

# M Management Committee

Meeting date: May 23, 2012

## ADVISORY INFORMATION

<b>Date:</b>	May17, 2012
<b>Subject:</b>	Revised Council Investment Policy
<b>District(s), Member(s):</b>	All
<b>Policy/Legal Reference:</b>	3-4-4
<b>Staff Prepared/Presented:</b>	Allen Hoppe, Sr. Manager Treasury (651-602-1629)
<b>Division/Department:</b>	All

### Proposed Action

That the Council approves the attached clean copy of the investment policy. *(Both a strike-out and clean-copy are attached.)*

### Background

At its recent quarterly meeting, the Investment Review Committee (IRC) discussed the attached changes and recommended that the Management Committee approve them. The changes come about in conjunction with the installation of four new members to the IRC. A number of the changes are minor housekeeping; key changes follow:

- Section I, Policy, Securities Lending (p. 3). The sentence is deleted because a contract with the custodial agent is now processed by staff through routine procurement policies and procedures. The contract is typically signed by the Regional Administrator. The IRC will continue to have the Council's custodial services within its purview.
- Section IV, Implementation/Accountability (p. 4). The proposed changes better reflect Council bylaws for the method of selecting and approving members of committees. The deleted sentence about a Regional Administrator addendum is effectively redundant to language provided in the paragraph titled "Internal Controls (p. 3).

**Funding**—No impact.

**Known Support / Opposition**—The proposed changes are supported by the Council's Investment Review Committee.

**POLICY - INVESTMENTS**

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Section/Number:	3-4-4	Total Pages:	4
Dept. Responsible:	Finance	Effective Date:	9/11/98
Special Note:	<del>Rearranged from doc. adopted June 1997</del>	Revision No.:	<del>(32)</del> 12/15/042/1/12

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**I. Policy:**

The Metropolitan Council will direct the investment of all public funds under its care through prudent financial management practices and in conformity with applicable laws, regulations and statutes.

**Objectives**

The following objectives are to be taken into consideration, in the order listed, for implementation of the investment program:

1. Compliance. Investments shall be made in a manner such that they comply with the rules and regulations of applicable governing and regulatory bodies.
2. Safety: Safety of principal is the primary objective of the investment program. Investments of the Council shall be purchased and managed in a manner that ensures the preservation of capital in the overall portfolio.
3. Liquidity: To meet its short-term cashflow needs, the Council's investment portfolio will remain sufficiently liquid to enable the Council to meet anticipated cash requirements without the occurrence of significant investment losses. To meet the Council's long-term cashflow needs, the average duration of the investment portfolio should match the average duration of liabilities, subject to regulatory requirements.
4. Diversification: The investment portfolio will be diversified to avoid the risk of losses resulting from an over-concentration of assets in a specific maturity, issuer, or class of securities.
5. Rate of Return: The Council will seek the highest possible rate of return on its invested assets (net of expenses) after meeting its objectives for compliance, safety, liquidity and diversification.

**Allowable Investments**

Investment instruments purchased by the Council must comply with Minnesota Statute 118A, as amended, and, to a further degree, Council-defined criteria. The Council has authorized investments to be made in the following asset classes:

1. Obligations of the U.S. Treasury.
2. Obligations of the U.S. government agencies, instrumentalities, or any organization created by an Act of Congress.

3. Any State or local government obligation that is rated by at least one national rating agency with a rating level of at least the following rating:
  - a. general obligation rated “A” or better
  - b. revenue obligation rated “AA” or better
  - c. general obligations of the Minnesota Housing Finance Agency rated “A” or better.
4. Bankers Acceptances of a United State bank.
5. Commercial Paper issued by U.S. corporations or their Canadian subsidiaries rated in the highest category by two rating agencies and maturing in 270 days or less.
6. Repurchase Agreements.
7. Guaranteed Investment Contracts (GICs) issued or guaranteed by U.S. banks, domestic branches of foreign banks and U.S. insurance companies or their Canadian subsidiaries which are rated in the two highest rating categories.
8. Mortgage-Backed Securities (MBS) that are direct obligations, guaranteed, or insured by the United States government, its agencies, its instrumentalities, or any organization created by an Act of Congress and are not classified by the Investment Review Committee (IRC) as high risk securities.
9. Mutual funds investing only in securities allowable for direct investment by the Council.
10. Time Deposits fully insured by the FDIC, secured by a surety bond or collateralized with U.S. treasury or agency securities or allowable municipal bonds.
11. Energy Forward Pricing Mechanisms (EFPs), including futures, options, etc., as a budget risk tool (pursuant to M.S. 473.1293) for purchases of Council-consumed commodities, (e.g. diesel fuel and natural gas), when they have a holding period and expiration of not more than 24 months from their trade date.

The Council will not invest in Reverse Repurchase Agreements.

Variances to the preceding allowed and disallowed investments must be approved in advance by two members of the IRC. The IRC may implement additional restrictions to allowable investments.

Investments are purchased on a hold to maturity basis (vis-à-vis, held for trading basis). Notwithstanding this strategy, securities may be sold before their maturity or call date to meet immediate cash needs or to improve the overall net present value of the portfolio.

#### **Standard of Conduct**

The standard of conduct to be followed by investment staff and IRC shall be the “Prudent Person Standard” and shall be applied in the context of managing an overall portfolio. The Council’s investment purchases and sales shall be made with judgment and care under the then-prevailing circumstances. All investment transactions shall be made just as personal transactions would be made by individuals of prudence, discretion, and intelligence would 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. Investment staff acting in accordance with written procedures 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 appropriate action is taken to control adverse developments.

#### **Safekeeping and Custody**

All securities purchased by the Council will be held by a third party safekeeping agent appointed as custodian by the Council. The custodian shall issue a safekeeping receipt to the Council for each transaction detailing all pertinent aspects of the specific security and the name and account in which the security is held.

All security transactions entered into by the Council shall be conducted on a delivery versus payment basis except for money market mutual funds, fixed income mutual funds, overnight repurchase agreements, and Energy Forward Pricing Mechanisms.

Safekeeping and custody of EFPs, and the cash directly supporting such mechanisms, shall follow industry practices including maintenance of accounts at brokerage companies. Notwithstanding this authorization, the Council will seek the highest level of safety available in establishing accounts and procedures to support this program. The Council may establish secure alternatives to broker standards for cash or securities being held in a brokerage account. Alternatives include establishment of escrow and custody accounts, letters of credit by the broker, collateral accounts, third-party agreements, etc.

#### **Securities Lending**

The Council authorizes the practice of lending its investment security holdings for the purpose of generating additional investment income from its financial assets. ~~The IRC is delegated the responsibility of establishing a written agreement with the Council's custodial agent(s) to ensure the safety of the Council's assets and to delineate each party's rights and responsibilities.~~

#### **Internal Controls**

The ~~Controller~~ Chief Financial Officer shall establish a system of internal controls and monitoring procedures. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Council. The ~~Controller~~ Chief Financial Officer will oversee designated staff who manage the portfolio on a day-to-day basis. The ~~Controller~~ Chief Financial Officer will establish management controls specific to EFPs.

#### **Bank and Securities Broker Relationships**

All banks and brokerage companies doing business with the Council, whether they are receiving funds as deposits or for investments, must be approved by the Council before they receive Council funds.

To comply with State Statutes, the Council, prior to completing an initial transaction with a broker, shall receive from said brokerage company a fully executed "Notification to Broker and Certification by Broker" form.

The current list of Authorized Financial Institutions is maintained on file in ~~the Office of~~ Finance Treasury.

### **Reporting**

A report is to be prepared by ~~t~~Treasury staff on a quarterly basis which provides summary portfolio characteristics of the Council's investment holdings and transactions relative to the objectives of compliance, safety, liquidity, diversification and rate of return. An economic summary as it relates to the Council's holdings will also be prepared. The Council's quarterly Report On Investments will report on EFPM holdings and activity.

### **External Registered Investment Advisors**

To the extent the Council employs any external registered investment advisor for the purpose of investing Council funds, such advisor must comply with the Policy.

### **Audits**

The internal auditors will conduct ~~annual-periodic~~ reviews of the Council's investment program. Such audit will focus on verifying previously reported investment information and compliance with policies and procedures and the system of internal control. External auditors may also conduct independent audit review of the investment function. The Council's external auditor ~~shall~~ may audit the Energy Forward Pricing Program ~~annually~~in conjunction with the Council's annual financial audit. Internal auditors shall audit EFPMs in conjunction with reviews of the Council's investment program.

## **II. Purpose of policy:**

This Policy is designed to guide the Council, its Investment Review Committee and associated staff in the investment and management of these funds so as to meet the compliance, safety, liquidity, diversification and rate of return needs of the Council.

## **III. Background and reasons for policy:**

The general authority and approach to managing the Council's investment program is derived from Minnesota Statute 118A.

## **IV. Implementation/Accountability:**

The ~~Management Committee of the Council has designated that the IRC Investment Review Committee (IRC) will~~ provide on-going oversight and review of the Council's investment program. The IRC will establish policies, procedures and objectives as they relate to investments and monitor compliance thereto. The IRC consists of two Council members ~~designated by the Management Committee~~; two members with strong relevant financial background who are not Council employees/members ~~and who are appointed by the Council Treasurer~~; and the Chief Financial Officer. Prospective external members will be required to disclose any potential conflicts before appointment. Members shall be appointed by the Council Chair and approved by the full Council.

The IRC will be supported by the ~~Controller Treasury Director~~ and related staff and will meet quarterly, or as needed but at least twice per year. ~~Further responsibility for daily management and administration of the investment program and investment transactions is delegated to staff in the form of a written addendum from the Regional Administrator of the Council.~~ This Policy applies to all financial assets, funds and transactions of the Council and its divisions.

**POLICY - INVESTMENTS**

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Revision No. (3)	6/13/12		

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**1I. Policy:**

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- a. general obligation rated “A” or better
  - b. revenue obligation rated “AA” or better
  - c. general obligations of the Minnesota Housing Finance Agency rated “A” or better.
4. Bankers Acceptances of a United State bank.
  5. Commercial Paper issued by U.S. corporations or their Canadian subsidiaries rated in the highest category by two rating agencies and maturing in 270 days or less.
  6. Repurchase Agreements.
  7. Guaranteed Investment Contracts (GICs) issued or guaranteed by U.S. banks, domestic branches of foreign banks and U.S. insurance companies or their Canadian subsidiaries which are rated in the two highest rating categories.
  8. Mortgage-Backed Securities (MBS) that are direct obligations, guaranteed, or insured by the United States government, its agencies, its instrumentalities, or any organization created by an Act of Congress and are not classified by the Investment Review Committee (IRC) as high risk securities.
  9. Mutual funds investing only in securities allowable for direct investment by the Council.
  10. Time Deposits fully insured by the FDIC, secured by a surety bond or collateralized with U.S. treasury or agency securities or allowable municipal bonds.
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