

# SUMMARY OF INVESTMENTS AVAILABLE TO LOCAL GOVERNMENTS AND MUNICIPALITIES

## INSTRUCTION DOCUMENT FOR MODEL INVESTMENT POLICY

(Numbering corresponds to numbering in model policy)

### IV. SAFEKEEPING AND CUSTODY

#### 1. Authorized Financial Dealers and Institutions

**Completed broker/dealer questionnaire** — Many investors utilize a questionnaire as part of their due diligence review of prospective brokers. Such a questionnaire is designed to provide information about the broker that the entity feels is important to the selection process.

### IV. Safekeeping and Custody

2. **Internal Controls** — At this time banker's acceptances are still physical delivery at DTC. A complete prohibition on physical delivery of investments would eliminate banker's acceptances as a potential tool.

### IV. Safekeeping and Custody

4. **Safekeeping** An entity may determine that use of a third party custodian is not cost effective due to the limited size of the portfolio. In this instance, Securities should be held by the broker/dealer in the entity's name. Consideration should be given to any additional monitoring or audit requirements the entity may feel appropriate.

### V. Suitable and Authorized Investments

1. **Investment Types** ORS 294.035 describes those investments authorized by law. ORS 294.810 authorizes local governments to place funds with the State Treasurer for investment in the Oregon Short-Term Fund. The policy should further limit the allowable investments commensurate with (i) the investment officer's knowledge, skills and experience; (ii) the risk tolerance of the entity; (iii) the size of the portfolio; etc.

An experienced, skilled investment officer with suitable training might be granted a broad based menu of investment options that looks something like this:

- o *US Treasury securities and other lawfully issued general obligations of the United States;*
- o *General obligations of government sponsored enterprises (GSEs) of the United States;*
- o *Guaranteed Investment Contracts (GICs) issued by insurance companies licensed to do business in Oregon;*
- o *Banker's acceptances that meet the following criteria:*
  - *Guaranteed and carried on the books of a qualified financial institution whose short-term letter of credit rating is A-1, P-1, D-1, or F-1. The financial institution must be located and licensed to*



**2. Collateralization Bank Deposits** - ORS Chapters 294 and 295 have an apparent conflict in the treatment of bank deposits. Bank deposits are required to be collateralized under ORS 295, however, ORS 295.005(6)(b) excludes "authorized investments" from the definition of public funds. ORS 294.035 includes time deposits as authorized investments. In an attempt to address this issue, it is suggested that time deposits not be listed as authorized investments in the investment policy. Counsel should be directed to pay special attention to this section when drafting your policy.

**Repurchase Agreements** - These pricing margins are established as guides that could change as customary practices and authoritative pronouncements change. They should be viewed as minimum standards and there is latitude for requiring more conservative (higher) margins if the local government chooses to do so.

**VI. Investment Parameters**

**3. Maximum Percentages of Investments**

Although it is not required, entities may wish to manage separate portfolios for different funds. One common separation is segregating between operating and capital or bond funds. It is prudent to distinguish between these funds when determining compliance with maximum percentages of security types. Since these funds are not interchangeable, this prevents excess exposure in any portfolio to a single security type or company. The following language may be appropriate for your portfolio:

For determining compliance with the maximum percentages, surplus funds are separated into two separate portfolios: Operating Funds and Capital Funds. Capital funds include: bond construction funds, debt service reserves and other funds specifically identified for construction. Each portfolio stands alone in determining compliance and benchmarking performance.

**VI. Investment Parameters**

**3. Maximum Percentages of Investments** This table will be driven by the approved investments listed in Section V.1. The following is a **sample** set of restrictions that **might** be employed by a government investor. (Note that restrictions on corporate debt, banker’s acceptances, and repurchase agreements are found in ORS 294.035)

<i>Security</i>	<i>Limitation</i>	<i>Maximum Maturity</i>
US Treasury	None	
US Government Agencies	50% of surplus funds in any single GSE, no limit on GSE as a category	

GICs	25% of Operations surplus funds 100% of Capital Fund surplus funds	
Banker's Acceptances	25% of surplus funds in any single qualified financial institution 50% of surplus funds in the aggregate	
Commercial Paper and Corporate Notes	35% of surplus funds in the aggregate 5% of surplus funds in any one corporation or their subsidiaries or affiliates	
Repurchase Agreements	25% of Operations surplus funds 100% of Capital Funds surplus funds	90 days
OSTF Balances	None, except the maximum balance imposed by statute	N/A

**The foregoing example is for illustrative purposes only. Actual restrictions should reflect the investment expertise and risk tolerance of the entity.**

## **VI. Investment Parameters**

**5. Securities Lending and Reverse Repurchase Agreements** Local governments with larger portfolios may wish to participate in a securities lending or reverse repurchase program. If so, they should obtain express authorization from their governing board and adopt a separate investment policy for the reinvestment of applicable collateral.

## **VII. Reporting**

**1. Methods** Reports should be timely such that reviews would closely monitor the investment portfolio, the investment activity, and market valuations together with any narration needed for clarification. The frequency of the investment activity report may vary if there has been recent turnover of key personnel, changes in the investment parameters, or any other unusual circumstances. Finally, there should be periodic formal reviews of the portfolio i.e. semiannually/annually to insure compliance with policy and regulations.

## VII. Reporting

**2. Performance Standards** Considerations for choosing a performance index are size and seasonal range of the portfolio, how actively the portfolio is managed, etc. An index may even be created, such as a composite index made up of similar size local government portfolios. Whatever standard is chosen, it should be reviewed periodically or if the character of the portfolio and/or the degree of management changes materially.

Finally, since there are inquiries from time to time for resource material, here is a suggested list of books and other resources that may be useful for investment officers and their reviewing authorities (not necessarily in order of relevance). Treasury staff has not reviewed all these materials.

**The Handbook of Fixed Income Securities 4th Edition:** Frank J. Fabozzi & T. Dossa Fabozzi.

**The Financial Analyst's Handbook 2nd Edition:** Sumner N. Levine.

**The Money Market 3rd Edition:** Marcia Stigum.

**Money Market Calculations: Yields, Break-evens, and Arbitrage:** Marcia Stigum.

**Managing Your Investment Manager:** Arthur Williams III.

**Investing Public Funds:** Girard Miller (used in GFOA training)

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## IX. List of Documents Used in Conjunction with this Policy

This list should include those documents pertinent to the entity's investment activity.

