



JUNE 19, 2013

STATEMENT OF INVESTMENT POLICIES

I. Governing Authority

The investment of City of Milwaukee pooled funds shall be operated in conformance with all federal, state, and other legal requirements including, but not limited to, Chapter 34 of the Wisconsin State Statutes, as well as Section 66.0603 of the Wisconsin State Statutes, and Section 304-6 of the Milwaukee Code of Ordinances.

II. Purpose

The purpose of this statement of investment policies is to formalize the framework for the City's daily investment activities to include scope, objectives, authority, standards of prudence, authorized institutions, investment types, collateralization, and diversification. The policies are intended to be broad enough to allow the City Treasurer, his or her staff, and/or his or her authorized agents to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard investment assets.

III. Scope

This statement of investment policies applies to all funds defined as "pooled funds" under Section 304-6 of the Milwaukee Code of Ordinances (MCO). "Pooled funds" includes all unrestricted City funds, but excludes debt service, funds in the public debt amortization fund, or any restricted fund. "Pooled funds" includes:

- a. General funds that are not immediately needed to pay for obligations of the City.
- b. Enterprise funds, including funds of the Milwaukee Water Works and Sewer Maintenance Fund.
- c. Proceeds from revenue anticipation note borrowing.
- d. Milwaukee Public Schools operations, construction, and extension funds.
- e. Other unrestricted "pooled funds."

This policy applies only to funds that are not immediately needed to pay City obligations and are, therefore, available for investment, as defined above. Unless prohibited by law or contract, the City may pool cash from several different funds for investment purposes to meet the objectives of the investment program.

IV. Objectives

The following investment objectives will be applied in the investment of City funds:

- a. The primary objective of the City's fund portfolio management is the preservation and protection of investment principal.
- b. By investing public funds, the City will strive to maximize the return on the portfolio, but will avoid assuming unreasonable risk given the aforementioned primary investment objective. The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs.
- c. The investment portfolio will remain sufficiently liquid to enable the City to meet reasonably anticipated day-to-day operating requirements.
- d. Mechanisms to control risk and diversify investments with respect to specific security types and individual security issuers should be utilized.
- e. The City supports investment in local financial institutions to the maximum extent possible, consistent with all other investment objectives.
- f. All investment decisions will be in accordance with Wisconsin State Statute, Section 66.0603, and all other applicable statutes.
- g. Investment managers, advisors, or third parties acting on behalf of the City shall adhere to these investment policies. A copy of these investment policies shall be provided to all employees and agents of the City responsible for making or influencing investment decisions. A copy of these investment policies shall be included in all future new or renewal contracts with third-party vendors.

V. Standards of Care

A. Authority

Authority to manage the pooled cash investment program is granted to the City Treasurer under Section 304-6 of the Milwaukee Code of Ordinances (MCO).

B. Prudence

Investment of City funds shall be made with the same judgment and care that persons of reasonable prudence, discretion, and intelligence would exercise in the management of their own affairs, under similar circumstances, not for speculation, but for investment, considering the stated investment guidelines, the probable income to be derived, optimal diversification, and the duration of the portfolio as a whole.

C. Ethics and Conflicts of Interest

City and investment manager employees involved in the investment process shall refrain from personal business activity that could create an actual conflict or the appearance of a conflict of interest related to the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

City and investment manager employees shall refrain from undertaking personal investment transactions with the same individual(s) with whom business is conducted on behalf of the City.

VI. Authorized Instruments

The City may purchase investment securities, at prevailing market rates, and appropriate amounts thereof, in securities allowed by Wisconsin State Statute, Section 66.0603.

VII. Portfolio Structuring

To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. At no time shall the City invest in any security whose maturity date exceeds that allowed by Wisconsin State Statute or these investment policies. For adjustable rate securities, the time to coupon reset shall be used as the effective maturity date. For securitized investment instruments, the average duration shall be used to determine the effective maturity date.

VIII. Diversification and Collateralization

Pooled cash investment portfolio assets held shall be diversified to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument and/or class of instrument(s), and dealers through whom securities are bought and sold. Total holdings of any one issuer may not exceed 5% of the market value of the portfolio at the time of purchase, with the exception of U.S. Government securities and those of U.S. Government Agencies fully guaranteed as to both principal and interest by the U.S. Government, money market mutual funds, and the Wisconsin Local Government Investment Pool. Investment in Certificates of Time Deposit at any one public depository institution shall be limited to an amount not to exceed the total equity capital or net worth of the institution.

All investments and deposits will be made in accordance with Wisconsin State Statutes Chapter 34 and Section 66.0603 and as further restricted by this Investment Policy Statement.

Permitted investments are:

- a. Certificates of time deposit that mature in three years or less in any credit union, bank, savings bank, trust company, or savings and loan association which is authorized to transact business in the State of Wisconsin. Participation in the Certificate of Deposit Account Registry Service (CDARS) program is limited to a maximum of 10% of the total investment portfolio.
- b. Bonds or securities issued or directly guaranteed as to principal and interest by the federal government or an instrumentality of the federal government that mature in ten years or less.
- c. Bonds or securities issued or directly guaranteed as to principal and interest by the State of Wisconsin or one of its local governmental units that mature in ten years or less.
- d. The State of Wisconsin Local Government Investment Pool (LGIP).
- e. Any corporate or governmental security, including commercial paper, with an AA, A-1, or P-1 rating or higher from one or more nationally recognized statistical rating organizations (NRSROs).
- f. Repurchase agreements with public depository institutions only and where specific and appropriate collateral is provided, or whose underlying securities consist of U.S. Treasury obligations or U.S. Government agency or instrumentality obligations.
- g. No-load money market mutual funds whose investments are limited to those meeting the above criteria in compliance with Wisconsin State Statutes.

Direct investment in public depository institutions and securities will be further limited to a maximum investment, per institution at any one time, of the limit of deposit insurance provided by the Federal Deposit Insurance Corporation, plus that provided by the State of Wisconsin pursuant to State Statute 34.08 (2), unless an acceptable form of collateral, surety, or other guaranty exists assuring principal repayment to the City.

The City Treasurer is authorized to execute Collateral Pledge and Bailment Agreements with qualified public depository institutions upon review of the agreements by the City Attorney. It is preferred that, whenever feasible, the Federal Reserve Bank serve as the third-party custodian for pledged collateral.

A letter of credit issued by the Federal Home Loan Bank is a suitable instrument to insure the City's public deposits at a financial institution. Any such letter of credit shall be reviewed by the City Attorney prior to the investment of funds.

IX. Safekeeping and Custody

Trades of marketable securities will be executed by delivery versus payment to assure that securities are deposited in a qualified public depository financial institution prior to the release of funds. All securities purchased shall be properly designated as an asset of the City and held in safekeeping by a third-party custodial bank or other third-party custodial institution, chartered by the United States Government and the State of Wisconsin and no withdrawal of such securities, in whole or in part, shall be made from safekeeping except by the City Treasurer or his or her designees. It is preferred that, whenever feasible, the Federal Reserve Bank serve as the third-party custodian for pledged collateral.

X. Authorized Financial Institutions to Serve as Public Depositories

The City Treasurer will maintain a list of financial institutions located within the State of Wisconsin to serve as public depositories authorized to provide investment and depository services for the City. The City Treasurer shall qualify institutions by applying generally accepted industry standards which include, but are not limited to, capital requirements, asset quality, earnings, liquidity, management, and local community development using available public information. The City Treasurer will also maintain a list of qualified security broker / dealers located within the State of Wisconsin with which the City may conduct business.

All financial institutions that desire to become qualified for City investment and depository transactions must supply the following:

- a. Audited financial statements;
- b. Proof of state registration;
- c. Evidence of adequate and appropriate insurance coverage; and
- d. Certification of having read and understood and agreeing to comply with the City of Milwaukee's investment policy.

An annual review of the financial condition and qualifications of eligible financial institutions and depositories will be conducted by the City Treasurer.

XI. Socially Responsible Investment Program

The City Treasurer shall make every effort to invest and deposit city funds with community financial institutions. Community financial institutions shall be defined as institutions that have total assets of less than \$1 billion and / or institutions whose corporate headquarters are located within the City limits.

XII. Performance Standards

City pooled funds under the custody of an investment manager shall be reviewed against a benchmark that is mutually agreed upon by the investment manager and City Treasurer as a means of performance and risk management. Short term pooled funds shall be benchmarked against the average return of the State of Wisconsin's Local Government Investment Pool (LGIP).

XIII. Reporting and Review

The City Treasurer shall prepare a report annually for the Finance and Personnel Committee of the Milwaukee Common Council no later than April 30 of each year. The report shall contain:

- a. A list of authorized public depositories.
- b. A list of authorized security broker / dealers.
- c. Actual year-to-date investment performance metrics, which are to reflect all investment manager fees incurred, as well as the costs incurred by the City Comptroller to issue commercial paper to maintain adequate cash liquidity, assuring true net investment income results are reported.
- d. A listing of individual securities and information on the percentage of the total portfolio that each type of investment represents.

XIV. Internal Controls

The City Treasurer and the investment manager shall maintain a system of internal controls, which shall be subject to review by the Comptroller or the City's independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by City or investment manager employees.

XV. Exemptions and Amendments

A. Exemptions

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. However, at maturity or liquidation, such monies shall be reinvested only as provided by this policy.

B. Amendments

Any changes to this policy must be approved by the Milwaukee Common Council.