

# **Investment Policy**

**Douglas County Colorado**

**Office of the County Treasurer**

**David Gill, Treasurer**

**Adopted by the Board of County Commissioners on**

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## I. Scope

This policy applies to the investment of all Douglas County funds, including short-term operating funds, long-term reserves, certain bond proceeds and reserves, and other receipts from tax and departmental revenues. The County Treasurer is authorized by Colorado Revised Statute 30-10-708 and Douglas County Resolution to deposit and invest funds on behalf of the County. The Douglas County Treasurer (County) will consolidate the County's cash balances from all funds to maximize investment earnings.

This policy shall not apply to fund proceeds related to the issuance of debt. Cash and investment balances as defined in this Section are entirely known as "Available Funds".

## II. Authorizing Colorado State Statutes

All investments will be made in accordance with the Colorado Revised Statutes, which include the following: C.R.S. 30-10-708, Deposit of funds in banks and savings and loan associations; C.R.S. 11-10.5-101, (*et seq.*), Public Deposit Protection Act; C.R.S. 24-75-601, (*et seq.*), Funds-Legal Investments; C.R.S. 24-75-603, Depositories; and C.R.S. 24-75-702, Local governments-authority to pool surplus funds. Any revisions or extensions of these sections of the statutes will be considered to be part of this Investment Policy immediately upon the effective date following enactment.

## III. General Objectives

The primary objectives of investment activities, in order of priority, shall be safety, liquidity, and yield:

### Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks the preservation of capital in the overall portfolio by limiting both credit risk and interest rate risk.

- A. Credit Risk - The County will limit credit risk, the risk of loss due to the failure of the security issuer or backer, by diversifying the investment and by limiting investments to prescribed exposure limits and specified credit ratings as defined by C.R.S. 24-75-601.1.
- B. Interest Rate Risk - The County will limit interest rate risk, the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by diversification and managing the duration of the portfolio.

## 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 to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market demand accounts, money market mutual funds, demand bank savings accounts, or local government investment pools that offer same-day, next-day, or weekly liquidity for short and medium-term funds.

## Market Rate of Return

Return on investment is of tertiary importance compared to the safety and liquidity objectives as described above. Investments are limited to low risk securities in anticipation of earning a fair return relative to the risk being assumed. The market rate of return comparison is defined in Section VIII. 2. Performance Standards within this document. Budgetary and economic cycles, investment risk constraints, and liquidity needs will be taken into account.

## IV. Standard of Care

### 1. Delegation of Authority

Authority to manage the investment program is granted to the Treasurer and Chief Deputy Treasurer. The Treasurer may choose to contract with a registered investment advisory firm that specializes in the management of public fixed-income funds. Responsibility for the operation of the investment program is hereby delegated to the Treasurer and Chief Deputy Treasurer, who shall act in accordance with internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate employees. This policy shall be reviewed on an annual basis and changes must be approved by the Board of County Commissioners. Any deviations from this policy must be reported immediately to the County Manager and Finance Director.

## 2. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" and "prudent investor" standards and shall be applied in the context of managing an overall portfolio. A "prudent person" shall invest 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 "prudent investor" U.S. law sets the standard of fiduciary duty for those entrusted with the responsibility of managing other's money. It requires that the investor weigh risk versus reward when making investment decisions, taking into account the income that may be generated by the investment as well as the probable safety of the invested capital.

## 3. Ethics and Conflict of Interest

County personnel, acting in compliance with written procedures, this investment policy, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

The Treasurer and the Chief Deputy Treasurer 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. These investment officials shall disclose annually, in a written statement, 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. They shall refrain from undertaking personal investment transactions with the same individual(s) with whom business is conducted on behalf of the County.

## V. Derivatives and Credit Risk

### 1. Limitation on Derivatives

The county may invest in securities with variable or floating coupon rates provided one or more of the following conditions are met:

- A. The security is issued by the United State Treasury.
- B. Are shares in qualified local government investment pools.
- C. Are shares in qualified money market mutual funds.
- D. Is a qualified security whose coupon rate is established by reference to the rate on a United States treasury security, with a maturity of one year or less, or to the United States dollar London Inter-bank Offer Rate (LIBOR) of one year or less maturity, or to the Secured Overnight Financing Rate (SOFR) index, or the prime rate as published by the Federal Reserve, and expressed as a positive value of the referenced index plus or minus a fixed number of basis points.

## 2. Credit Ratings

Only Nationally Recognized Statistical Rating Organizations (NRSRO) shall be used for the purpose of stipulating ratings that define an eligible investment under C.R.S. 24-75-601. Any deviation from the minimum credit worthiness allowed by C.R.S. 24-75-601.1 shall result in the Treasurer, Chief Deputy Treasurer and Investment Advisor evaluating options to mitigate any risks or losses, to include the sale of any security. Authorized Financial Dealers and Institutions

Pursuant to C.R.S. 30-10-708, the County shall list financial institutions consisting of banks and other depository institutions authorized to provide depository and investment services for public funds. In addition, a list will be maintained of approved security broker/dealers consisting of "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

## 3. Delivery vs. Payment

All trades, where applicable, will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution simultaneously to the release of funds. Securities will be held by a third-party safekeeping or custodial institution as evidenced by safekeeping receipts or custodial statements.

## VI. Suitable and Authorized Investments

Consistent with the Colorado Revised Statutes, the following investments will be permitted by this policy:

### 1. United States Treasury and Agency Issues

#### Eligible Security Description:

Securities that are issued by the United States Treasury or Agencies of the United States Government for which the full faith and credit of the United States Treasury guarantees fully all principal and interests payments.

#### Credit Rating:

At the time of purchase, the issuer must be rated by a minimum of two credit ratings via any Nationally Recognized Statistical Rating Organizations (NRSRO). Minimum acceptable credit ratings: Moody's Aaa/ Standard and Poor's AA+/ Fitch Ratings AAA.

Interest Rate Risk Restriction:

Such securities must have a maturity no greater than five years from the date of settlement to the maximum possible maturity date. The forward delivery period on such securities may not exceed 60 days.

Diversification Limit:

Up to 100% of the total portfolio may be invested in securities purchased in United States Treasury and Agency Issues.

2. Government Sponsored Enterprises (G.S.E.)

Eligible Security Description:

Securities issued by the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA) or other GSEs that are authorized by legislation enacted by the United States congress. These securities are not guaranteed by the full faith and credit of the United States Government but the issuers were created by specific acts of Congress.

Credit Rating:

At the time of purchase, the issuer must be rated by a minimum of two credit ratings via any Nationally Recognized Statistical Rating Organizations (NRSRO). Minimum acceptable credit ratings: Moody's Aaa/ Standard and Poor's AA+/ Fitch Ratings AAA.

Interest Rate Risk Restriction:

Such securities must have a maturity no greater than five years from the date of settlement to the maximum possible maturity date. The forward delivery period on such securities may not exceed 60 days.

Diversification Limit:

At the time of purchase, up to 75% of the portfolio may be invested in Government Sponsored Enterprises ("G.S.E."). No more than 35% of the total portfolio may be invested in the securities of any single G.S.E.

3. State & Local Governments Debt Issues

Eligible Security Description:

General or revenue obligations and certificates of participation of any state of the United States, the District of Columbia, or any territorial possession of the United States, or of any political subdivision, institution, department, agency, instrumentality, or authority of any of such governmental entities.

Credit Rating:

At the time of purchase, the issuer must be rated by a minimum of two credit ratings via any Nationally Recognized Statistical Rating Organizations (NRSRO). Minimum acceptable credit ratings for Municipal bonds issued within the State of Colorado: Moody's A3/ Standard and Poor's A-/ Fitch Ratings A-. Minimum acceptable credit ratings if issued outside the State of Colorado: Moody's Aa3/ Standard and Poor's AA-/Fitch Ratings AA-.

Interest Rate Risk Restriction:

Such securities must have a maturity not greater than five years from the date of settlement to the maximum possible maturity date. The forward delivery period on such securities may not exceed 60 days.

Diversification Limit:

At the time of purchase, up to 50% of the portfolio may be invested in State and Local Government Debt issues. No more than 5% of the total portfolio may be invested in the securities of any single State or Local Governmental entity.

4. Corporate or Bank Security

Eligible Security Description:

State Statute C.R.S. 24-75-601.1(m) et seq. allows investment in United States dollar denominated debt instruments, issued by a corporation or bank.

Consistent with State Statute C.R.S. 24-75-601.1(m) et seq., the term "bank security" includes, but is not limited to, negotiable certificates of deposit issued by banks organized and chartered within the United States. These securities are considered investments and not deposits subject to the protections of the "Public Deposit Protection Act", article 10.5 of title 11, or insured by the FDIC program. A security issued by a corporation or bank that is not organized or operated within the United States may be purchased.

Credit Rating:

At the time of purchase, the issuer must be rated by a minimum of two credit ratings via any Nationally Recognized Statistical Rating Organizations (NRSRO). If the security is short term, such as commercial paper, the minimum acceptable credit ratings: Moody's P-1/Standard and Poor's A-1/Fitch Ratings F1. For long term securities, minimum acceptable credit ratings: Moody's Aa3 Standard and Poor's AA-/ Fitch Ratings AA-. These rating requirements first apply to the security being purchased and second, if the security itself is unrated, to that of the issuer, provided the security contains no provisions subordinating it from being a senior debt obligation of the issuer.



Interest Rate Risk Restriction:

Such securities must have a maturity no greater than three years from the date of settlement to the maximum possible maturity date. The forward delivery period on such securities may not exceed 60 days.

Diversification Limit:

At the time of purchase, up to 50% of the portfolio may be invested in Corporate Debt, exclusive of that invested in G.S.E. securities under this Section VII.2. No more than 5% of the total portfolio may be invested in the securities of any single corporation. Care should be exercised to maintain market sector diversification.

5. Local Government Investment Pools (LGIP)

Eligible Security Description:

Shares in local government investment pools organized and operated per Colorado Revised Statutes.

Credit Rating:

A single credit rating by any Nationally Recognized Statistical Rating Organizations (NRSRO) is required. Minimum credit ratings for stable value pools: Moody's Aaa-mf/Standard and Poor's AAAM/Fitch Ratings AAAMmf. Minimum credit ratings for non-stable value pools: Standard and Poor's AA Af/S1+/Fitch Ratings AA Af/S1.

Diversification Limit:

At the time of purchase, up to 70% of the portfolio may be invested in local government pools. No more than 45% of the total portfolio may be invested in the securities of any single LGIP.

6. Money Market Mutual Funds

Eligible Security Description:

The fund must be actively controlled by a registered investment company under the "Investment Company Act of 1940" as amended and SEC rule 2a7 (17 CFR 270.2a-7), and no sales or load fees may be added to the purchase price or deducted from the redemption price of the investment in the fund. Investment in money market funds should maintain a stable net asset value.

Credit Rating:

A single credit rating by any Nationally Recognized Statistical Rating Organizations (NRSRO) is required. Minimum credit ratings: Moody's Aaa-mf/Standard and Poor's AAAM/Fitch Ratings AAAMmf.

Diversification Limit:

At the time of purchase, up to 50% of the portfolio may be deposited in Money Market Mutual Fund institutions. No more than 20% of the total portfolio may be invested in any single fund.

7. Repurchase Agreements and Reverse Repurchase Agreements

Eligible Security Description:

Agreements between a seller and a buyer, whereby, the seller agrees to repurchase the securities at an agreed upon price and usually at a stated time. Such securities subject to these agreements must have a coupon rate that is fixed from the time of settlement until its maturity date and must be marketable. The title to or a perfected security interest in such securities, along with any necessary transfer documents, must be transferred to the investing County or to a custodian acting on behalf of the County. Such securities must be delivered to a third-party custodian or third-party trustee for safekeeping on behalf of the public entity. The collateral securities of repurchase agreements must be valued at no less than one hundred two percent and marked to market no less frequently than weekly. Eligible securities consist of only those referenced in this Section VII. 1. United States Treasury and Agency Issues and 2. Government Sponsored Enterprises.

Credit Rating:

A minimum of two counterparty credit ratings are required by any Nationally Recognized Statistical Rating Organizations (NRSRO). Minimum acceptable credit ratings: Moody's P1/ Standard and Poor's A1/ Fitch Ratings F1.

Interest Rate Risk Restriction:

Such agreements must have a maturity no greater than one year from the date of settlement to the maximum possible maturity date. The forward delivery period on such securities may not exceed 60 days. For Reverse Repurchase Agreements, at the time of purchase such agreements must have a maturity no greater than 90 days from the date of settlement to the maximum possible maturity date. Requirements for both Repurchase Agreements and Reverse Repurchase Agreements at the time of purchase are 1) the forward delivery period on such securities may not exceed 30 days 2) securities must be fully marketable 3) County must have title to or a perfected interest in said securities 4) all required documents must be transferred to acting safekeeping agent 5) securities must be delivered versus payment into the County's safekeeping account 6) securities must be collateralized at no less than one-hundred and two percent and marked to market value no less frequently than weekly.

Diversification Limit:

At the time of purchase, up to 50% of the portfolio may be invested in Repurchase Agreements and up to 20% of the portfolio may be invested in Reverse Repurchase Agreements. No more than 20% of the total portfolio may be invested in either of these agreements with any single counter-party.

8. Deposits in State or Nationally Chartered Depository Institutions

Eligible Security Description:

Such depositories must be:

- A. An eligible depository for the redeposit in fully FDIC insured deposits, up to a maximum of \$250,000, per the requirements of C.R.S. 24-75-603.
- B. A participant in the State's Public Deposit Protection Act (PDPA) collateralization program, for amounts greater than \$250,000, as defined in C.R.S. 11-10.5-103. Said participants must pledge their own securities per statutory requirements.

Credit Rating:

As depositories are often unrated by nationally recognized credit rating agencies, any deposit and accrued interest above the FDIC maximum insured amount must be collateralized through the Colorado Public Deposit Protection Act. The Colorado Division of Banking and Colorado Division of Financial Services are responsible to monitor and assure adequate collateralization is in reserve.

Interest Rate Risk Restriction:

Time Deposits may not exceed five years to maturity.

Diversification Limit:

At the time of purchase, up to 75% of the portfolio may be deposited in State or Nationally Chartered Depository institutions. No more than 30% of the total portfolio may be invested in any single type of bank instrument (Demand Deposit, Saving, Time Deposit, Money Market) at one depository.

9. U.S. Member Supranational Debt

Eligible Security Description:

Securities issued by the World Bank or an entity or organization that is authorized by legislation enacted by the United States congress and that is subject to control by the federal government.

Credit Rating:

At the time of purchase, the issuer must be rated by a minimum of two credit ratings via any Nationally Recognized Statistical Rating Organizations (NRSRO). Minimal acceptable credit ratings: Moody's Aaa/ Standard and Poor's AAA/ Fitch Ratings AAA.

Interest Rate Risk Restriction:

Securities must have a maturity no greater than five years from the date of settlement to the maximum possible maturity date. The forward delivery of such securities may not exceed 60 days.

Diversification Limit:

At the time of purchase, no more than 20% of the total portfolio may be invested in World Bank (IBRD) or similar debt as outlined above.

VII. Reporting

1. Methods

The Treasurer and Chief Deputy Treasurer shall maintain adequate reporting capabilities to ascertain whether investments conform to this investment policy, provide accurate reporting into the County's General Ledger, and monitor the overall performance of the investment portfolio.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. To assist in the evaluation of the portfolio's performance, the County will use performance benchmarks to allow the County to measure its returns against other investors in the same markets. Appropriate performance benchmarks shall include the Intercontinental Exchange Bank of America Merrill Lynch ICEBAML 0-3 Year U.S. Treasury and Agency Index or an equivalent index comprised of U.S. Treasury or Government securities. The chosen index will have a duration or asset mix that approximates the portfolio and will be utilized as a benchmark to be compared to the portfolio's book and total rate of return.

3. Marking to Market

The market value of the portfolio shall be calculated monthly and reported in the County's financial system.

#### 4. Diversification Calculation

Each County portfolio, including those dedicated reserve portfolios for principal and interest payments related to debt issuance, shall be considered in the aggregate as one portfolio when determining the County's diversification limits. All references herein to the maximum percentage of the portfolio that may be exposed to a particular investment class or issuer are to be calculated as of the date of settlement and based on the amortized book value of all county funds covered by this policy.