CITY OF MONTPELIER

TITLE: City of Montpelier Investment Policy
AS AMENDED: JANUARY 9, 2019

1. Purpose

   The investment policy aims to match the structure of cash management and City operations to achieve the best possible results, considering such matters as safety, liquidity, and over-all yield. The following are guidelines established to aid the Investment Committee to more effectively manage investments of the City.

2. Legal Authority/Governing Body

   The lnvestment Committee shall be guided by the standard of care, portfolio strategy, and risk and return provisions of Uniform Prudent lnvestor Act (144 V.S.A. Ch. 9), and other relevant state and federal jurisprudence relating to the custody and investment of public funds. The lnvestment Committee may obtain professional advice with respect to the performance of its duties under this Policy.

   The Finance Manager and Treasurer will report investment activity to the City Council. The City Council is ultimately responsible for ensuring compliance with this policy and any state statutes and municipal ordinances relating to investing.

   The Investment Committee was established by the City Council. The Investment Committee shall consist of a City Council member and four community members. The Finance Director shall serve as an alternate member in the absence of a community member.

3. Administration of the Investment Portfolio

   Administration of investment policy is by the Investment Committee under the direction of the City Council. The City Council sets the objectives and risk tolerances for the portfolios that it is responsible for. Based on the objectives and risk tolerances of each portfolio established by the City Council, the Investment Committee will create a one page addendum to this policy for each portfolio documenting the objective and risk tolerance for each portfolio. The City Treasurer will establish written procedures for managing the investment portfolios of the City consistent with this policy. The procedures will include safekeeping, investment transaction reporting, trade documentation and accounting for investments.

4. Portfolio Strategy

The City Council is responsible for setting the objectives and risk tolerances for different portfolios. This policy will be written to support multiple portfolios with different purposes. The section of the policy will broadly outline general strategies for investment portfolios with diversified purposes.

Safety of Principal

The primary consideration of investment portfolio management is safety of principal. If the City is primarily investing in debt instruments (bonds) the greatest risk to safety of principal is default risk. This is the risk that the issuer of the bond defaults on their payment of principal and interest. Maturity limits are another strategy for controlling risk and capital preservation. Maturity limits address the duration, i.e. the interest rate sensitivity, of the investment portfolio. The objectives of the investment portfolio will determine maturity or average-life limits. A portfolio with an objective of higher liquidity will most likely have shorter-maturity limits. Shorter-maturity limits will normally reduce the yield available to the portfolio. Longer-maturity limits offers opportunities for higher yields but usually at the expense of capital preservation. Although all risk cannot be entirely eliminated strategies should be implemented to manage the risks to the levels established by the City Council for each portfolio. The trade-off of managing risk is yield and return. Lower risk will result in lower yield and return. This needs to be considered in developing strategies for various investment portfolios.

a. Liquidity

Liquidity is another aspect of the investment portfolio strategy. Liquidity is the ability to have access to funds in the event that portfolios must be sold. The strategy will be to ensure that if liquidating a portfolio maximum value is obtained. Liquidity strategy must be managed in coordination with the cash management policy. By managing cash positions liquidating investment portfolios will be optimized for timing. Strategies for managing liquidity risk involve purchasing securities that are traded in an active market, part of a large issue, or of well-known issuers, such as government agencies and highly-rated corporations.

b. Yield

Yield is another consideration in managing the investment portfolio strategy. The Investment Committee should seek a fair yield from its management of its investment portfolio based on the objectives and risk tolerances established for each. Yield is one metric for measuring the performance of the investment portfolio. Total return can also be used to measure the performance of the investment portfolio.

c. Portfolio Diversification

Portfolio diversification is a risk management strategy. At its highest level, portfolio diversification involves a broad array of securities. For instance, purchasing stocks, bonds, bank certificates of deposits, commercial notes would constitute a diversified investment portfolio. Other aspects of portfolio diversification includes sector and security selection. Sector selection is a choice amongst the main parts of the fixed-income markets, namely U.S. Treasury and agencies, mortgage-backed securities, corporate and municipal bonds. The Investment Committee must evaluate each investment portfolio to determine how diversification can be utilized for each individual portfolio. Depending on the objective of the portfolio diversification may be restricted. Small portfolios will have difficulty obtaining sufficient diversification without incurring high transaction costs. Issue and issuer diversification as well as sufficient sector diversification will reduce the overall risk level as not all asset classes and issuers are positively correlated with each other in terms of investment performance. When possible the management of the City's investment portfolio should strive for maximum diversification within the objectives of the portfolio.

d. Risk Rating

The Investment Committee may choose to use risk ratings from a nationally recognized rating agency in its investment portfolio management. The Investment Committee may set a minimum risk rating by investment portfolio based on the objectives and risk tolerances established for the portfolio. The risk ratings will apply to individual securities within a portfolio. If an individual security within a portfolio risk rating falls below the minimum established by the Investment Committee, the Committee will review the security. Working with its investment advisor the Committee will make a recommendation to the City Council to either sell the security or continue monitoring its risk rating.

e. Investment Restrictions

In selecting or recommending investment vehicles, the Investment Committee shall be mindful of limitations or restrictions imposed by the terms of bequests, grants and donations, and those imposed by law (e.g. investment of bond and note proceeds).

5. Broker/Dealer Relationships

The Investment Committee may establish relationships with securities broker/dealers to facilitate the management of the investment portfolios. The Investment Committee should develop criteria for selecting broker/dealers to work with. The criteria should include evaluating the reputation of the broker/dealer, checking references, checking regulatory agencies for any outstanding prohibitions or orders against the broker/dealer. The Investment Committee may want to work with more than one broker/dealer. Having multiple broker/dealer relationships can provide more options to the Investment Committee when managing its portfolios.

6. Ethics and Conflicts of Interest

Investment Committee members may not accept gifts from broker/dealers or safekeeping agents that it does business with. Investment Committee members shall disclose any material financial interests in the broker/dealers that conduct business with the City. Investment Committee members shall disclose any material personal financial/investment position that could be related to the performance of the City's investment portfolios. Investment Committee members involved in investment management for the City shall comply with all applicable laws, regulations, professional codes of conduct and City policies.

7. Accounting for Investments

   The City Treasurer and the Finance Manager are responsible for ensuring that investments are properly accounted for. If there are any questions about how an investment should be accounted for the Finance Manager should refer questions to the City's financial auditors.

8. Reporting of Investment Activity

   The City Treasurer and the Finance Manager will prepare monthly investment reports that summarize the investment activity for the month. The reports should summarize the strategy for each investment portfolio. The report should detail how the portfolio is performing compared to its objective. Any new purchases and current month maturities should be included. At least quarterly the market value for portfolios should be compared to book value. The reports should provide enough detail to allow the Investment Committee to be able to evaluate the performance of the investment portfolios.

9. Investment Advisors

   When permitted by statute the Investment Committee may choose to engage independent investment advisors to assist in managing one or some of the investment portfolios. The role of the investment advisor is to assist the Investment Committee ensuring that the investment portfolios meet their objectives. Depending on statute and the objective of the investment portfolio, an investment advisor may be granted discretionary investment authority. If this is the case this does not relieve the Investment Committee from their responsibilities under this policy. An investment advisor shall follow the guidance outlined in this policy. The selection and engagement of an investment advisor must comply with any existing City policy for procuring services. This may include the use of a Request for Proposals. The fees charged by an investment advisor must be compared to the increase in performance of the investment portfolio. At least annually the Investment Committee should evaluate the performance of the investment advisor relative to the objective of the investment portfolio.

10. Environmental, Social and Governance (ESG)

   The portfolio shall avoid investing in individual securities of companies that derive the majority of their revenues from the following sources/activities:

   - Production/manufacture and sale of alcohol and/or tobacco products
   - Production/manufacture and sale of firearms
   - Exploration, extraction, refining of fossil fuels as well as products and services that support these processes

   The City Council and the Investment Committee recognize exclusion of these market sectors may impact the performance of the investment portfolio when compared to industry performance benchmarks. While comparison to benchmark performance may be used as a guide in assessing the returns on the investment portfolio, it is not considered the primary investment objective.

The Investment Manager shall seek to minimize direct investments in these areas, in order to gain exposure to certain assets classes (e.g. small cap equities, international equities) it may be necessary for the manager to purchase shares of mutual funds and/or ETF's that to do have some exposure to the identified industries/sectors.

Recognizing that the individual directives outlined by the City Council as to the sectors and/or industries which they would like to avoid investment in are quite specific, the policy shall be implemented in tiers based on individual portfolio balances:

For accounts with a total portfolio value under $300,000 value:

> In order to maintain appropriate diversification among investments and asset classes it is recommended that individual accounts with less than $300,000 in value be invested in mutual funds and/or ETF strategies. Recognizing the difficulty in identifying mutual funds/ETF's that adhere to the specific directives, portfolios in this classification will not be required to comply with the ESG directive as defined by the City's Investment Policy.

For accounts with a total portfolio value over $300,000 in value:

> Once an individual account is valued over $300,000 for a minimum of 3 consecutive months, there are sufficient assets for the manager to implement an investment strategy using individual securities which incorporate the City's Investment Policy ESG goals. While the manager shall exclude direct investments in industry sectors identified, in order to gain exposure to certain assets classes (e.g. small cap equities, international equities) it may be necessary for the manager to purchase shares of mutual funds and/or ETF's that to do have some exposure to the identified industries/sectors.