COUNTY OF BOONE – MISSOURI

INVESTMENT POLICY

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I. Scope

The purpose of the Investment Policy (the "Policy") adopted by the County of Boone, Missouri (the "County") is to guide investment decisions for the County's investment portfolio managed by the County Treasurer within statutory and legal requirements. This Policy applies to the investment of all operating and long-term funds of the County and entities entering into an investment agreement with the County. Longer-term funds, including investments of employees' retirement funds and certain debt service funds, are covered by separate policies. The Constitution and Laws of the State of Missouri authorize the County Treasurer to invest monies not needed for daily operations of the County. The County Treasurer shall manage the Policy and it shall be reviewed on an annual basis, with any modifications made to the Policy approved by the County Commission.

1. Pooling of Funds
Except for cash in certain restricted and special funds, the County will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with the generally accepted accounting principles.

2. External Management of Funds
Investment through external programs, facilities and professionals operating in a manner consistent with this Policy will constitute compliance.

II. General Objectives

The primary objectives, in priority order, of investment activities shall be legality, safety, liquidity, and yield:

1. Legality
The County Treasurer will invest the county's excess funds only within the legal guidelines set forth by the Constitution and Laws of the State of Missouri. Any investment alternative outside these parameters is not permissible.

2. 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 in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

- **Credit Risk:** The County will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

    - Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the County will do business.
    - Diversifying the portfolio so that potential losses on individual securities will be minimized.

- **Interest Rate Risk:** The County will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

  - Structuring the investment portfolio 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.
  - Investing operating funds primarily in shorter- term securities.

3. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in bank deposits or repurchased agreements that offer same-day liquidity for short-term funds.

4. Yield

The investment portfolio shall be designed with the objectives of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

III. Standards of Care

1. Prudence

All participants in the investment process shall act responsibly as custodians of the public trust. The standard of prudence to be applied by those with investment authority is the "prudent investor" rule, which states, "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." Employees and investment officials acting in accordance with written procedures and this Policy and exercising due diligence shall be relieved of personal liability 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.

2. Ethics and Conflicts of Interest

Employees and officials 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. Employees and investment officials shall disclose any material interests in financial institutions in which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officials shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the County.

3. Delegation of Authority

Authority to manage the investment program is granted to the County Treasurer, and/or staff authorized by the County Treasurer, hereinafter referred to as investment official and derived from RSMo 110.270. Responsibility for the operation of the investment program is hereby delegated to the investment official, who shall act in accordance with the established procedures and internal controls for the operation of the investment program consistent with this Policy. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the investment official. The investment official shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of employees involved in the investment process.

IV. Investment Transactions

1. Authorized Financial Dealers and Institutions

A list will be maintained of financial institutions authorized to provide investment transactions. In addition, a list also will be maintained of approved security brokers/ dealers selected by creditworthiness as determined by the investment official. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as requested:

- Audited financial statements.
- Proof of National Association of Securities (NASD) certification
- Certification of having read and understood and agreeing to comply with the County's Policy.

2. Internal Controls

The investment official is responsible for establishing and maintaining internal control structure that will be reviewed annually with the County's independent auditor. The internal control structure shall be designed to ensure the assets of the County are protected from loss, theft, and misuse and to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognized that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management. Controls deemed most important include: separation of duties, separation of transaction authority from accounting and record keeping, clear delegation of authority, written confirmation of all transactions, minimizing the number of authorized investment officials, avoidance of physical delivery of securities, and wire, depository, and safekeeping/custodial agreements.

3. Delivery vs. Payment
All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in eligible financial institutions prior to the release of funds. All securities shall be perfected in the name or for the account of the County and shall be held by a third-party custodian as evidenced by safekeeping receipts.

V. Suitable and Authorized Investments

1. Investment Types
In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that the County will consider and which shall be authorized for the investments of funds by the County.

- **Governmental and Agency Debt:** Securities issued by and/or guaranteed by the Federal Government or an agency or instrumentality of the Federal Government:
    - **United States Treasury Securities**. The County may invest in obligations of the United States Government for which the full faith and credit of the United States are pledged for the payment of principal and interest.
    - **United States Agency Securities**. The County may invest in obligations issued or guaranteed by any agency of the United States Government as described in Section V.2.
- **Fixed Income investments secured by FDIC insurance and/or Collateral:**
    - **Repurchase Agreements**. The County may invest in contractual agreements between the County and commercial banks or primary government securities dealers. The purchaser in a repurchase (repo) agreement enters into a contractual agreement to purchase U.S. Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices. Repos are collateralized as dictated by State statute and Section V.4.
    - **Collateralized Public Deposit Accounts.** Instruments, such as certificates

of deposit, or accounts issued by financial institutions which state that specified sums have been deposited for specified periods of time and at specified rates of interest. The deposit accounts are required to be backed by acceptable collateral securities as dictated by State statute and Section V.4.

- **Other Fixed Income Debt issued by Commercial Enterprises:** It should be noted that investments in the following instruments require an additional level of care and prudence when undertaken by the investment official. Because these investments are commercial credits as opposed to governmental credit, or subject to the added safety of collateral, the risk of loss of principal is higher for the following investments than in the four prior categories.

  - **<u>Banker's Acceptances.</u>** Bills of exchange or time drafts on and accepted by a commercial bank, otherwise known as banker's acceptances (BAs). An issuing bank must have received the highest letter and numeral ranking (i.e., A1 / P1) by at least one nationally recognized statistical rating organization (NRSRO). Must be issued by domestic commercial banks. Purchases of BAs may not exceed 180 days to maturity. No more than 5% of the total market value of the portfolio may be invested in the BAs of any one issuer and no more than 30% of the entire portfolio may be invested in BAs.

  - **<u>Commercial Paper.</u>** Commercial paper which has received the highest letter and numeral ranking (i.e., A1 / P1) by at least two NRSROs. Eligible paper is further limited to issuing corporations that have a total commercial paper program size in excess of $250,000,000 and have long term debt ratings, if any, of "A" or better from at least one NRSRO. Purchases of commercial paper may not exceed 180 days to maturity. Approved commercial paper programs should provide some diversification by industry. Additionally, purchases of commercial paper in industry sectors that may from time to time be subject to undue risk and potential illiquidity should be avoided. The only asset-backed commercial paper programs that are eligible for purchase are fully supported programs that provide adequate diversification by asset type (trade receivables, credit card receivables, auto loans, etc.) No securities arbitrage programs or commercial paper issued by Structured Investment Vehicles (SIV's) shall be considered. No more than 5% of the total market value of the portfolio may be invested in the commercial paper of any one issuer. No more than 30% of the entire investment portfolio may be invested in commercial paper.

2. Security Selection

The following list represents the government agency securities that County will consider and which shall be authorized for the investment of funds by the County. Additionally, the following definitions and guidelines should be used in purchasing the instruments:

- **U.S. Government Agency Coupon and Zero Coupon Securities**. Bullet coupon bonds with no embedded options.

- **U.S. Government Agency Discount Notes**. Purchased at a discount with maximum maturities of one (1) year.
- **U.S. Government Agency Callable Securities**. Restricted to securities callable at par only with final maturities of five (5) years.
- **U.S. Government Agency Step-Up Securities**. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed term. Restricted to securities with final maturities of five (5) years.
- **U.S. Government Agency Floating Rate Securities**. The coupon rate floats off one index restricted to coupons with no interim caps that reset at least quarterly.
- **U.S. Government Mortgage Backed Securities**. Restricted to securities with final maturities of five (5) years.

3. Investment Restrictions and Prohibited Transactions

To provide for the safety and liquidity of the County's funds, the investment portfolio will be subject to the following restrictions:

- Borrowing for investment purposes ("leverage") is prohibited.
- Instruments known as variable rate demand notes, inverse floaters, leveraged floaters, and equity-linked securities are not permitted. Investment in any instrument, which is commonly considered a "derivative" instrument (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.
- Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.
- No more than 5% of the total market value of the portfolio may be invested in BAs issued by any one commercial bank and no more than 5% of the total market value of the portfolio may be invested in commercial paper of any one issuer.

4. Collateralization

Collateralization will be required on two types of investments: deposit accounts and repurchase agreements. In order to anticipate market changes and provide a level of security for all funds, the market value (including accrued interest) of the collateral should be at least 102%.

For deposit accounts, the market value of collateral must be at least 100% or greater of the amount of deposit plus demand deposits with the depository, less the amount, if any, which is insured by the Federal Deposit Insurance Corporation, or the National Credit Unions Share Insurance Fund.

All securities, which serve as collateral against the deposits of a depository institution must be safekept at a non-affiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts within five business days from the settlement date.

The County shall have a depositary contract and pledge agreement with each safekeeping bank that will comply with the Financial Institutions, Reform, Recovery, and Enforcement Act of 1989 (FIRREA). This will ensure that the County's security interest in collateral pledge to secure deposits is enforceable against the receiver of a failed financial institution.

The securities for which repurchase agreements will be transacted will be limited to U.S. Treasury and government agency securities that are eligible to be delivered via the Federal Reserve's Fedwire book entry system. Securities will be delivered to the County's designated custodial agent. Funds and securities will be transferred on a delivery vs. payment basis.

VI. Investment Parameters

1. Diversification
The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

- **U.S. treasuries and securities having principal and/or interest guaranteed by the U.S. government**: 100%
- **Collateralized time and demand deposits:** 100%
- **U.S. Government agencies, and government sponsored enterprises**: No more than 60%
- **Collateralized repurchased agreements:** 50%
- **U.S. Government agency callable securities:** No more than 30%
- **Commercial Paper:** No more than 30%
- **Banker's Acceptances:** No more than 30%

2. Maximum Maturities
To the extent possible, the County shall attempt to match its investments with anticipated cash flow requirements. Investments in BAs and commercial paper shall mature and become payable not more than one hundred eighty days (180) from the date of purchases. All other investments shall mature and become payable not more than five (5) years from the date of purchase. The County shall adopt weighted average maturity limitations that should not exceed three (3) years and is consistent with the investment objectives.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as in bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

VII. Reporting

1. Methods

The investment office shall prepare an investment report at least monthly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last month. This management summary will be prepared in a manner that will allow the County to ascertain whether investment activities during the reporting period have conformed to the Policy. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities (in accordance with Government Accounting Standards Board (GASB) 31 requirements).[Note, this is only required annually]
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this Policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks may be established against which portfolio performance shall be compared on a regular basis.

3. Marking to Market

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least annually. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

VIII. Policy Considerations

1. Exemption

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

Appendix I
Glossary of Terms

Agency
A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National Mortgage Association (GNMA) and an example of an FSA is the Federal Mortgage Association (FNMA). Agency bonds do not include those issued by the U.S. Treasury or by municipalities.

Banker's Acceptance (BAs)
A short-term financial instrument that is the unconditional obligation of the accepting bank. BAs arise from transactions involving the import, export, transit, or storage of goods – domestic as well as international transit. For investors, it is important to realize that the underlying transaction that gives rise to a BA is almost completely irrelevant to the credit quality or the liquidity of the instrument. The actual BA is created at a late stage in the underlying transaction when a bank accepts its obligation to pay the holder of the accepted draft. In other words, when the transaction becomes a BA it becomes an unconditional obligation of the accepting bank. From an investor's point of view, a BA is a bank obligation that has at least the same credit strength as any CD issued by the same bank. In fact, BAs are typically stronger than CDs because in addition to the credit strength of a drawer; an endorsing bank, if one is involved in the transaction; and usually by the pledge of documents representing ownership of the trade goods and insurance on the goods. BAs do not, however, carry federal deposit insurance. BAs are considered safe, liquid, short-term money market investments.

Basis Point
In reference to bond yields, 1/100 percent (i.e., 0.01 percent). Thus, 50 basis points equal 0.5 percent.

Bear Market
For fixed-income securities, a period when yields are rising and bond prices are falling.

Broker
A party who brings buyers and sellers together. Brokers do not take ownership of the property being traded. They are compensated by commissions.

Bullet
A noncallable bond. Securities whose cash flows are known with certainty (no call dates).

Call Price
The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk
The risk to a bondholder that a bond may be redeemed prior to maturity.

Callable Bond
A bond that the issuer has the right to redeem prior to maturity. Some callable bonds may be redeemed on one call date while others have multiple call dates. Some callable bonds may be redeemed at par while others can only be redeemed at a premium.

Certificate of Deposit (CD)
A deposit of funds, in a bank or savings and loan association, for a specified term that earns interest at a specified rate or rate formula. They may be for terms as short as 1 week or as long or longer than 10 years.

Commercial Paper
Unsecured, short-term promissory notes issued by corporations for specific amounts and with specific maturity dates. Firms with lower ratings or firms without well-known names usually back their commercial paper with guarantees or bank letters of credit. Commercial paper may be sold on a discount basis or may bear interest. Terms can be as short as 1 day and usually do not exceed 270 days.

Coupon Rate
The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

Custodial Agent
An entity that holds collateral for deposits with financial institutions, investment securities, or securities underlying repurchase agreements.

Delivery vs. Payment (DVP)
The simultaneous exchange of securities and cash. The safest method of settling either the purchase or sale of a security. In a DVP settlement, the funds are wired from the buyer's account and the security is delivered from the seller's account in simultaneous, interdependent wires.

Discount Bond
A bond selling for less than its face value.

GASB 31
Statement No. 31 of the Governmental Accounting Standards Board: Accounting and Financial Reporting for Certain Investments and for External Investment Pools, establishes accounting standards for securities owned by governmental entities.

Government Accounting Standards Board (GASB)
An accounting industry organization; part of the Financial Accounting Foundation. GASB issues statements of accounting standards that define and govern GAAP for state and local government entities in the United States.

Liquidity
A measure of the ease with which an asset can be bought or sold.

Lockout Period
A period of time during which a callable security cannot be redeemed by its issuer.

Mark to Market
The process of restating the carrying value of an asset or liability to equal its current market value.

Market Value
The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

Market Yield
The yield bid for a security when selling, or the yield asked for when buying.

Maturity
The date on which the principal or stated value of an investment becomes due and payable.

Par Value
The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

Premium Bond
A bond that sells for more than its face value.

Principal
The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

Repurchase Agreement (Repo)
A form of secured, short-term borrowing in which a security is sold with a simultaneous agreement to buy it back from the purchaser at a future date. The purchase and sales agreements are simultaneous, but the transactions are not. The sale is a cash transaction while the return purchase is a forward transaction since it occurs at a future date. The seller/borrower pays interest to the buyer at a rate negotiated between the parties. Rates paid on repos are short-term money market interest rates and are completely unrelated to the coupon rate paid on the instrument being purchased.

Safekeeping
An arrangement under which a third party holds securities under safe, controlled conditions. A safekeeping arrangement is evidenced by a safekeeping receipt. Holding of assets (e.g., securities) by a financial institution.

Settlement Date
With respect to the sale of a security, the date on which the money and the security change hands.

Step-up Coupon
A coupon that increases incrementally over the life of the security.

Structure
For a callable agency bond, the formula used to determine the security's coupon. Fixed and step-up are two examples of structure.

Swap
The sale of one or more securities in order to purchase one or more different securities with the proceeds from the sale. Bond swaps usually take advantage of changes in market conditions or more favorable investment characteristics. For example, swaps are often done to lengthen or shorten maturities when investors change their outlook for future rates.

Treasury Bills
Short-term U.S. government non-interest bearing debt securities with maturities of no longer than one year and issued in minimum denominations of $10,000. Auctions of three- and six-month bills are weekly, while auctions of one-year bills are monthly. The yields on these bills are monitored closely in the money markets for signs of interest rate trends.

Treasury Bonds
Long-term U.S. government debt securities with maturities of ten years or longer and issued in minimum denominations of $1,000. Currently the longest outstanding maturity for such securities is 30 years.

Treasury Notes
Intermediate U.S. government debt securities with maturities of one to 10 years and issued in denominations ranging from $1,000 to $1 million or more.

US Treasury Obligations
Debt obligations of the U.S. government sold by the Treasury Department in the form of bills, notes, and bonds. Bills are short-term obligations that mature in 1 year or less and are sold on the basis of a rate of discount. Notes are obligations that mature between 1 year and 10 years. Bonds are long-term obligations that generally mature in 10 years or more.

Weighted Average Maturity (WAM)
The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

Yield-to-call (YTC)
The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

Yield-to-maturity (YTM)
The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

Zero-coupon Securities
Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

Appendix II
Statutes of Interest

Description	Chapter/Section
Depositary requirements for public funds	Chapter 110
Invest monies not needed for current operations	110.270
Investing in deposit accounts and CDARS	67.085
Investment policy requirements	30.260, 30.950
Listing of acceptable collateral for public funds	30.270, 110.010 - 110.020
Listing of acceptable investments	Article IV, Section 15
Provides investment authority	110.270