

TOWN OF EAST HADDAM INVESTMENT POLICY

Purpose:

The Investment Policy of the Town of East Haddam is that Town funds shall be handled with the highest public trust. Investments shall be made in a manner which will optimize both the safety of the principal invested, liquidity and the return on investment. Policy limits and diversification of the portfolio are established to protect liquidity for daily cash flow needs. While achieving a higher rate of return is secondary to the requirements for safety and liquidity, there should be a balance of the risk and return.

Conditions:

The investment of Town funds shall conform with federal, state and other legal requirements.

Guidance:

1. Scope:

This Investment Policy (the “Policy”) applies to the investment and management of all the funds under direct authority of the Town.

The Town will consolidate all funds except for cash in certain restricted and special funds, and investment income shall be allocated to the general fund. Bank statements should be reconciled on a monthly basis with the interest credited as earned.

2. Prudence:

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 expected income to be derived.

The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall portfolio. The Treasurer, and all those with delegated investment authority under Connecticut State Statutes, when acting in accordance with this Policy and the Prudent Person Rule, shall be relieved of personal responsibility and liability in the management of the portfolio.

3. Objectives:

The objective of the Town’s investment and cash management program will ensure the safety, liquidity and yield on the funds available for investment. These objectives require all available funds are immediately and continuously invested at the most reasonable market rates obtainable at the time of investment. The Town shall seek to attain market rates of return on its investments, consistent with constraints imposed by its primary objectives (as listed below), cash flow considerations and any laws that restrict the investment of public funds.

The primary objectives, in priority order, of the Town’s investment actions shall be:

a. **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 and protection of principal in the overall portfolio. This will be achieved by mitigating credit risk and interest rate risk.

- i. **Credit Risk:** The Town will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:
 - Limiting investments to the safest types of securities (highest quality, creditworthiness).
 - Diversifying the investment portfolio by maturity and issuer so that potential losses on individual securities will be minimized.
- ii. **Interest Rate Risk:** The Town 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, money market mutual funds, or similar investment pools.

b. **Liquidity:**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is assured through sufficient distribution of funds in highly liquid investments. The portfolio will be structured 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).

c. **Yield:**

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above, however, reasonable yield must be balanced with minimizing risks. The investments authorized by this Policy are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

4. Investment Authority:

Connecticut State Statutes establishes the investment authority for the Town, and the Town Treasurer is responsible for the daily investment management decisions and activities. The Treasurer, on an annual basis, shall prepare a report of previous and current positions, investment activity and rationale for changes of the Town's investment funds. The Board of Finance will review this report for reasonableness and adherence to this Policy and make recommendations to the Treasurer for consideration.

5. Ethics and Conflict of Interest:

Those having investment authority for the Town shall refrain from personal business activity that could impair, or create the appearance of an impairment of, their ability to make impartial investment decisions. They shall disclose, as part of the annual audit disclosure process, any material financial interests in financial institutions that conduct business with the Town, and shall further disclose any material personal financial/investment positions that could be related to the performance of the Town's portfolio.

Those having investment authority for the Town shall comply with all applicable laws, regulations, professional codes of responsibilities and Town policies and shall also refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

6. Authorized and Suitable Investments:

All investments shall be made in accordance with Connecticut General Statutes Sections 7-400-402 (as amended). Only the following types of securities and transactions shall be eligible for use by the Town:

- a. U.S. Treasury bills, notes and bonds.
- b. Federal Agency debentures, discount notes, callable and step-up securities, or those issued by the Government National Mortgage Association (GNMA), Federal Home Loan Banks (FHLB), Federal National Mortgage Association (FNMA), Federal Farm Credit Banks (FFCB), and Federal Home Loan Mortgage Corporation (FHLMC) and any other agency of the United States Government.
- c. Time Certificates of Deposit issued by a qualified public depository as defined in Connecticut General Statutes Section 36a-330 that are fully insured or collateralized.
- d. Money Market Mutual Funds registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) maintain a constant daily net asset value per share of \$1.00; (3) limit assets of the fund to the securities described in a, b, and c above and repurchase agreements collateralized by such securities; and (4) have a maximum stated maturity and weighted average maturity in accordance with Federal Securities Regulation 2a-7.
- e. Investment Pools that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) maintain a constant daily net asset value per share of \$1.00; (3) limit assets of the fund to the securities described in 1, 2 and 3 above and repurchase agreements collateralized by such securities; and (4) have a custodian that is a bank as defined by Connecticut General Statutes Section 36a- 2, or an out-of-state bank, as defined in said section, having one or more branches in Connecticut.
- f. State Treasurer's Investment Fund (STIF).

7. Diversification:

Invested funds shall be diversified to minimize risk or loss resulting from over-concentration of assets in a specific maturity or specific issuer. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy, the securities market, and the Town's anticipated cash flow needs.

8. Maximum Maturities:

To the extent possible, the Town will try to match its investments with anticipated cash flow requirements. The average weighted maturity of all investments exceeding two (2) years shall not be more than five (5) years and no more than 25% of the dollar value of those investments may exceed five (5) years in duration.

9. Internal Controls:

The Finance Director shall ensure that there are appropriate internal controls for the Town's cash management processes, and that these controls are fully documented and followed. These controls shall be designed to prevent losses of public funds arising from fraud, employee error, third-party misrepresentation, or imprudent actions by employees and officers of the Town. The internal control procedures shall be reviewed annually by the Town's independent auditors.

10. Performance Standards:

The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, considering the Town's investment risk constraints and cash flow needs. The standard benchmark for determining whether market yields are being achieved for short to intermediate-term investment portfolios will be the yields of the State Treasurer's Investment Fund (STIF).

11. Investment of Bond Proceeds:

The proceeds of bonds and notes issued by the Town shall be invested in accordance with the terms and conditions of any tax regulatory agreements and tax compliance certificates governing the application of such proceeds.

12. Investment Policy Adoption:

This Policy shall be adopted by the Board of Finance, and reviewed annually by the Finance Director. Any modifications to the Policy shall be approved by the Board of Finance.

Adopted 03/11/2019
Effective 03/11/2019

Revised _____