

INVESTMENT POLICY

**CITY OF SIOUX FALLS
SOUTH DAKOTA**

October 2000

City of Sioux Falls, South Dakota

Investment Policy

1. Policy

It is the policy of the City of Sioux Falls, South Dakota, to invest idle public funds in a manner which will provide the maximum security, sufficient liquidity, and a competitive investment return to meet the daily cash flow demands of the City. This policy must conform with all applicable laws and procedures governing the investment of public funds.

2. Scope

This policy applies to the investment of short-term operating funds of the City of Sioux Falls within a Pooled Cash Fund. Except for funds held in trust or special funds that are otherwise specifically provided for, this Fund will consolidate the balances from all funds to maximize investment earnings and meet the liquidity requirements of the City subject to the primary objective of providing security of principal. Investment income will be allocated to the various funds based on their respective participation of capital in the overall portfolio in accordance with generally accepted accounting principles.

3. Prudence

The standard of prudence to be used by the Finance Officer shall be the “prudent investor” standard and shall be applied in the context of managing an overall portfolio. The Finance Officer acting in accordance with written procedures and this investment policy 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 the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence 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.

4. Objectives

The primary objectives, in priority order, of the City of Sioux Falls’ investment activities shall be:

A. Safety of Principal

Safety of principal is the foremost objective of the investment program. Investments of the City of Sioux Falls shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification

is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

The portfolio shall also be invested to control interest rate risk. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in interest rates. Interest rate risk may be quantified and managed by investing operating funds per the maturity constraints and the average maturity target.

B. Liquidity

The City of Sioux Falls investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated. The portfolio shall be structured so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity except when liquidity needs require.

C. Return on Investments

The City of Sioux Falls' investment portfolio shall be designed with the objective of attaining a competitive rate of return throughout budgetary and economic cycles, commensurate with the City of Sioux Falls' investment risk constraints and the cash flow characteristics of the portfolio.

5. Delegation of Authority

Authority to manage the investment program is granted to the Finance Officer by resolution. Responsibility for the operation of the investment program is hereby delegated to the Finance Officer, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy adopted by the City Council upon the advisement of the Investment Advisory Board.

Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral depository agreements, and banking services contracts. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Officer. The Finance Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate investment employees.

6. Ethics and Conflicts of Interest

The Finance Officer and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

Investment employees shall disclose any material interests in financial institutions with which they conduct business and any personal financial investment positions that could be related to the performance of the investment portfolio. The Finance Officer and investment employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity. The Finance Officer and investment employees shall not participate in Initial Public Offerings (IPOs) in their personal investment activity.

The Finance Officer shall report by letter to the Mayor annually on these matters.

7. Authorized Financial Dealer and Institution

Financial institutions will be authorized to provide investment services in an executive order issued by the Mayor designating them as official depositories for municipal funds. All financial institutions who desire to become qualified bidders for investment transactions and/or custody must supply audited financial statements annually.

All security transactions, including collateral for repurchase agreements, entered into by the City of Sioux Falls shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Mayor and evidenced by safekeeping receipts.

If repurchase agreements are utilized, a Master Repurchase Agreement will be signed with the bank or dealer.

8. Authorized and Suitable Investments

The City of Sioux Falls is empowered by statute to invest in the following types of securities:

1. Securities issued by the United States Treasury.
2. Securities issued by government-sponsored enterprises (GSEs) or federally related institutions that are guaranteed directly or indirectly by the U.S. Government.
3. Mutual and money market funds that invest in United States Treasury securities, or securities issued by GSEs or federally related institutions that are guaranteed directly or indirectly by the U.S. Government.
4. Certificates of Deposit (CDs).
5. Repurchase agreements complying with State statute and requirements.
6. Savings Accounts.

9. Collateralization

In accordance with SDCL 4-6A, 51-10-9, and 52-5-20, Qualified Public Depositories will furnish collateral in the sum equal to one hundred percent (100%) of the public deposit accounts which exceed deposit insurance.

SDCL 4-6A-3 requires that collateral be segregated by each depository in such manner as approved by the South Dakota Public Deposit Protection Commission. Collateral may not be held in any safety deposit vault owned or controlled either directly or indirectly by the pledging financial institution but must be deposited for safekeeping in a financial institution that is a member of the Federal Reserve.

10. Diversification

The City of Sioux Falls will diversify its pooled cash funds by security type and institution. With the exception of securities issued by the U.S. Treasury or guaranteed directly or indirectly by the U.S. Government and authorized pools, no more than 20 percent of the City of Sioux Falls' total pooled cash fund will be invested in the deposits of a single financial institution. The City will limit its investment in securities issued by GSEs or federally related institutions that are guaranteed directly or indirectly by the U.S. Government to no greater than 40 percent of the total portfolio.

11. Maturity Constraints

Maximum Maturity—To the extent possible, the City of Sioux Falls will attempt to match its investments with anticipated cash flow requirements. The City of Sioux Falls may invest in individual securities with maturities of 5 years or less from the date of purchase, and mutual and money market funds holding securities with maturities of 5 years or less. Securities shall be redeemable at the option of the City in the open market. Mutual and money market fund investments shall be redeemable at the option of the City.

Average Maturity—The average dollar-weighted maturity target of the pooled cash fund is 1.5 years. The portfolio shall be reviewed by the Finance Officer for rebalancing if the average maturity moves to either less than one (1) year or greater than two (2) years.

12. Internal Controls

The Finance Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Sioux Falls are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that:

- The cost of a control should not exceed the benefits likely to be derived
- The valuation of costs and benefits requires estimates and judgments by the Finance Officer.

Accordingly, the City Council shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures.

13. Performance Standards

The investment portfolio shall be designed with the objective of obtaining a competitive rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.

Market Yield (Benchmark): The Investment Advisory Board will establish an appropriate benchmark, which may be revised from time to time, that will determine whether the portfolio is achieving market yields. The benchmark will recognize that the City of Sioux Falls' investment strategy is passive and is not intended to time the market.

Total Return (Benchmark): An appropriate benchmark for the total rate of return shall be adopted from time to time by the Investment Advisory Board. The benchmark shall recognize the City's investment strategy of maintaining a short-duration portfolio of secure investments with a high degree of liquidity. The objective of the benchmark is to provide a measure for evaluating the relative effectiveness of the City's investment strategy.

14. Reporting

Methods

The investment portfolio will be managed in accordance with the parameters specified within this policy. The Finance Officer shall prepare an investment report not less than quarterly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the City Council and Investment Advisory Board to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Mayor, the City Council, and Investment Advisory Board. The report will include the following:

- Breakdown by security type (CD, U.S. Treasury, and money market funds).
- Average dollar-weighted maturity and yield of the pooled cash fund.
- A listing, by maturity date, of individual securities held at the end of the reporting period.
- Unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value.
- The percentage of the total portfolio which each financial institution holds.
- Transaction activity including the following information: type of transaction (purchase/sale), issue, coupon rate, price, gain or loss if sale transaction, maturity date, trade date, and settlement date.

For mutual and money market funds utilized by the City, the Finance Officer shall provide:

- Annually the most recent fund prospectus.
- Semi-annually a listing of the fund's holdings.

The Finance Officer shall promptly provide copies of any amendments to the prospectus of mutual and money market funds utilized by the City of Sioux Falls to the Investment Advisory Board for their review.

15. Amendment

This policy shall be reviewed on an annual basis. Any changes must be reviewed by the Finance Officer and Investment Advisory Board for recommendation to the Mayor and City Council.