
INVESTMENT POLICY

It is the policy of the City of Clayton to invest public funds in a manner which will provide maximum security and the highest investment return, while meeting the daily cash flow demands of the City and conforming to all state, federal, and local laws governing the investment of public funds.

Scope

This investment policy applies to all financial assets of the City of Clayton, except retirement funds, which are administered by pension boards.

Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard which states: "investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence would use 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 derived." The prudent person standard shall be used in the context of managing the overall portfolio.

The investment officer, acting in accordance with the investment policy and exercising due diligence, shall not be held personally responsible for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate actions are taken to control adverse developments.

Objectives

The primary objectives, in priority order, of the City's investment activities shall be:

Legality: Every investment shall be made in accordance with applicable federal, state and local statutory provisions.

Safety: Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital.

Liquidity: The City's investment portfolio must remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.

Return on Investment: The City's investment portfolio shall be managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, taking into account the City's investment risk constraints and the cash flow characteristics of the portfolio.

Delegation of Authority

Article VII, Section 2 of the City Charter vests authority and management responsibility for the investment program with the Finance Director. No person may engage in an investment transaction except as provided under the terms of this policy. The Finance Director shall be responsible to the City Manager for all transactions undertaken and shall establish a system of internal controls to prevent the loss of public funds due to error, misrepresentation or fraud.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Employees and investment officials shall disclose to the City Manager any financial interests in financial institutions that conduct business with the City of Clayton, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Employees and officers shall in no way whatsoever co-mingle personal and City funds or in any way participate in activities that could result in the appearance of a conflict of interest.

The City Clerk shall file the appropriate reports with the Secretary of State disclosing potential conflicts of interest and substantial interests in accordance with state law.

Authorized Financial Dealers and Institutions

In order for a financial institution to qualify for the deposit of City funds, certain conditions must be met. Financial institutions shall be restricted to banks that are members of the Federal Deposit Insurance Corporation (FDIC).

A current, audited financial statement is required to be on file for each financial institution in which the City invests or deposits funds. An officer of the financial institution must certify that the institution will abide by the policies outlined herein and comply with all applicable federal, state, and local laws and regulations.

Authorized and Suitable Investments

The City may invest in the following types of securities:

- A. Bonds, bills or notes of the United States or an agency of the United States;
- B. Negotiable or non-negotiable certificates of deposit, savings accounts, and other interest-earning deposit accounts of financial institutions as defined in this policy;
- C. Repurchase Agreements--against eligible collateral, the market value of which must be maintained during the life of the agreements at a level greater than the amount advanced, plus the accrued interest. An undivided interest in the instruments pledged for such agreements must

be granted to the City. If repurchase agreements are authorized, a *Master Repurchase Agreement* must be signed with the bank or dealer.

Loan leveraging or investment in financial derivatives is expressly prohibited by this policy.

Collateralization

All investments which exceed the financial institution's insurance limits shall be secured through eligible collateral. The market value of the collateral must be equal to or greater than the value of the investment instrument plus accrued interest, less the amount of insurance coverage. Eligible collateral shall mean securities otherwise qualified for purchase under this policy, preferably U.S. Government securities, and shall also include the State Treasurer's list of Securities Acceptable as Collateral to Secure State Deposits. (The City will maintain an updated version of this list.)

All investments purchased under this policy are to be verified in writing by the financial institution indicating clearly the amount, rate of return, maturity date, and itemized collateral.

Collateral will always be held by an independent third party. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained.

The right of collateral substitution may be granted, provided that the Director of Finance and City Manager approve of the substitution in writing. Any substituted collateral must otherwise meet all of the criteria contained in this policy.

Safekeeping and Custody

All securities purchased will be held by a third party custodian designated by the Finance Director and evidenced by safekeeping receipts.

Diversification

The City will diversify its investments by institution. With the exception of bonds, bills or notes of the United States or an agency of the United States and authorized pools, it shall be the goal of the City that no more than 80% of the City's investment portfolio will be invested in a single institution.

Maximum Maturities

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not invest in securities maturing more than 3 years from the date of purchase, unless circumstances warrant other consideration, as approved by the City Manager. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed 7 years to maturity.

Internal Control

The Finance Director shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with laws, policies and procedures. The auditors shall report their findings to the City Manager and Board of Aldermen.

Performance Standards

The investment portfolio will be designed to obtain no less than the annualized yield of a 90-day Treasury bill for the budgetary cycle being evaluated, taking into account the City's investment risk constraints and cash flow needs.

Reporting Requirements

The Finance Director is also charged with the responsibility of including a year-end summary on investment activity and returns in the City's Comprehensive Annual Financial Report, including information on the issuing financial institution, the type of security, the term to maturity, the interest rate, the amount of principal, performance, interest earnings, etc.

Investment Policy Adoption

The Investment Policy of the City of Clayton shall be adopted by the Clayton Board of Aldermen. The policy shall be reviewed from time to time by the Board of Aldermen, and any modifications made thereto must be approved by the Board of Aldermen.