

1 **APPROVED AS TO LEGAL FORM:**

2

3

4 **Thomas M. Carpenter, City Attorney**

5 //

6 //

7 //

8 //

9 //

10 //

11 //

12 //

13 //

14 //

15 //

16 //

17 //

18 //

19 //

20 //

21 //

22 //

23 //

24 //

25 //

26 //

27 //

28 //

29 //

30 //

31 //

32 //

33 //

34 //

1 **Exhibit A**

2
3 **CITY OF LITTLE ROCK, ARKANSAS**
4 **POOLED CASH PORTFOLIO**
5 **INVESTMENT POLICY GUIDELINES**
6 **NOVEMBER, 2018**
7

8
9 **I. Introduction**

10
11 The intent of the Investment Policy of the City of Little Rock is to define the objectives
12 within which funds are to be managed. The guidelines are intended to be broad enough
13 to allow the Investment Officer to function properly within the parameters of
14 responsibility and authority, yet specific enough to adequately safeguard the
15 investment assets.
16

17 **II. Governing Authority**

18
19 The investment program shall be operated in conformance with Arkansas State Statutes
20 and by the Little Rock City Board of Directors. The Finance Director/Treasurer is
21 responsible for investing the unexpended cash in the City Treasury.
22

23 The authority governing investments for municipal governments with property
24 valuations in excess of \$300,000,000 is set forth in Arkansas State Statute §19-1-505.
25 Investment of City funds will be made only in compliance with Arkansas Statutes.
26

27 **III. Scope**

28
29 This Policy applies to the investments of all monies held by the City under the control
30 of the City's Board of Directors, that are not needed for the near term payment of
31 obligations. This Policy shall also apply to any entity that receives a majority of its
32 funding from City appropriations.
33

34 This Policy does not apply to the Police, Fire, and Non-Uniformed Employees
35 Retirement Funds. Longer-term funds, including investment of Employees' Deferred
36 Compensation Fund are covered by separate policies.
37

38 **1. Pooling of Funds**

39 The City will consolidate cash balances from all funds to maximize investment
40 earnings and to increase efficiencies with regard to investment pricing,
41 safekeeping and administration. Investment income will be allocated to the
42 various funds based on their respective participation and in accordance with
43 generally accepted accounting principles.
44
45

1 **IV. General Objectives**

2
3 The primary objectives, in priority order, of investment activities shall be safety,
4 liquidity, and yield.

5
6 **1. Safety**

7 Safety of principal is the foremost objective of the City of Little Rock's
8 investment program. Investments shall be undertaken in a manner that seeks to
9 ensure the preservation of capital in the overall portfolio. The objective will be
10 to mitigate credit risk and interest rate risk.

11
12 **a. Credit Risk**

13 The City of Little Rock will minimize credit risk, which is the risk of
14 loss due to the failure of the security issuer or backer, by:

- 15 • Limiting investments to the safest types of securities (no stocks,
16 no derivatives)
- 17 • Pre-qualifying the financial institutions, broker/dealers,
18 intermediaries, and advisers with which the City will do business
- 19 • Diversifying the investment portfolio so that potential losses on
20 individual securities will be minimized

21
22 **b. Interest Rate Risk**

23 The City of Little Rock will minimize the risk that the market value of
24 securities in the portfolio will fall due to changes in general interest
25 rates, by:

- 26 • Structuring the investment portfolio so that securities mature to
27 meet cash requirements for ongoing operations, thereby
28 avoiding the need to sell securities on the open market prior to
29 maturity
- 30 • Investing operating funds primarily in shorter-term securities,
31 money market mutual funds, or similar investment pools.

32
33 **2. Liquidity**

34 The City of Little Rock's investment portfolio shall remain sufficiently liquid
35 to meet all operating requirements that may be reasonably anticipated. This is
36 accomplished by structuring the portfolio so that securities mature concurrent
37 with cash needs to meet anticipated demands (static liquidity). Furthermore,
38 since all possible cash demands cannot be anticipated, the portfolio should
39 consist largely of securities with active secondary or resale markets (dynamic
40 liquidity). A portion of the portfolio also may be placed in money market
41 mutual funds or local government investment pools which offer same-day
42 liquidity for short-term funds.

43
44 **3. Yield**

45 The investment portfolio shall be designed with the objective of attaining a
46 market rate of return throughout budgetary and economic cycles, taking into

1 account the investment risk constraints and liquidity needs. Return on
2 investment is of secondary importance compared to the safety and liquidity
3 objectives described above. The core of investments is limited to relatively low
4 risk securities in anticipation of earning a fair return relative to the risk being
5 assumed. The City shall maximize interest yields while ensuring that the
6 maturity dates coincide with projected expenditure requirements. Furthermore,
7 the City shall purchase investments through competitive bidding, placing the
8 investment with the bid providing the highest interest yield for the maturity
9 required. Securities shall not be sold prior to maturity with the following
10 exceptions:

- 11 • A security with declining credit may be sold early to minimize
12 loss of principal.
- 13 • A security swap, which would improve the quality, yield, or
14 target duration in the portfolio.
- 15 • Liquidity needs require that the security be sold.

16 **V. Standards of Care**

17 **1. Prudence**

18
19
20 The standard of prudence to be used by Investment Officials shall be the
21 “prudent person” standard and shall be applied in the context of managing an
22 overall portfolio. Investment officers acting in accordance with written
23 procedures, this Investment Policy, and with due diligence shall be relieved of
24 personal responsibility for an individual security’s credit risk or market price
25 changes, provided deviations from expectations are reported in a timely fashion
26 and the liquidity and the sale of securities are carried out in accordance with the
27 terms of this policy.

28
29 The “prudent person” standard states that, “Investments shall be made with
30 judgment and care, under circumstances then prevailing, which persons of
31 prudence, discretion, and intelligence exercise in the management of their own
32 affairs, not for speculation, but for investment, considering the probable safety
33 of their capital as well as the probable income to be derived.”

34 **2. Ethics and Conflicts of Interest**

35 Officers and employees involved in the investment process shall refrain from
36 personal business activities that could conflict with the proper execution and
37 management of the investment program, or that could impair their ability to
38 make impartial decisions. No employee shall have a direct or indirect financial
39 interest with the broker or corporation with whom they are conducting business.
40 Employees and Investment Officials shall disclose any personal financial
41 interests that could be related to the performance of the City’s investment
42 portfolio. Employees and officers shall refrain from undertaking personal
43 investment transactions with the same individual with whom business is
44 conducted on behalf of the City of Little Rock.
45
46

1 **3. Delegation of Authority**

2 Authority to manage the investment program is granted by the Board of
3 Directors to the City’s Finance Director/Treasurer. The Finance
4 Director/Treasurer shall designate up to two (2) Investment Officers who shall
5 have the responsibility for the operation of the investment program and shall
6 act in accordance with this Investment Policy and established written
7 procedures and internal controls for the operation of the investment program.
8 Procedures should include references to: safekeeping, delivery vs. payment,
9 investment accounting, wire transfer agreements, and collateral/depository
10 agreements. No person may engage in an investment transaction except as
11 provided by the Investment Officer. The Investment Officer shall be
12 responsible for all transactions undertaken and shall establish a system of
13 controls to regulate the activities of subordinate officials.
14

15 **VI. Authorized Financial Institutions and Brokers/Dealers**

16
17 A list will be maintained of financial institutions and broker/dealers authorized to
18 provide investment services. The Treasury Services Manager shall annually send a
19 copy of the City’s current Investment Policy to all financial institutions and
20 broker/dealers approved to do business with the City. These financial institutions and
21 broker/dealers must be creditworthy (e.g. a minimum capital requirement of
22 \$10,000,000), have been in operation at least five years, and have a physical presence
23 in the City of Little Rock, Arkansas. These may include “primary” dealers or regional
24 dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1
25 (uniform net capital rule).
26

27 All financial institutions and broker/dealers who desire to become qualified for
28 investment transactions must supply the following as appropriate:

- 29 • Audited financial statements demonstrating compliance with State and
30 Federal Capital Adequacy Guidelines
 - 31 • Proof of National Association of Securities Dealers (NASD) Certification
 - 32 • Proof of State Registration
 - 33 • Completed broker/dealer questionnaire
 - 34 • Certification of having read and understood and agreeing to comply with
35 the City’s Investment Policy
 - 36 • Evidence of adequate insurance coverage
- 37

38 An annual review of the financial condition and registration of qualified financial
39 institutions and broker/dealers will be conducted by the Investment Officer.
40

41 **VII. Safekeeping and Custody**

42
43 **1. Internal Controls**

44 The Investment Officer is responsible for establishing and maintaining an
45 internal control structure designed to ensure that the assets of the City are
46 protected from loss, theft, or misuse. The internal control structure shall be

1 designed to provide reasonable assurance that these objectives are met.
2 Complete records of all investment transactions will be kept in the Little Rock
3 Finance Department. The Finance Director/Treasurer shall render a quarterly
4 report to the City Manager detailing the type of investment, amount of money
5 invested, maturity dates, and interest yields. The City's Audit Manager will
6 review this investment report for compliance of the City's Investment Policy to
7 State Statutes.

8
9 Accordingly, the Finance Director/Treasurer shall establish a process for an
10 annual independent review by an external auditor to assure compliance with
11 policies and procedures. The internal controls shall address the following
12 points:

- 13
- 14 • Control of collusion
- 15 • Separation of transaction authority from accounting and record
- 16 keeping
- 17 • Custodial safekeeping
- 18 • Avoidance of physical delivery securities
- 19 • Clear delegation of authority to subordinate staff members
- 20 • Written confirmation of transactions for investments and wire
- 21 transfers
- 22 • Dual authorizations of wire transfers
- 23 • Development of a wire transfer agreement with the lead bank and
- 24 third-party custodian
- 25

26 **2. *Delivery vs. Payment***

27 All trades where applicable will be executed by delivery vs. payment (DVP) to
28 ensure that securities are deposited in an eligible financial institution prior to
29 the release of funds. Securities will be held by a third-party custodian as
30 evidenced by safekeeping receipts. Bank certificates of deposit shall be held
31 either in trust with the issuing bank or in physical form in the City's Treasury
32 Management office.

33

34 **3. *Safekeeping***

35 Securities will be held by a independent third-party custodian selected by the
36 city as evidenced by safekeeping receipts in the City of Little Rock's name.
37 The safekeeping institution shall annually provide a copy of its most recent
38 report on internal controls – Service Organization Control Reports (formerly
39 Statement of Auditing Standards No. 70, or SAS 70) prepared in accordance
40 with the Statement on Standards for Attestation Engagements (SSAE) No. 16.

41

42 **VIII. Suitable and Authorized Investments**

43

44 **1. *Investment Types***

45 The following investments will be permitted by this policy and those defined
46 by Arkansas Statutes and the City of Little Rock:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States Government and are considered to be the most secure instruments available;
- U.S. Government Agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value;
- Certificates of deposit and other evidences of deposit at financial institutions;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
- Investment-grade obligations of State, provincial and local governments and public authorities;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities;
- Local government investment pools either state-administered or developed through Joint Powers Statutes and other Intergovernmental Agreement Legislation.

State legislative action that further provides for allowable investment vehicles may be incorporated into the City's investment policy. The City of Little Rock shall not invest in derivative products, common stocks, or long-term bonds used for speculation.

2. Collateralization

- a. The safety of public funds should be the foremost objective in managing public funds. Collateralization of public deposits through pledging of appropriate securities by depositories is required for investments not placed in U.S. government securities. To reduce market risk, the collateralization level will be at a minimum of 104% of the market value of the certificate of deposit plus accrued interest. A three-party collateral agreement between the City, the financial institution, the Federal Reserve Bank and/or the Arkansas Bankers' Bank with acceptance by the City and the financial institution, will be executed prior to the purchase or delivery of the certificate of deposit.
- b. The Finance Director/Treasurer shall take all possible actions to comply with Federal requirements in order to ensure that the City's security interests in collateral pledged to secure deposits are enforceable against the receiver of a failed financial institution.

IX. Investment Parameters

1. Diversification

The investments shall be diversified by:

- limiting investments to avoid overconcentration in securities

1 from a specific issuer or business sector (excluding U.S.
2 Treasury securities),

- 3 • limiting investment in securities that have higher credit risks,
- 4 • investing in securities with varying maturities, and
- 5 • continuously investing a portion of the portfolio in readily
6 available funds such as money market funds to ensure that
7 appropriate liquidity is maintained to meet ongoing obligations.

8
9 **2. *Maximum Maturities***

10 To the extent possible, the City of Little Rock shall attempt to match its investments
11 with anticipated cash flow requirements. Unless matched to a specific cash flow or
12 otherwise permitted by state statutes or local ordinances, the City will not directly
13 invest in securities maturing more than five (5) years from the date of purchase.
14 The City shall adopt weighted average maturity limitations (which often range from
15 ninety (90) days to three (3) years), consistent with the investment objectives.

16
17 Reserve funds and other funds with longer-term investment horizons may be
18 invested in securities exceeding five (5) years if the maturities of such investments
19 are made to coincide as nearly as practicable with the expected use of funds.
20 However, exceptions for extraordinary circumstances for funds clearly not needed
21 within the normal term limitations may be approved by the Finance
22 Director/Treasurer. The intent of this policy is to guide the City's investments to
23 short or medium term instruments and away from long-term securities.

24
25 Because of inherent difficulties in accurately forecasting cash flow requirements, a
26 portion of the portfolio should be continuously invested in readily available funds
27 such as money market funds to ensure that appropriate liquidity is maintained to
28 meet ongoing obligations.

29
30 **3. *Competitive Bids***

31 The Investment Officer shall attempt to obtain competitive bids from at least three
32 brokers or financial institutions on all purchases of investment instruments
33 purchased on the secondary market. Brokers bidding on new issues in the primary
34 market at par will be selected based on an alternating schedule.

35
36 **X. Reporting**

37
38 **1. *Methods***

39 The Investment Officer shall prepare an investment report at least quarterly, that
40 provides an analysis of the status of the current investment portfolio and
41 transactions made over the last quarter. This quarterly report will be prepared in a
42 manner which will allow the City to ascertain whether investment activities during
43 the reporting period have conformed to the Investment Policy. The report should
44 be provided to the Finance Director/Treasurer, the City Manager, the Board of
45 Directors, and any concerned citizen. The report will include the following:

- 46 • Listing of individual securities held at the end of the reporting

1 period.

- 2 • Realized and unrealized gains or losses resulting from
- 3 appreciation or depreciation.
- 4 • Average weighted yield to maturity of portfolio on investments
- 5 as compared to applicable benchmarks.
- 6 • Listing of investment by maturity date
- 7 • Percentage of the total portfolio which each type of investment
- 8 represents.
- 9

10 **2. *Performance Standards***

11 The investment portfolio will be managed in accordance with the parameters
12 specified within this policy. The portfolio should obtain a market average rate of
13 return during a market/economic environment of stable interest rates. A series of
14 appropriate benchmarks shall be established against which portfolio performance
15 shall be compared on a regular basis. The benchmarks shall be reflective of the
16 actual securities being purchased and risks undertaken, and the benchmarks shall
17 have a similar weighted average maturity as the portfolio.

18 **3. *Marking to Market***

19 The market value of the portfolio shall be calculated at least quarterly and a
20 statement of the market value of the portfolio shall be issued at least quarterly.

21 **XI. Policy Considerations**

22 **1. *Amendments***

23 This Policy shall be reviewed on an annual basis. Any changes must be
24 recommended by the Finance Director and approved by the Board of Directors.