasury Obligations: Bonds, treasury bills, interest-bearing notes, or other obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

- Security Class Limit: No Limit
- Issuer Limit: No Limit

6.2 State of Idaho Bonds

General obligation or revenue bonds of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest.

- Security Class Limit: 50%
- Issuer Limit: 50%

6.3 Idaho Counties, Cities and District Bonds

General obligation or revenue bonds of any county, city, metropolitan water district, municipal utility district, school district or other taxing district of this state.

- Security Class Limit: 20%
- Issuer Limit: 10%
- Rated A or better by 2 of 3 (S&P, Moody's, or Fitch) or Equivalent

6.4 U.S Federal Agency Securities

Obligations of U.S. Federal Agency or U.S. government sponsored enterprise (GSE) obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises, including the United States Small Business Administration guaranteed portion of any loan approved by an Idaho banking corporation and by the State Treasurer.

- Security Class Limit: 100%
- Issuer Limit: 50%

6.5 Corporate Bonds and Notes

Bonds, notes or other similar obligations issued by public corporations domiciled in the State of Idaho.

- Security Class Limit: 40%
- Sector Limit 20%
- Issuer Limit: 5%
- Rated A or better by 2 of 3 (S&P, Moody's, or Fitch)

6.6 Repurchase Agreements

Repurchase agreements covered (collateralized) by any legal investment of the County. Repos executed with a bank organized and operating or licensed to operate in the United States under federal or state law or a securities dealer which is a registered broker/dealer, designated by the Federal Reserve Bank of New York as a primary dealer in United States government securities. Repo transactions shall be limited to maturities of not more than 90 days per transaction. Repo counterparties shall execute a Global Master Repurchase Agreement which has been approved by the Securities Industry and Financial Markets Association (SIFMA). The collateral pledged and delivered for other than overnight investments shall be marked-to-market on a weekly basis and maintained, by a custodian bank, at an amount greater than a market value of 102 percent.

- Security Class Limit: 30%
- Issuer Limit: 15%
- Repo counterparties must have a rating of A-1 by Standard and Poor's Corporation, P-1 by Moody's Corporation, or F-1 by Fitch Ratings

6.7 State Tax Anticipation Notes

Tax anticipation notes and registered warrants of the state of Idaho.

- Security Class Limit: 10%
- Rated A or better by 2 of 3 (S&P, Moody's, or Fitch) or Equivalent

6.8 Local Government Tax Anticipation Notes

Tax, income, and revenue anticipation bonds or notes of taxing districts of the state of Idaho.

- Security Class Limit: 20%
- Issuer Limit: 5%
- Rated A or better by 2 of 3 (S&P, Moody's, or Fitch) or Equivalent

6.9 Time Deposits and Certificate of Deposits

Investments in interest bearing savings account domiciled within the United States and fall within the FDIC limit. Preference will be given to institutions that are domiciled within the state of Idaho.

- Security Class Limit: 50%
- Issuer Limit: Current FDIC limit (Currently at \$250,000)

6.10 Idaho Education Bonds

Revenue bonds for institutions of higher education within the state of Idaho.

- Security Class Limit: 20%
- Issuer Limit: 5%
- Rated A or better by 2 of 3 (S&P, Moody's, or Fitch) or Equivalent

6.11 Money Market Funds

Money market funds which are registered with the Securities and Exchange Commission, and invest in securities issued by the U.S. Treasury, U.S Agencies (GSE's), or repurchase agreements fully collateralized by such securities. The securities held in money market portfolios must be dollar-denominated, meaning that all principal and interest payments on such a security are payable to security holders in United States dollars.

- Security Class Limit: 70%
- Issuer Limit: 70%
- Credit rating of AAA or equivalent by S&P, Moody's, or Fitch

6.12 LGIP

Idaho State Local Government Investment Pool (LGIP). LGIP will be approached using the same manner of due diligence as 6.11 Money Market Funds, with the exception of the following concentration.

- Security Class Limit: 70%

6.13 DBF

Idaho Diversified Bond Fund (DBF). DBF will be approached using the same manner of due diligence as 6.11 Money Market Funds, with the exception of the following concentration.

- Security Class Limit: 30%

7.0 **Prohibited Investment Practices**

Assets of Ada County shall not be invested pursuant to the following investment practices:

- Trading of securities for speculation.
- A contract providing for the compensation of an agent or fiduciary.

In addition to the prohibited practices above, if a third party with custody of public transaction records of Ada County fails to produce requested records within a reasonable amount of time, Ada County shall make no new investments with or through the third party.

8.0 **Portfolio Maturity and Structure**

All investments authorized in Section 6 are further subject to the investment maturity limitation of 5 years; however, the Treasurer or delegated staff may invest such funds in specific investments with maturities longer than 5 years with the unanimous consent of the Board of Ada County Commissioners. However, all investments of Ada County shall have maturities that are consistent with the needs and use of the County.

The maximum weighted average maturity of the portfolio shall not exceed 3 years.

9.0 **Safekeeping and Custody**

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited with a third party custodian prior to the release of funds. The Treasurer shall establish a third party safekeeping or custody account.

10.0 **Ethics and Conflict of Interest**

The Treasurer and all officers and employees of Ada County involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

11.0 Investment Policy and Review

This Investment Policy shall be reviewed every two years or more frequently as appropriate.

12.0 Approved Broker/Dealers

The Treasurer shall maintain an approved list of broker/dealers. Broker/dealers are required to annually submit request for information and investment policy review checklists. Returning broker/dealers in good standing will receive automatic renewal if the forms are received within the stated time. All other submittals will be reviewed by the Treasurer to evaluate the following criteria; county need, Financial Industry Regulatory Authority standing, relationship with the State of Idaho, as well as other legal and industry specifications.

13.0 Reporting

The Treasurer's designated staff will prepare a monthly report for the Board of County Commissioners. The reports shall provide a summary of the investments (including sector/type percentages, weighted average maturity, and weighted average book yield) and a detail of the investment holdings (including par, book, and market values, S&P and/or Moody's ratings, CUSIP, purchase date, maturity date, book yield, rate of return and comparison to benchmark). The report shall also include the activity of the portfolio for the month; to include a listing of securities purchased, sold, called, or matured.

Upon purchase, the Treasurer's designated staff shall record and maintain all investment details listed in this section in the appropriate investment and financial software.

14.0 Audit and Internal Controls

The Treasurer's Office shall employ internal controls designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees and officers of Ada County.

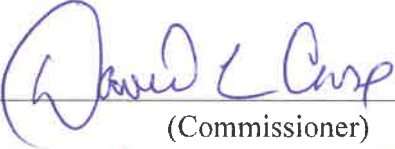


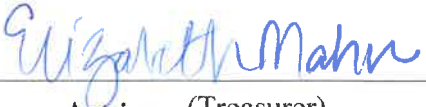
The custodian/safekeeping account, investment transactions, and records shall be available to the clerk, independent of the Treasurer's Office, and/or by outside independent auditors with a frequency prescribed by the Board of County

Commissioners.


15.0 Performance Evaluation

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio is designed with the objective of attaining a market rate of return throughout budgetary and economic cycles. An appropriate benchmark shall be established against which the portfolio's performance shall be compared on a regular basis. The benchmark shall be reflective of the actual securities being purchased and risks undertaken, and shall have a similar weighted average maturity as the portfolio.

Adoption and Approval of Policy

 _____ (Commissioner)	<u>10-16-18</u> _____ Date
 _____ (Commissioner)	<u>10-16-18</u> _____ Date
 _____ (Commissioner)	<u>10-16-18</u> _____ Date
 _____ Acting (Treasurer)	<u>10-16-18</u> _____ Date

ATTEST:



(Clerk)

Glossary

Annual report - A publication that provides an annual description of an organization's operations and financial conditions.

Annualized - A procedure where figures covering a period of less than one year are extended to cover a 12-month period.

Asset allocation - The process of dividing investments among cash, income and growth buckets to optimize the balance between risk and reward based on investment needs.

Asset class - Securities with similar features. The most common asset classes are stocks, bonds and cash equivalents.

Average maturity - For a bond fund, the average of the stated maturity dates of the debt securities in the portfolio. Also called average weighted maturity. In general, the longer the average maturity, the greater the fund's sensitivity to interest-rate changes, which means greater price fluctuation. A shorter average maturity usually means a less sensitive - and consequently, less volatile - portfolio.

Benchmark - A standard, usually an unmanaged index, used for comparative purposes in assessing performance of a portfolio or mutual fund.

Bond - A bond acts like a loan or an IOU that is issued by a corporation, municipality or the U.S. government. The issuer promises to repay the full amount of the loan on a specific date and pay a specified rate of return for the use of the money to the investor at specific time intervals.

Bond Rate - The percent of interest offered on the purchase of a bond.

Capital - The funds invested in a company on a long-term basis and obtained by issuing preferred or common stock, by retaining a portion of the company's earnings from date of incorporation and by long-term borrowing.

Capitalization - The market value of a company, calculated by multiplying the number of shares outstanding by the price per share.

Cash equivalent - A short-term money-market instrument, such as a Treasury bill or repurchase agreement, of such high liquidity and safety that it is easily converted into cash.

Common stock - Securities that represent ownership in a corporation; must be issued by a corporation.

Corporate bond - A long-term bond issued by a corporation to raise outside capital.

Credit Ratings - Evaluations of the credit quality of bonds usually made by independent rating services. Ratings generally measure the probability of timely repayment of principal and interest on debt securities.

Credit Risk - The risk that a borrower may not repay a loan and that the lender may lose the principal of the loan or the interest associated with it.

Custodian - A bank that holds a mutual fund's assets, settles all portfolio trades and collects most of the valuation data required to calculate a fund's net asset value (NAV).

Delivery vs. Payment - A securities industry settlement procedure in which the buyer's payment for securities is due at the time of delivery.

Discount - refers to a situation when a bond is trading for lower than its par or face value. The discount equals the difference between the price paid for a security and the security's par value.

Diversification - The process of owning different investments that tend to perform well at different times in order to reduce the effects of volatility in a portfolio, and also increase the potential for increasing returns.

Equities - Shares issued by a company which represent ownership in it. Ownership of property, usually in the form of common stocks, as distinguished from fixed-income securities such as bonds or mortgages. Stock funds may vary depending on the fund's investment objective.

Federal Funds Rate (Fed Funds Rate) - The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board.

Federal Reserve Board (The Fed) - The governing board of the Federal Reserve System, it regulates the nation's money supply by setting the discount rate, tightening or easing the availability of credit in the economy.

Fixed income fund - A fund or portfolio where bonds are primarily purchased as investments. There is no fixed maturity date and no repayment guarantee.

Fixed income security - A security that pays a set rate of interest on a regular basis.

Fund - A pool of money from a group of investors in order to buy securities. The two major ways funds may be offered are (1) by companies in the securities business (these funds are called mutual funds); and (2) by bank trust departments (these are

called collective funds).

Index - An investment index tracks the performance of many investments as a way of measuring the overall performance of a particular investment type or category. The S&P 500 is widely considered the benchmark for large-stock investors. It tracks the performance of 500 large U.S. company stocks.

Inflation - A rise in the prices of goods and services, often equated with loss of purchasing power.

Interest rate - The fixed amount of money that an issuer agrees to pay the bondholders. It is most often a percentage of the face value of the bond. Interest rates constitute one of the self-regulating mechanisms of the market, falling in response to economic weakness and rising on strength.

Interest-rate risk - The possibility of a reduction in the value of a security, especially a bond, resulting from a rise in interest rates.

Investment advisor - An organization employed by a mutual fund to give professional advice on the fund's investments and asset management practices.

Liquidity - The ability to have ready access to invested money.

Long-term investment strategy - A strategy that looks past the day-to-day fluctuations of the stock and bond markets and responds to fundamental changes in the financial markets or the economy.

Market price - The current price of an asset.

Market risk - Fluctuation in investment markets that create the possibility that an investment will not achieve its target earnings.

Maturity - The date specified in a note or bond on which the debt is due and payable.

Money market mutual fund - A short-term investment that seeks to protect principal and generate income by investing in Treasury bills, CDs with maturities less than one year and other conservative investments.

Mutual fund - Fund operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities or money market securities.

Par value - Par value is the amount of a bond and the amount that will be repaid at maturity. Bonds are typically sold in multiples of \$1,000.

Portfolio - A collection of investments owned by one organization or individual, and managed as a collective whole with specific investment goals in mind.

Premium - The amount by which a bond or stock sells above its par value.

Sector - A group of similar securities in a specific industry.

Securities - Another name for investments such as stocks or bonds. The name 'securities' comes from the documents that certify an investor's ownership of particular stocks or bonds.

Share - A unit of ownership in an investment, such as a share of a stock or a mutual fund.

Sharpe Ratio - A risk-adjusted measure that measures reward per unit of risk. The higher the Sharpe Ratio, the better. The numerator is the difference between the Fund's annualized return and the annualized return of the risk-free instrument (T-Bills).

Short-term investment - Asset purchased with an investment life of less than a year.

Standard & Poor's Index - Broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks commonly known as the Standard & Poor's 500 or S&P 500.

Rate to maturity – The percent of interest offered on the purchase of a bond (see bond rates)

Rate to Call – An adjusted percent of interest on a bond that is called prior to maturity.

Total return - Accounts for all of the dividends and interest earned before deductions for fees and expenses, in addition to any changes in the value of the principal, including share price, assuming the funds' dividends and capital gains are reinvested. Often, this percentage is presented in a specified period of time (one, five, ten years and/or life of fund). Also, a method of calculating an investment's return that takes share price changes and dividends into account.

Transfer agent - An agent, usually a commercial bank, appointed to monitor records of stocks, bonds and shareholders. A transfer agent keeps a record of the name of each registered shareholder, his or her address, the number of shares owned, and sees that certificates presented for the transfer are properly canceled and new certificates are issued in the name of the new owner.

Treasury bill - Negotiable short-term (one year or less) debt obligations issued by the U.S. government and backed by its full faith and credit.

Treasury bond - Negotiable long-term (10 years or longer) debt obligations issued by the U.S. government and backed by its full faith and credit.

Treasury note - Negotiable medium-term (one year to 10 years) debt obligations issued by the U.S. government and backed by its full faith and credit.

Volatility - The amount and frequency with which an investment fluctuates in value.

Weighted average maturity - A Fund's WAM calculates an average time to maturity of all the securities held in the portfolio, weighted by each security's percentage of net assets. The calculation takes into account the final maturity for a fixed income security and the interest rate reset date for floating rate securities held in the portfolio.

Yield - Annual percentage rate of return on capital. The dividend or interest paid by a company expressed as a percentage of the current price.

Yield to maturity - Concept used to determine the rate of return an investor will receive if a long-term, interest-bearing investment, such as a bond, is held to its maturity date.