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## **SARPY COUNTY TREASURER'S INVESTMENT POLICY**

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## **SCOPE**

The purpose of this investment policy is to outline responsibilities, set investment goals, establish strategies to achieve stated objectives, establish internal controls and operational procedures and prepare methods of performance measurement.

The investment policy applies to all funds held by the Sarpy County Treasurer for the benefit of Sarpy County in excess of those required to meet short-term expenses and for any funds held by the Sarpy County Treasurer on behalf of the political entities the treasurer represents.

## **OTHER SOURCES OF INFORMATION**

In addition to guidance provided in this policy, The County Treasurer's Manual (Procedural Guide for County Treasurers) published in coordination with NACO (Nebraska Association of County Officials), the Nebraska State Auditor's Office, and County Treasurers throughout the state, provides additional information on investing. In addition, The State and Local Investment Guide Series and the Cash Management and Investment Handbook, are also located on the County Treasurer's bookcase and provide a wealth of information on investments. Nebraska Revised Statutes 77-2312...77-2326 and 77-2387...77-23106.

## **INVESTMENT OBJECTIVES**

The County's overall investment objectives are, in order of priority, the safety of principal, liquidity of funds and maximizing investment income. The following investment objectives shall be applied in the management of those County's funds which are the responsibility of the County Treasurer.

### **(A) THE SAFETY OF PRINCIPAL:**

The County Treasurer's investment strategy will ensure the preservation of principal in the overall portfolio. Each investment transaction shall seek to avoid losses in the form of investment risk.

Investment risk may be in the form of default risk, market risk or operating risk. Default risk is controlled by purchasing securities issued by entities of high credit quality. Market risk is controlled by maintaining a sufficient level of liquidity thereby limiting the necessity of selling instruments at a loss. Operating risk is controlled by strict adherence to sound operating procedures.

### **(B) THE LIQUIDITY OF FUNDS:**

The County Treasurer's investment strategy shall provide sufficient liquidity to meet the County's operating payroll, claims, and other requirements. This liquidity is in the form of investments, which are readily convertible to cash with no loss of principal. The policy of Sarpy County is to meet liquidity requirements and to place funds in yield investments.

### **(C) THE MAXIMIZATION OF INVESTMENT INCOME:**

When investing public funds, the County Treasurer shall strive to maximize portfolio income, but this shall be secondary to the stated requirements for safety and liquidity, and to place investments in local banks. The County Treasurer will act responsibly as custodian of the public trust.

## **INVESTMENT STRATEGIES**

As a rule, the County Treasurer will seek to adhere to a buy-and-hold strategy. This means that the County Treasurer intends to hold all purchased securities until their final maturity date. There may be occasional exceptions, including but not limited to the need to sell securities to meet unexpected liquidity needs. The following strategies may be used to maximize return on investments:

### (1) Matching Maturities to Known Cash Needs

The maturities of investments will be matched to known cash needs and anticipated net cash outflow requirements.

### (2) Maturity Extension

A positive sloping or “normal” yield curve rewards longer-term investments. All purchase decisions that do not involve matching of known cash needs will be based on an analysis of the relative yield benefit to lengthening the maturity.

### (3) Determination of an Investment’s Relative Value

By following historical spread relationships between different security types and issuers, it is possible to determine the securities that offer the best yield value on any given day. The County Treasurer will seek to invest funds in the highest yielding investment security within known cash flow constraints and established policy guidelines. Given statutory limitations there is not a lot of opportunity to maximize this situation.

### (4) Market Opportunities

Although money markets are generally very efficient to employ, there are opportunities for yield enhancement by buying longer term investments such as CDs, treasury bills, FNMAs, GNMA, CDARS, or treasury bonds. State law prevents the County Treasurer from investing County funds longer than two years.

### (5) Anticipating Market Changes

Although it is not possible to consistently predict market trends, an understanding of the factors that affect the market is important when determining an optimal maturity for the portfolio. Trading is not to be made solely on the basis of interest rate forecasts, but specific decisions involving maturity dates should consider short-term market expectations.

## **PERFORMANCE MEASUREMENT**

The investment performance shall be evaluated by comparison to established benchmarks. The selection of the benchmarks will be based upon the investment strategy and length of the investment portfolio. Two of the selected benchmarks will be the six-month average of the 180-day T-bill and the twelve month average of the 360 day T-bill. These indexes are considered a benchmark for riskless investment transactions and therefore comprise a standard for short-term investment of public funds.

## **PRUDENCE AND ETHICAL STANDARDS**

The “prudent person” standard shall be used by investment officials in the management of the overall investment portfolio.

The “prudent person” standard is understood to mean the following: 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.

Employees involved in the investment program shall refrain from personal business activities that could conflict with proper execution of the investment decisions. Employees and investment officers shall subordinate their personal investment transactions to those of the County, particularly with regard to the timing of purchases and sales.

## **AUTHORIZED INVESTMENTS**

The County’s Treasurer’s investment authority is derived from Nebraska Revised Statutes and using banks, brokers, or entities approved by the Sarpy County Board, Nebraska Revised Statutes 77-2313. Time deposits made in banks must be made with qualified public depositories in accordance with Nebraska Revised Statutes. The County Treasurer shall purchase or sell investment securities at prevailing market rates.

Investments not listed in this section are strictly prohibited. Authorized instruments are as follows.

### **Investments Authorized by Nebraska Revised Statutes 77-2312...77-2326**

Approved investments are listed in the County Treasurer’s Manual (procedural guidelines for Nebraska County treasurers) and include such investments as:

- Bank Checking
- Bank Savings Accounts
- Bank money market accounts
- CDs (Certificate of deposit)
- Treasury bill, notes and bonds
- Government agency securities (GNMA, FNMA)

CDARS, Certificate of Deposit Account Registry  
Repurchase Agreements (“Repos”) collateralized by securities authorized within this policy.  
Nebraska Public Agency Investment Trust deposits (NPAIT)  
Brokerage accounts which hold approved investments.

Investments such as stocks, bonds, options, puts, calls, warrants, derivatives, and etc are prohibited because they do NOT qualify under Nebraska statutes and there is no guarantee of security of principal.

### **COLLATERALIZED DEPOSITS**

Investments must be collateralized by the depository IAW Sections 77-2318, 77-2318.01, 77-2326.04, and 77-2387. This means depositories holding deposits not covered by FDIC coverage limits must have another form of insurance to cover the deposits in the event the depository has financial difficulties. While it is extremely rare, this has happened to banks in Nebraska that have been taken over by the FDIC because they have become bankrupt. Some examples are actual pledged collateral held by a third party, guarantee bonds, and irrevocable letters of credit from a Federal Reserve Bank. CDARs are self collateralizing as long as no one bank exceeds FDIC coverage and NPAIT is a trust that does not require collateral.

### **MATURITY AND LIQUIDITY REQUIREMENT**

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Current operating funds shall maintain a weighted-average maturity of no longer than twelve (12) months. Investments for bond reserves, construction funds, and other non-operating funds shall have a term appropriate to the need for funds and in accordance with debt covenants. No single County investment maturity in the portfolio may exceed two (2) years. While in theory, a Sanitary Improvement District (SID) could invest their money in a longer term investment, that has never been the case. SID cash flow requirements don't provide that level of liquidity. Investments are generally made on behalf of the SID, at the direction of the SID's fiscal agent.

### **DIVERSIFICATION AND RISK**

The County Treasurer will set procedures to control risks and diversify investments regarding specific security types, maturities, issuers and financial institutions. Investment risk can result from issuer defaults, market fluctuations or other technical complications leading to temporary illiquidity.

Portfolio diversification is employed to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which these instruments are bought and sold. Prudence shall be exercised in the selection of securities, as a way to minimize default risk. To control market risk, volatile investment instruments are prohibited by state law.

## **AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS**

Securities may be purchased only through financial institutions that are state-certified qualified public depositories that provide the services of a securities dealer or a broker/dealer who is a member of the National Association of Securities Dealers (NASD)..

Repurchase agreement may be negotiated with:

- A. A primary securities dealer.
- B. Financial institutions that are qualified public depositories under state law, or
- C. Commercial banks, insurance companies, or investment banking firms, including the holding companies of these institutions.

## **THIRD-PARTY CUSTODIAL AGREEMENTS**

Any depository will execute a Custodial Safekeeping Agreement with another commercial bank. All securities purchased and/or collateral obtained by the County Treasurer shall be property designated as an asset of the County Treasurer and held in safekeeping and no withdrawal of such securities, in whole or in part, shall be made from safekeeping except by authorized County Treasurer staff.

Security transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a "Delivery vs. Payment" (DVP) basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

All securities purchased for the County must be held for the credit of the Sarpy County Treasurer by a qualified public depository and must be kept by the depository in an account separate and apart from the assets of the financial institution.

## **COMPETITIVE BIDDING**

The County Treasurer staff will determine the approximate maturity date of an investment based upon cash-flow needs and market conditions, analyze and select one or more optimal types of investments, and competitively bid the selected security to assure the best execution to the County. When bidding an investment, a minimum of three (3) banks and/or dealers should be contacted and asked to provide bids on the securities in question. In instances in which competing dealers are not able to present a bid on the exact security in question, a security that is similar in terms of product type, structure and maturity is acceptable. Bids will be held in confidence until awarded and the bid deemed to best meet the investment objectives of this policy will be selected.

## **INTERNAL CONTROLS AND OPERATIONAL PROCEDURES**

The internal controls should be designed to prevent losses of funds which might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by county employees. Such internal controls shall include, but not be limited to, the following:

- A. All security transactions shall be on a delivery-vs-payment (DVP) basis to ensure that funds or securities are not released until all criteria relating to the specific transaction are met unless the parties otherwise agree prior to the transfer of funds.
- B. The County Treasurer is authorized to accept, on behalf of, and in the name of Sarpy County, bank trust receipts or safekeeping confirmations as evidence of actual delivery of the obligations or securities in return for investment of funds.
- C. Trust receipts or safekeeping confirmations shall fully describe the various obligations or securities held. The receipt or confirmation shall state that the investment is held in the name of Sarpy County Treasurer.
- D. The actual obligations or securities, whether in book-entry or physical form, on which trust receipts or confirmations are issued, may be held by the custodial bank and/or institution or a designated correspondent bank which has a correspondent relation to the County Treasurer custodian.
- E. Other internal controls are:
  1. Adequate separation of duties.
  2. Custodial safekeeping.
  3. Supervisory control of employee action and operation review.
  4. Portfolio statistics and analysis. The County's independent auditors shall review the system of internal controls as part of the County's annual financial audit. The audit shall also include a review of the County Treasurer's compliance with Nebraska Statutes

## **INVESTMENT TRAINING**

The County Treasurer employees responsible for making investment decisions should annually complete at least four (4) hours of continuing education in subjects or courses of study related to investment practices and products. These may be NACO sponsored training events or other methods to ensure continuing awareness of financial issues in the marketplace. Numerous periodicals, magazines, online web sites, and television shows cover the financial world and are readily available to inform and educate on the world of investing.