

CITY OF CLOVIS INVESTMENT POLICY

Purpose

This statement is intended to establish the policies for prudent investment of the City's funds, and to provide guidelines for the management of the City's investment portfolio.

The policy of the City of Clovis is to invest public funds not required for day to day operations in safe and liquid investments that conform to state statutes governing the investment of public funds. The investment policies and practices of the City of Clovis are based upon Federal, State and local law and prudent money management. This is to include an appropriate set of goals and objectives for the assets and to establish criteria for measurement and a set of guidelines that can be used over the next three to five year period.

I. Scope

Pooling of Funds: Except for cash in restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment costs, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation in the City's investment pool. The City's Comprehensive Annual Financial Report identifies the fund types included in the City's investment pool as follows:

- General Fund
- Special Revenue Fund
- Capital Projects Fund
- Enterprise Funds
- Internal Service funds
- Fiduciary and Agency Funds
- New funds created by the City Council that are not exempted.

The investment policy applies to all financial assets and investments of the City with the following exceptions:

1. Bond Proceeds - All debt issue proceeds will be invested in accordance with the investment policy unless the debt issue rules and guidelines further restrict the investments.
2. Deferred Compensation Plans – Investments related to the City's deferred compensation plans are not subject to this policy since they are managed by third party administrators via individual plan participant's direct investments in the plans investment selections.

II. Investment Philosophy

The City of Clovis is to invest public funds in a manner which will provide the highest investment return with the maximum security (prudent person rule) while maintaining sufficient liquidity to provide a source for anticipated payment outflows. In performing this function the city is to conform to all state and local statutes governing the investment of public funds.

III. Objectives

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The City's investment philosophy sets the manner for its policies, procedures and objectives that control the investment function. The investment of funds will be guided by the primary objectives of safety, liquidity and yield.

1. **Safety:** Safety of principal is the primary objective of the investment policy. Investments will be made in a manner that ensures the preservation of principal in the portfolio. To help obtain this objective the city will diversify its investments by investing funds among independent financial institutions offering various securities with independent returns.
2. **Liquidity:** The City will maintain sufficient cash and short-term investments which, when combined with anticipated revenues, will provide sufficient liquidity to be able to meet all anticipated payment outflows including reasonably estimated contingencies.
3. **Yield –** The City's investment portfolio will be designed with the objective to attain a benchmark rate of return throughout various market cycles corresponding to the City's investment risk and cash flow requirements. The portfolio shall be invested in a manner consistent with primary emphasis on preservation of the principal, while attaining a rate of return consistent with this process. This policy specifically prohibits trading of securities for the sole purpose of realizing trading profits and trading of "when, as, and if issued".

IV. Specific Investment Goals

1. Invest assets with an expectation of achieving a total rate of return at a level that exceeds the rate of return on short-term government guaranteed or insured obligations (91-day Treasury bills) in every measurement period and which, over a one-year period, exceeds that rate by at least 20% annually.
2. The portfolio shall be invested in a manner consistent with primary emphasis on preservation of the principal, while attaining a market rate of return consistent with this strategy. This policy specifically prohibits trading of securities for the sole purpose of realizing trading profits and trading of "when, as, and if issued";

V. Delegation of Authority

1. The City of Clovis Municipal Code designates the Finance Director/Treasurer to invest the City's funds. The Finance Director/Treasurer serves as the City's chief investment officer and is authorized to invest or deposit the City's funds in accordance with this policy, California Government Code Sections 53600 and 53630 et seq. and any other related Federal and State laws. The Finance Director/Treasurer may appoint or designate the Assistant Finance Director or Deputy Finance Director to invest the City's funds.
2. The City Council's primary responsibility over the investments function include approving the investment policy and any subsequent changes in the investment policy, annually reviewing the investment policy, reviewing monthly investment reports, authorizing bond documents and other financing transactions.
3. The Finance Director/Treasurer is responsible to establish written investment policy procedures consistent with the investment policy.

VI. Ethics and Conflicts of Interest

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Officers, employees and agents involved in the investment process for the City of Clovis shall refrain from personal business activities that could conflict with the proper execution of the investment program or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City of Clovis City Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City of Clovis' investment portfolio.

VII. Authorized Financial Dealers and Institutions

1. The Finance Director/Treasurer will have access to a list of financial institutions that are authorized to provide investment services in the State of California.
2. The Finance Director/Treasurer will maintain a list of up to three broker/dealers approved and authorized to provide investment services to the City for the purchase of agencies and three separate broker/dealers for the purchase of certificates of deposit. This approval will include credit worthiness and verification that they are authorized to provide investment services in the State of California. The City has discretion which of the three broker/dealers it will use when purchasing agencies and certificates of deposit. Broker/dealers not on this list will not be able to conduct business with the City of Clovis.
3. No public deposit shall be made except in a qualified public depository as established by state laws.
4. An annual review of the financial condition and registrations of qualified financial dealers and institutions will be conducted by the Finance Director/Treasurer. Current audited financial statements are required to be on file for each financial institution and broker/dealer in which the City of Clovis invests.

VIII. Authorized and Suitable Investments

Consistent with the guidelines described herein and Section 53601 AND 53601.6 of the Government Code of the State of California, the use of fixed income investments may include U.S. Government and agency obligations, marketable corporate bonds, debentures, medium term notes, commercial paper, certificates of deposit, repurchase agreements, qualified mutual funds, deposits with the California Local Agency Investment Fund, and money market accounts.

It is the intent at this time to invest only in U.S. Government and agency obligations, medium term notes, commercial paper, certificates of deposit, repurchase agreements, deposits with the California Local Agency Investment Fund, and money market accounts in conformance with the guidelines and reporting requirements of this policy. Any investment not in conformance with this intent, but otherwise allowed by section 53601 of the Government code of the State of California, shall require approval of the City Manager, and shall be reported to the City Council.

If corporate bonds are approved for purchase or held, they shall be of quality rating A or higher as used by Standard & Poor's and Moody's.

Fixed income-type securities are to be selected and managed so as to assure appropriate balances in qualities and maturities consistent with current money market and economic conditions. "Active" bond management is not encouraged.

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If the total portfolio investments and the par value of securities anticipated to mature within the portfolio exceeds the amount that would be required to meet anticipated payment outflows for the next six (6) months, the Finance Director may, consistent with the guidelines contained herein, invest in fixed income securities maturing in three (3) years or less. Any investment beyond three (3) years, including medium term notes, requires approval of the City Manager.

Specific types of securities that are deemed to be eligible for inclusion among the Account's assets are:

1. Any instrument issued by, guaranteed by, or insured by the United States of America, the Federal Reserve System, and the U.S. Treasury, the Federal Home Loan Bank or the Federal Farm Credit Bank or other agency as specified by Section 53601 of the Government Code.
2. Any instrument (Bankers' Acceptances) issued by a domestic or international bank with an equivalent rating of "AA" or higher, or any instrument issued by any bank headquartered in California with an equivalent rating of "A" or higher. Bankers' Acceptances may not exceed 180 days maturity, or 30% of the City's funds available for investment.
3. Any commercial paper issued by a domestic corporation rated "prime" by the National Credit Office or with a quality rating A1 or P1. Commercial paper may not exceed 270 days' maturity, or 15% of the City's funds available for investment.
4. Deposits with the California Local Agency Investment Fund.
5. The City's commercial account must be maintained in any one of the two hundred (200) largest domestic banks or savings and loan associations, provided, however, that the aggregate of deposits in any one such bank or savings and loan shall not exceed the maximum coverage provided by the Federal Deposit Insurance Corporation (FDIC) and/or Federal Savings and Loan Insurance Corporation unless the excess amount is collateralized by the bank.
6. Funds deposited in a money market account or other similar account in the bank with which the City has its commercial account or in any one of the two hundred (200) largest domestic or savings and loan associations is allowed up to \$10,000,000 for indefinite periods for cash flow purposes. This is allowed whenever funds are secured (collateralized) and yield a higher rate of interest than the Local Agency Investment Fund.
7. As provided by Section 53648 of the California Government Code, Certificates of Deposits in any institution covered by the Federal Deposit Insurance Corporation and/or the Federal Savings and Loan Insurance Corporation, provided that the aggregate of deposits in any one institution shall not exceed the maximum coverage provided by the Federal Deposit Insurance Corporation and/or the Federal Savings and Loan Insurance Corporation. Such CDs may not exceed 30% of the City's funds available for investment and may not exceed three (3) years in length.
8. Shares of mutual fund companies who are Registered Investment Advisors, or investments placed with other Registered Investment Advisors, with at least five years' experience and \$500 million of assets under management. The mutual funds used shall be restricted to those with constant net asset values, that is, the principal value shall not fluctuate (e.g. money market funds). The purchase price of such shares shall exclude commissions, and the total invested in this asset class shall not exceed \$2,000,000.

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9. Medium-term notes of a maximum of five years maturity issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Notes eligible for investment under this subdivision shall be rated in a rating category of "A" or its equivalent or better by a nationally recognized rating service. Purchases of medium-term notes may not exceed 30% of the agency's surplus money, which may be invested pursuant to this section.

Specific types of securities that are deemed to be ineligible for inclusion among the Account's assets are:

1. Equity-type investments (i.e., common stocks, convertible issues, equity mutual funds).
2. Common and/or preferred stock, as well as lettered, legend or other so-called restricted stock.
3. Privately placed or other nonmarketable debt.
4. Covered call options.
5. Investments in commodities, commodity contracts or futures contracts of any kind, margin transactions, short sales, or real estate and real property.
6. Reverse repurchase agreements.
7. Mortgage-backed securities of any type.
8. The portfolio shall not hold any unsecured investments.

IX. Review of Investment Portfolio - Standards of Investment Performance

The securities held by the City of Clovis must be in compliance with Government Code Section 53601 at the time of purchase. Since some securities may not comply with this section at the time of purchase, a quarterly review by the Finance Director/Treasurer or their designee shall be made to verify that the securities continue to comply with this section. Any non-compliance issues must be included in the monthly investment report to the City Council with a recommendation for correction or a note that a correction has been made. Consideration will be given to the extent to which these performance results are consistent with the goals and objectives as set forth. Toward that end, the following standards of performance will be used in evaluating investment performance:

1. The extent to which the Finance Director follows the guidelines as expressed within the Investment Policies.
2. The extent to which the performance of the Account on a total rate of return basis achieves or exceeds the targeted goals.

X. Basis for Measurement

Performance of the Account is to be measured in context with these goals and objectives.

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The Account's investment performance results will be compared, on a time-weighted basis, with that of an unmanaged market index of 91-days Treasury bills over a one-year period.

The Account's consistency of performance results will be determined by computing the mean absolute deviation of the Account's total rate of return from month to month and comparing this with the same statistics measured for the unmanaged market index described above.

X1. Investment Pools

County pools are not approved for investment.

XII. Collateralization

Investments in certificates of deposit shall be fully insured by the Federal Deposit Insurance Corporation (FDIC). Investments in certificates of deposit in excess of FDIC insurance shall be Properly collateralized. Section 53652 of the California Government Code requires the depository pledge securities with a market value of at least ten percent in excess of the deposit as collateral in government securities. The Finance Director/Treasurer is responsible for entering into deposit contracts with each depository.

XIII. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements entered into by the City of Clovis shall be conducted on a delivery-verses-payment (DVP) basis. DVP is a settlement system that stipulates that cash payment must be made prior to or simultaneously with the delivery of the security. Securities will be held by a third party custodian designated by the Finance Director/Treasurer and evidenced by safekeeping receipts and monthly statements. Negotiable Certificates of Deposit will be maintained by a third party custodian. Certificates of deposits purchased directly from banks shall be retained in a secure location in the city vault until maturity.

XIV. Diversification

The City of Clovis will diversify its investments by security type and institution. With the exception of U. S. Treasury securities and authorized pools, no more than 30% of the investment portfolio will be invested in a single security type or with a single financial institution.

COMMUNICATIONS

1. Documentation

Statements are to be supplied monthly by the Finance Director to the City Manager and City Council, indicating:

- a. The Account composition, i.e., at "book" or cost and at market value.
- b. Position, by individually named securities, showing both their respective book and market values.
- c. All principal cash transactions, including all buys and sells, in sufficient descriptive detail. (Note: The Finance Director shall maintain and make available documentation in support of the buy, sell and hold decisions.)

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- d. All income cash transactions, including sources of all interest and dividends, in sufficient descriptive detail.

2. Reporting

The Finance Director will report monthly to the City Council to review the portfolio and to discuss investment results in context with these goals, objectives and policies.

IMPLEMENTATION

All new monies invested by the Finance Director after the adoption of this Investment Policy shall conform to this policy.

OTHER CONSIDERATIONS

It is the intent of the City Council to revise this statement of goals and objectives to reflect modifications and revisions to anticipated payment outflows that may develop from time to time. It is also the policy of the City Council to review these goals and objectives at least once per year and, after consideration of the advice and recommendations of the City Manager, adopt such amendments as may be appropriate.

Amended: September 8, 2015