

TOWN OF PARADISE VALLEY

INVESTMENT POLICY

PURPOSE

The purpose of this Investment Policy is to establish the investment objectives, delegation of authority, standards of prudence, eligible investments and transactions, internal controls, reporting requirements, and safekeeping and custodial procedures necessary for the prudent management of the investment funds of the Town of Paradise Valley.

This Investment Policy was adopted by the Town Council of Paradise Valley, Arizona on ~~May~~^{September} 26, 201~~6~~⁹. It replaces all previous Investment Policies or Resolutions pertaining to the cash management or investment of Town funds.

SCOPE

The provisions of this Policy shall apply to all Town Funds as accounted for in the Town's Comprehensive Annual Financial Report.

There shall be a separate accounting for the following: General Fund; Sewer Operating Fund; Sewer Impact Fee Fund. All purchases, sales and investment income shall be accounted for separately.

OBJECTIVES

The principal investment objectives of the Town are:

1. Compliance with the Town Code and with all applicable Arizona statutes and Federal regulations
2. Preservation of capital and protection of investment principal
3. Diversification to avoid incurring unreasonable market risks
4. Maintenance of sufficient liquidity to meet anticipated cash flows
5. Attainment of a market value rate of return

DELEGATION OF AUTHORITY

The Council has delegated responsibility for management of the Town's investment program to the Town Manager. The Town Manager may delegate authority for administration of this policy to members of Town staff, including the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. The Town Manager or designee shall maintain a list of persons authorized to conduct investment transactions for the Town. No person may engage in an investment transaction except as expressly provided under the terms of this Investment Policy.

The Town Manager or designee shall develop written administrative procedures and internal controls, consistent with this Policy, for the operation of the Town's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the Town.

The Town may engage the support services of outside investment advisors in regard to its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the Town's financial resources. Outside investment advisors shall be obligated to disclose all associated fees.

PRUDENCE

The standard of prudence to be used for managing the Town's assets is the "prudent investor rule" set forth in Arizona Revised Statutes (A.R.S.) section 14-10906 which states that investments shall be made "using the judgment and care under the circumstances then prevailing that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital."

The Town's investment program shall be designed and managed with a degree of professionalism and care that is worthy of the public trust. The Town recognizes that no investment is totally without risk and that the investment activities of the Town are a matter of public record. Accordingly, the Town recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security before maturity is in the best long-term interest of the Town.

Personnel acting in accordance with this Investment Policy and written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit, market, and liquidity risks.

ETHICS AND CONFLICT OF INTEREST

Elected officials and Town employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the Town's investment program, or that could create the appearance of an impairment of their ability to make impartial investment decisions. Elected officials and employees shall disclose to the Town Manager any material financial interest they have in financial institutions that conduct business with the Town and they shall subordinate their personal investment transactions to those of the Town.

AUTHORIZED INVESTMENTS AND TRANSACTIONS

All investments for the Town of Paradise Valley shall be made in accordance with A.R.S. Title 35, Public Finances, Sections 35-321 through 35-327. Any revisions or extensions of these statute sections will be assumed to be part of this Investment Policy immediately upon being enacted. The final maximum maturity for any security is five years from the date of purchase. Credit criteria and maximum sector allocation percentages are calculated at the time the security is purchased. The maximum limit for any issuer is 5%, excluding Treasuries and Government Sponsored Enterprises (GSEs). Only the following types of securities and transactions shall be eligible for use by the Town:

1. U. S. Treasury Obligations: Treasury Bills, Treasury Notes, Treasury Bonds, and Treasury Strips.
2. Government Sponsored Enterprises (GSEs): Any of the senior debt of United States agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities.
3. Repurchase Agreements with a termination date of 180 days or less collateralized by U.S. Treasury obligations, Federal Agency securities, or Federal Instrumentality securities listed above with a final maturity not exceeding five years. The purchased securities shall have a minimum market value including accrued interest of 102 percent of the dollar value of the transaction. With the exception of transactions done with the Town's approved depository banks, collateral shall be held in the Town's third-party custodian bank as safekeeping agent. Without exception, the market value of the collateral securities shall be marked-to-the market daily.

Repurchase Agreements shall be entered into only with primary dealers reporting to the Federal Reserve Bank of New York, or with firms that have a primary dealer within their holding company structure or with Town approved depository banks. Repurchase Agreement counterparties shall execute an approved Master Repurchase Agreement with the Town. Approved repurchase agreement counterparties, if rated, shall have at least a short-term debt rating of A-1 or the equivalent and a long-term debt rating of A or the equivalent. The Town Manager or designee shall maintain a list of financial institutions that have executed a Master Repurchase Agreement with the Town.

4. Pooled Investment Funds maintained by the State Treasurer pursuant to A.R.S. 35-326. The aggregate investment in Pooled Investment Funds shall not exceed ~~\$7.5 million~~ the greater of \$10,500,000 or 21% of total Cash and Investments.

5. Time Certificates of Deposit with a maturity not exceeding one year that have been bid and awarded in accordance with A.R.S. 35-323, Subdivisions B through F, in Town approved depository banks. Certificates of Deposit exceeding FDIC insurance limits shall be collateralized in accordance with A.R.S. 35-323, Subdivisions G through M.

ADDITIONAL INVESTMENTS

6. Interest bearing savings accounts in banks and savings and loan institutions doing business in this state whose accounts are insured by federal deposit insurance for their industry, but only if deposits in excess of the insured amount are collateralized. The amount may vary, as revenues may reside here while awaiting an appropriate investment opportunity.
7. Bonds, notes or other evidences of indebtedness of this state or any of its counties, incorporated cities or towns, school districts or special taxing districts, including registered warrants that shall bear interest pursuant to section 11-635. Total investments in municipal securities (those allowed by sections 8, 9, and 10) shall not exceed 20% of the Town's portfolio.
8. Bonds, notes or evidences of indebtedness of any county, municipal district, municipal utility or special taxing district of any state that are payable from revenues, earnings or a special tax specifically pledged for the payment of the principal and interest on the obligations, and for the payment of which a lawful sinking fund or reserve fund has been established and is being maintained, but only if no default in payment on principal or interest on the obligations to be purchased has occurred within five years of the date of investment, or, if such obligations were issued less than five years before the date of investment, no default in payment of principal or interest has occurred on the obligations to be purchased nor any other obligations of the issuer within five years of the investment. Total investments in municipal securities (those allowed by sections 8, 9, and 10) shall not exceed 20% of the Town's portfolio.
9. Bonds, notes or evidences of indebtedness issued by any county improvement district or municipal improvement district of any state to finance local improvements authorized by law, if the principal and interest of the obligations are payable from assessments on real property within the improvement district. Total investments in municipal securities (those allowed by sections 8, 9, and 10) shall not exceed 20% of the Town's portfolio.
10. Commercial paper of prime quality that is rated within the top two ratings by a nationally recognized rating agency (NRSRO). All commercial paper must be issued by corporations organized and doing business in the United States. Investments in commercial paper shall not exceed 30% of the Town's portfolio.
11. Bonds, debentures, notes or other evidences of indebtedness that are denominated in United States dollars and that carry at a minimum an "A" or better rating, at the time of purchase, from at least two nationally recognized rating agencies. Investments in the corporate sector shall not exceed 30% of the Town's portfolio.
12. Negotiable or brokered certificates of deposit issued by a nationally or state chartered bank or savings and loan association. Investments in the negotiable CD sector shall not exceed 30% of the Town's portfolio.

13. Securities of or any other interests in any open-end or closed-end management type investment company or investment trust, including exchange traded funds whose underlying investments are invested in securities allowed by state law, registered under the investment company act of 1940 (54 Stat. 789; 15 United States Code sections 80a-1 through 80a-64), as amended. Amounts in investments such as money market accounts may vary depending upon market conditions to reflect the best interests of the Town.

INVESTMENT DIVERSIFICATION

It is the intent of the Town to diversify the investments within its portfolio to avoid unreasonable risks through excess investment in specific instruments and sectors, individual financial institutions, or maturities. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy, the securities markets, and the Town's anticipated cash flow needs. The Town Manager or designee may establish diversification guidelines as market conditions warrant.

SELECTION OF BROKER/DEALERS

The Town Manager or designee shall maintain a list of broker/dealers approved for investment purposes, and securities shall be purchased only from those authorized firms. To be eligible for authorization, a firm must:

- a) be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a Primary Dealer within its holding company structure; or
- b) report voluntarily to the Federal Reserve Bank of New York; or
- c) qualify under Securities and Exchange Commission (SEC) Rule 15c-3-1 (Uniform Net Capital Rule).

Broker/dealers will be selected by the Town Manager or designee based on their expertise of public cash management and their ability to provide services for the Town's account. Approved broker/dealer representatives and the firms they represent shall be licensed to do business in the State of Arizona and shall be subject to the provisions of A.R.S. Title 44, Article 9 relating to sales of securities.

Each authorized broker/dealer must complete and annually update a Town approved Broker/Dealer Information Request form which includes the firm's most recent financial statements. Authorized broker/dealers shall provide written certification that they have received a copy of this Investment Policy.

External investment managers may also use their own list of internally approved broker-dealers subject to its approval by the Town.

COMPETITIVE TRANSACTIONS

Each investment transaction shall be competitively conducted with authorized broker/dealers. Whenever possible, at least three broker/dealers or issuers shall be

contacted for each transaction and their bid and offering shall be recorded. If the Town is offered a security for which there is no other readily available competitive offering, then quotations on comparable or alternative securities shall be recorded. External investment managers must competitively bid each transaction and provide documentation of the bids at the Town's request.

SELECTION OF BANKS

The Town Manager or designee shall maintain a list of banks, authorized for Repurchase Agreements and for the purchase of Time Certificates of Deposits. Authorized banks must qualify as an eligible depository as defined in A.R.S. 35-321. Banks that in the judgment of the Town Manager or designee no longer offer adequate safety to the Town, shall be removed from the list.

SAFEKEEPING AND CUSTODY

The Town shall approve one or more banks to provide safekeeping and custodial services for the Town. To be eligible, a bank must qualify as an eligible depository as defined in A.R.S. 35-321. The Town shall execute a written Safekeeping Agreement with each custodian bank, prior to utilizing that bank's safekeeping services.

Custodian banks will be selected on the basis of their ability to provide services for the Town's account and the competitive pricing of their safekeeping related services.

Title to all investment securities shall be perfected in the name of the Town. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities purchased by the Town will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by a Town approved custodian bank, its correspondent bank or in its Depository Trust Company (DTC) participant account.

All Fed wireable book entry securities shall be held in the Federal Reserve system in a customer account for the custodian bank which will name the Town as "customer."

All DTC eligible securities shall be held in the custodian bank's DTC participant account and the custodian bank shall provide evidence that the securities are held for the Town as "customer."

All non-book entry (physical delivery) securities shall be held by the custodian bank or its correspondent bank and the custodian bank shall provide evidence that the securities are held for the Town as "customer."

Delivery vs. Payment: All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the Town's safekeeping institution prior to the release of funds.

Third-Party Safekeeping: Securities will be held by an independent third-party safekeeping institution selected by the Town. All securities will be evidenced by safekeeping receipts in the Town's name. The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011.).

Internal Controls: Management shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the investment committee, where present, and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town.

PORTFOLIO PERFORMANCE

The Town's investment portfolio shall be consistent with the five objectives on page one of this policy, and designed to attain a market value rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements.

REPORTING

The Town Manager or designee shall notify the Town Council and Town Attorney of any materially adverse change to condition of, or material impairment to any Town investment or counterparty (e.g. broker/dealer, custodian, etc.) as soon as said party becomes aware of any such condition, and shall prepare and submit to the Council a report of the Town's purchases of investments. The report shall include the security type, the par value, settlement date, maturity date, yield, and broker utilized.

POLICY REVISIONS

This Investment Policy shall be reviewed periodically by the Town Manager or designee and may be amended by the Town Council as conditions warrant.