City of Minneapolis
Investment Policy and Strategy
June 17, 2014

I. Introduction

It is the policy of the City of Minneapolis that the administration of its funds and the investment of those funds shall be regarded as its highest public trust. The Investment Policy of the City of Minneapolis (the "City") defines the parameters within which funds are invested. The policy establishes the framework for the City's investment program to ensure effective and judicious investment of the City's funds. The Policy is intended to be broad enough to allow investment officer(s) to function properly within the parameters of responsibility and authority, flexible enough to address changing market conditions, and specific enough to safeguard investment assets. The receipt of a market rate of return will be secondary to the requirements for safety and liquidity. The earnings from investments will be used in a manner that best serves the interests of the City and its various specialized funds.

The Investment Policy will be reviewed by the City's Chief Financial Officer (CFO), at least, annually and any recommended changes shall be taken to City Council for review and adoption. No changes may be made until the Policy is reviewed and adopted by the City Council.

II. Governing Authority

The Policy and investment program shall be administered in conformance with applicable federal, state, and City statutes and requirements, specifically Minnesota State Statute 118A. The City's Internal Controls and Procedures for Investments support all requirements of this Policy.

III. Scope

The Policy shall apply to the City's cash and investments regardless of source and any new funds created unless specifically exempted by the City Council and this Policy. Assets held by trustees or fiscal agents for specifically designated programs or financial arrangements may be regulated by other policies or governing City Council actions and guidelines. However, all City funds invested are subject to statutes and regulations established by the State of Minnesota.

Cash and investments specifically excluded from this Policy are employee retirement funds (managed by the State Board of Investment), and employee health savings accounts (managed by third party administrators).

IV. Portfolio Objectives and Strategy

The City commingles its cash for investment purposes, this adds value to all the funds while the portfolio and general ledger reporting assures that all funds' earnings are returned to the source funds based on general ledger balances each month where appropriate. Participation in the commingled portfolio assures each participating fund the safety and liquidity needed and the incremental income to be derived from extended investments.

It is the policy of the City that all funds are invested with four primary objectives listed below in order of their priority.

1. 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. Each investment transaction shall be conducted in a manner to avoid capital loss, whether from security defaults, safekeeping or erosion of market value thereby mitigating credit and interest rate risks.

2. Liquidity
The investment portfolio shall be structured to meet operating requirements that may be reasonably anticipated. This shall be achieved by matching investment maturities with forecasted cash flow requirements and maintaining an adequate liquidity buffer for unexpected outflows. The portfolio should consist of securities with active secondary markets.

3. Diversification
The portfolio shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in any specific maturity, specific issuer, or specific market sector. Diversification strategies shall be determined and revised periodically in accordance with varying market conditions.

4. Yield
The investment portfolio shall be designed with the objective of attaining a reasonable market yield throughout budgetary and economic cycles, taking into account the investment risk constraints of safety and liquidity. The portfolio yield will be measured against risk and performance benchmarks reflecting the cash flow needs and authorized investment types as authorized by this Policy.

The investment portfolio is to be managed at the highest public trust and is subject to public review. The investment program shall be designed and managed with a degree of professionalism worthy of the public's trust. Investment officers shall avoid any transaction that might impair the public confidence in the City's ability to manage funds effectively.

Local Considerations
Subject to the above portfolio objectives, the City will encourage qualified local financial institutions within the City to participate in the RFP process for services.

Portfolio Strategy
The City shall pursue a pro-active yet conservative portfolio management strategy. The City's total portfolio is divided into four segments/sub-portfolios to address (1) the ongoing fiscal year demands of the City's operating funds, (2) the bond proceeds which are guided by expenditure schedules of the bonds, (3) the 'core' funds which are reserved for future needs, and (4) the General Agency Reserve Fund System (GARFS) which are reserves for the underlying bonds.

The strategy for each of these segments incorporates the specific uses and the unique characteristics of the funds in the segment/sub-portfolio. For all City portfolios the strategy is designed to safeguard principal and maximize earnings.

The strategy for the *operating portfolio* is to build a pro-active rolling ladder of securities to provide for the operational needs of the City throughout its fiscal year, and longer if conditions warrant. The maximum maturity for any security in this portfolio is two years and the maximum dollar-weighted average maturity shall be one year. To monitor performance and risk in the portfolio, the benchmarks for the portfolio will be the Merrill Lynch one-year Treasury Index and the one-year Treasury Bill for the comparable time period.

The strategy for the *bond proceeds portfolio* is to invest bond proceeds pro-actively to the anticipated expenditure schedule of the bonds as updated from time-to-time. Because most bond proceeds are expended within three years of issuance, the maximum maturity for investment of the funds will be three years and the maximum dollar-weighted average maturity of the portfolio will not exceed eighteen months.

The Merrill Lynch one-year Treasury Index, the one-year Treasury Bill and the two-year Treasury Note will be used for the performance and risk measurement benchmarks.

The strategy for the *core portfolio(s)* is to pro-actively manage the funds and achieve a reasonable yield within the risk constraints of the portfolio. The funds may be actively traded which may anticipate unrealized losses but realized losses/gains are to be minimized. The maximum maturity for the core portfolio(s) will be five years and the maximum dollar-weighted average maturity of the portfolio(s) will not exceed three years. The performance and risk benchmark for the portfolio(s) will be the Merrill Lynch 1-3 Year Treasury Index and the five-year Treasury Note.

The strategy for the General Agency Reserve Fund System (GARFS) is to pro-actively manage these reserves for loans made on business development. Portfolio structure will take into account anticipated needs. The funds may be actively traded with the maximum stated maturity of five (5) years and a maximum weighted average maturity of three (3) years. The performance and risk benchmark for the portfolio will be the Merrill Lynch 1-3 Year Treasury Index and the five-year Treasury Note.

V. Authorized Investments

Assets of the City shall only be invested in the following securities as authorized by Minnesota Statute Chapter 118A and further defined/restricted by this Policy.

1. Obligations of the U.S. Government, its agencies and instrumentalities, Government-Sponsored Enterprises (GSEs) including mortgage-backed securities with a maximum stated maturity of five years. Collateralized mortgage-backed securities must pass the *bank test*.
2. US Government obligations that carry the full faith and credit guarantee of the United States with a maximum stated maturity of five years.
3. Debt obligations of any US state or governmental entity with a maximum stated maturity of three years. General debt obligations shall be rated A or better and revenue obligations rated AA or better by a nationally recognized bond rating organization.
4. AAA-rated, SEC registered money market mutual funds which strive to maintain a $1 net asset value.
5. Repurchase Agreements with a defined termination date, transacted with a primary dealer, and under an executed Bond Market Master Repurchase Agreement, requiring 102% collateral as authorized by Minnesota Statutes, Section 118A.04 and this Policy. The transaction must be defined as a buy-sell transaction.
6. A1/P1 or equivalent commercial Paper rated by two nationally recognized statistical rating organizations, not to exceed 180 days to stated maturity.
7. FDIC insured or collateralized depository certificates of deposits.
8. FDIC insured brokered certificate of deposit securities from a bank in any US state, delivery versus payment to the City's safekeeping agent, not to exceed one year to maturity. Before purchase, the FDIC status of the bank (www.fdic.gov) must be verified.
9. Prime bankers acceptances not to exceed 180 days to stated maturity.
10. Reverse repurchase agreements with primary dealers not to exceed ninety days with reinvestment of proceeds matched to the reverse's maturity. Reverse repurchase agreements will be under an executed Bond Market Master Repurchase Agreement assuring a 102% collateral margin and independent safekeeping.
11. Securities lending agreements[1] with a primary dealer or bank in Minnesota with collateral defined by state law and this Policy.
12. Minnesota joint powers investment trusts as defined by Minnesota Statute, Section 118.04, Subd. 4 (1) and striving to maintain a $1 net asset value.
13. Interest bearing demand accounts in Minnesota banks.

---

[1] Securities lending is a fully collateralized transaction which allows the City to maintain ownership of its securities while 'lending' them to primary dealers to cover short positions. The transaction uses an independent third-party custodian and 102% margins on all transactions.

VI. Standards of Care

The standard of care to be used by all City investment officials, or their agents, shall be the "prudent person rule" and shall be applied in the context of managing an overall portfolio. The "prudent person rule" states that, "*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*."

External SEC-registered investment managers contracted by the City are held to the "Prudent Expert Standard" which considers an anticipated level of required expertise and experience.

VII. Delegation of Authority and Responsibility

CFO and Treasury Director

Authority to manage the investment program is granted to the CFO by the City Council and the Minneapolis, Minnesota, Code of Ordinances, Title 2 – Administration Chapter 17.50 and 17.60. The CFO has further delegated the responsibility for the daily operations of the investment program to the Treasury Director. The CFO and the Treasury Director shall retain fiduciary responsibility for the portfolio(s). The CFO shall receive monthly and quarterly reports, and ongoing updates on the portfolio as deemed necessary.

Investment Officer

The Treasury Director shall assume the duties of the primary Investment Officer (IO) and act in accordance with this Policy and the established written Internal Controls and Procedures for Investments.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this Policy and City supporting procedures.

The Treasury Director and the Investment Compliance Administrator shall obtain a minimum of four hours of investment training from CFO approved sources every two years.

The Investment Officer and Treasury staff involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officers shall disclose any material interests in financial institutions with which they conduct business to the CFO. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the City.

City Council Responsibilities

The City Council retains ultimate fiduciary responsibility for the portfolio. It will receive and review quarterly reports and review and adopt the Investment Policy at least every three years.

Investment Managers

The City may utilize SEC registered investment advisory/management firms (External Investment Managers) to invest segments of the portfolio. Managers shall be selected through an RFP process at least every five years. The External Investment Managers will operate within the constraints of this Investment Policy and an executed Investment Management Agreement (IMA).

The External Investment Managers shall have discretion over the assigned segment of the portfolio. The Operating and bond proceeds portfolios however may be managed on a non-discretionary basis to assure that cash flow changes are recognized. All Investment Managers shall purchase and sell investment securities on a competitive basis and in accordance with Minnesota Statute 118A, this Investment Policy and the IMA. Investment Managers may be assigned differing strategies, constraints and assets to manage at the discretion of the CFO and the Treasury Director. External Investment Managers must be registered under the Investment Advisers Act of 1940 and be licensed and registered to do business in Minnesota and registered as an investment advisor through IARD[2] in Minnesota.

Independent Investment Consultant

The City may utilize the services of independent investment consultant(s) to assist the City in the management, oversight and evaluation of the investment portfolio. The City can use the consultant(s) to monitor the activities of the External Investment Managers and to provide investment reports on the portfolio in addition to the Manager's reports. The services required of the consultant(s) are detailed in the agreements between the City and the consultant(s).

VIII. Financial Counter-parties

1. Security Broker/Dealers

The City and its Investment Managers may purchase securities directly only through FINRA registered security broker/dealers or purchase time and demand deposits through financial institutions.

The Treasury Director shall receive and authorize a listing of broker/dealer firms to be used from each Investment Managers. Each authorized broker/dealer used must provide certification of the City Policy's review annually in accordance with State law (maintained by the Investment Manager). Such firms shall be authorized to provide investment services in the State of Minnesota. These may include "primary[3]" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). All broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasury Director with:

- a Notice to Broker and Policy Certification by Broker pursuant to Minnesota Statutes 118A.04, Subd. 9,
- (if brokers) Financial Industry Regulatory Authority (FINRA[4]) certification and CRD number, and
- an annual audited financial statement.

Each financial institution and broker must be provided a copy of the City's current Investment Policy and certify to a review of the Policy stating that the firm has controls in place to assure only Policy approved investments will be sold to the City through its managers in accordance with Minnesota statutes.
Eligible Investment Managers must obtain and retain the same documents from broker/dealers for City accounts.

The list of all authorized firms/broker/dealers will be reviewed at least annually by the Treasury Director and CFO along with a summary review of the transactions completed with each firm. Eligible Investment Managers must note the firm on each transaction document.

In order to perfect the delivery versus payment (DVP) settlement process required the Custodian (or safekeeping agent) including its brokerage subsidiary, will not be used as a broker/dealer.

---

[2] All institutional investment advisers are registered and regulated by the SEC Securities and Exchange Commission. The IARD (Investment Adviser Registration Depository) is an online system for advisers and investors who want to check the registrations and history on advisers. The State of Minnesota uses the IARD/SEC registration for its own registration requirements so that both stay in step on current information. All advisory information is updated annually.

[3] "Primary" dealers are designated and regulated by the Federal Reserve of NY.

[4] FINRA is the self-regulatory national organization for broker/dealers. All registration and certification information is kept in their Central Registration Depository (CRD) which is available online to all investors.

2. Eligible Depositories
Pursuant to Minnesota Statues, Section 118A.02, the City Council shall designate one or more depositories eligible to receive city funds. A depository must be a member of the Federal Deposit Insurance Corporation and shall collateralize all time and demand deposits daily in excess of FDIC coverage to 110% in accordance with Minnesota Statutes (Section 118A.03 as amended).

3. Custodian (Safekeeping) Bank[5]
The City may select a Custodian for custody of City owned securities through a competitive process at least every five years. The Custodian may be the City's banking services bank. All of the City's investments shall be held and designated for the City. The Custodian will create a safe-keeping account and a money market mutual fund account for each Investment Manager and funds assigned to the Investment Manager are transferred through the money market fund(s) at the City's direction.

The Custodian or safekeeping agent shall clear all security trades on a delivery versus payment (DVP) basis into the appropriate account.

IX. Safekeeping and Custody

1. Delivery vs. Payment
All security trades, made by the City or its Investment Managers, shall be executed (cleared and settled) on a delivery vs. payment (DVP) basis[6] to ensure City control at all times. The designated banking services depository may be used as the City safekeeping agent (custodian) for all securities to eliminate unnecessary transfers and possible delays in execution. The City will retain control of its funds and its assets at all times.

The safekeeping agent will provide a safekeeping receipt for each City owned security and a monthly descriptive report of all City holdings. The safekeeping agent shall annually provide a copy of its most recent report on internal controls to the Treasury Director. These Service Organization Control Reports shall be prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16.

2. Custody of Pledged Collateral
An independent, third-party custodian for collateral pledged to the City for all time and demand deposits may be designated by the pledging bank and approved by the Treasury Director. Collateral for deposits will be pledged to the City as evidenced by safekeeping receipts from the institution with which the collateral is deposited. The Custodial bank will be outside the holding company of the pledging bank. Original safekeeping receipts shall be obtained in a timely manner and monthly reports of the collateral received monthly from the Custodian.

X. Collateralization

Full collateralization will be required on all time and demand deposits in accordance with Minnesota Statutes, Section 118A.03.

---

[5] A Custodian has specific fiduciary responsibilities. A safekeeping agent holds securities and clears securities for safekeeping.

[6] Delivery versus payment settlement requires that no City funds are released until the authorized security has been received by the safekeeping agent.

Acceptable collateral for all time and demand deposits which is pledged to the City shall be:

- margined to 110% of deposited funds plus accrued interest (Minnesota Statutes Section 118A.03, Subd. 3).
- marked-to-market at least weekly,
- held by an independent institution outside the holding company of the pledging institution, approved by the City, and
- include only:
  - obligations of the U.S. Government, its agencies and Government-Sponsored Enterprises (GSEs), including mortgage backed securities and collateralized mortgage-backed securities which pass the *bank test* as defined by the Federal Reserve, and
  - obligations of any state, city, county or authority rated at least AA by two nationally recognized statistical rating organizations.

Acceptable collateral which is **owned** by the City under a repurchase agreement shall be:

- margined at 102%
- marked-to-market daily by the custodian,
- held by an independent financial institution outside the holding company of the counter-party and approved by the City, and
- include only:
  - obligations of the U.S. Government, its agencies and GSEs, including mortgage backed securities and collateralized mortgage-backed securities which pass the *bank test* as defined by the Federal Reserve, and
  - obligations of any state, city, county or authority rated at least A by two nationally recognized statistical rating organizations.

XI. Internal Controls

The CFO and Treasury Director are responsible for establishing and maintaining the internal control structure to ensure that the cash and investments of the City are protected from loss, theft or misuse. Specific controls and procedures are documented in the City's Internal Controls and Procedures for Investments which shall be reviewed and updated at least biannually by the Treasury Director and approved by the CFO.

Internal controls shall be designed to provide reasonable assurance that policy objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and recognizes the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum:

- Control of collusion
- Separation of transaction authority and transactions
- Custody and safekeeping
- Clear delegation of authority
- Documentation of all transactions
- Dual authorizations of wire transactions and transfers
- Staff training and,
- Review, maintenance and monitoring of security procedures both manual and automated.

The internal controls may be reviewed by the internal auditor and the external auditor as designated by the CFO.

Downgrades:
Credit ratings on all securities shall be monitored on no less than a weekly basis by the Investment Manager. If the required credit rating of a security owned by the City is downgraded below the minimum rating level required by the State or Policy, the Investment Manager shall immediately inform the Treasury Director of the downgrade action and within three days provide an evaluation of the action to be taken based on the conditions affecting the rating, possible loss of principal, and liquidation options available. The Investment Manager, with the Treasury Director, will apply the general objectives of safety, liquidity, yield and legality to make a decision on possible liquidation.

Monitoring FDIC Status
External Investment Managers holding brokered CDs shall monitor, on no less than a weekly basis, the status and ownership of all banks issuing brokered CDs owned by the City based upon information from the FDIC. If any bank has been acquired or merged with another bank in which brokered CDs are also owned, the Manager shall immediately liquidate any brokered CD which places the City above the FDIC insurance level.

XII. Reporting

The City's Investment Managers shall provide the City and its Custodian monthly reports on their managed portfolios. The reports are prepared in accordance with the City's specifications, communicated to the Managers in writing, and are available in the month following the reporting period, on a date agreed to by the City and its Managers.

The City's Custodian shall submit a monthly investment report for each Investment Manager as well as for the internally managed Operating account. In addition, the Custodian shall provide a combined report of all Investment Managers and the Operating account, to the Treasury Director in the month following the reporting period, on a date agreed to by the City and the Custodian. The reports shall be prepared in accordance with the City's specifications and communicated to the Custodian in writing.

Periodically, the Treasury Director shall present to the CFO and the Ways and Means Committee of the City Council a comprehensive cash and investments report, including all funds on deposit in the banking services bank, and any compensating balances. The report will mark the portfolio to market and contain a brief summary of current economic conditions affecting the portfolio.

Policy Adopted: ____________________________, 2014.