



# Investment Policy

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## 1. Introduction

Clean Water Services (CWS), formally Unified Sewerage Agency of Washington County, was formed February 4, 1970, as a county service district under Oregon Revised Statutes Chapter 451. It was created by popular vote with the authority to implement sewerage improvements and programs and to provide the financing of those improvements and programs. The formation of the District unified 26 wastewater treatment plants. The District began a multimillion dollar pollution control program based on the areawide wastewater treatment Master Plan. The plan called for eliminating all treatment plants on the tributaries of the Tualatin River and limited the construction or expansion of major treatment facilities to the Tualatin River. In July 1989, the Portland Metropolitan Area Local Government Boundary Commission authorized an expansion of the District's authority to include storm and surface water management (SWM) services. In this capacity, the District manages nonpoint source pollution, rainfall-related erosion and sedimentation, drainage and water pollution prevention. Combining science and nature, the District works in partnership with others to safeguard the river's health and vitality, ensure the economic success of the region, and protect public health for more than 620,000 residents in urban Washington County.

## 2. Governing Authority

The investments shall be in conformance with Federal, State and other legal requirements. This policy has been adopted by the Clean Water Services Board of Directors. Specifically, this investment policy is written in conformance with ORS 294.035; 294.040; 294.052; 294.135; 294.145 and 294.810. All funds within the scope of this policy are subject to regulations established by the state of Oregon. Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

## 3. Scope

The CWS Treasurer or designee shall manage and invest all funds held on behalf of CWS or other public agencies as a trustee in a manner to earn appropriate yields with minimum risk, meet the liquidity needs of CWS and other agencies, and comply with Oregon law. Investments will be diversified to minimize investment risks.

All funds of CWS shall be pooled for investment purposes. The pooled investments shall be owned by CWS.

A general-purpose investment portfolio will be the primary pool in which investments will be made. This portfolio may have a range of funds from a low of \$250 million to a high of \$500 million. Other special purpose investments pools may be established to conform to legal restrictions (e.g. bond covenants) or to recognize the longer-term nature of some funds (e.g. capital projects). Interest earned on the general-purpose portfolio will be allocated to participant in the pool based upon their pro-rata share of the average daily balance.

Special purpose portfolios may be established as needed to match investments with anticipated cash flow needs. A special purpose portfolio may be established if requested in writing by a government or agency for which CWS invests in a trust capacity or by a Department Director responsible for management of a capital project; or when required by the terms of a debt financing instrument; or as is determined as

necessary by the Treasurer. If a request cannot be met, the Treasurer will provide a written explanation to the requester. Portfolio diversification will be established by the Treasurer for special purpose portfolios to conform to state statutes and this policy while meeting cash flow requirements requiring the special purpose portfolio.

## 4. Principles and Objectives

### A. Preservation of Invested Capital

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The goal is to mitigate credit risk and interest rate risk.

### B. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements. Furthermore, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in the Oregon Short Term Fund which offers next-day liquidity. Where possible and prudent, the portfolio should be structured so that investments mature concurrent with anticipated demands.

### C. Return

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the safety and liquidity needs of the portfolio. Although return consists of both principal return (gains and losses due to market value fluctuations) and income return (yield), this policy discourages active trading and turnover of investments. Investments should generally be held to maturity.

### D. Principles

As an institutional investor, CWS has a duty to act in the best long-term interest of our community. We believe that applying certain Principles in the District's investments may better align the District's investment strategy with the District's broader objectives of our community. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1: We will incorporate Environmental, Social and Governance (ESG) issues into the District's investment analysis and decision-making processes; and see appropriate disclosure on ESG issues by the entities in which we invest.

Principle 2: We will incorporate the District's mission and vision into the District's investment analysis and decision-making processes.

We will work together to enhance our effectiveness in implementing the Principles and report on our progress towards implementing the Principles.

## 5. Standards of Care

### A. Prudence

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. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported and appropriate action is taken to control adverse developments within a timely fashion as defined in this policy. The “prudent person” standard 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.*

### B. Ethics

Officers and employees 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 decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. 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 personal investment transactions with the same individual with whom business is conducted on behalf of CWS. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244.

### C. Delegation of Authority and Responsibilities

#### i. Governing Body

The ultimate responsibility and authority for the investment of CWS funds resides with the governing body – the Clean Water Services Board of Directors. The governing body will receive reports, pursuant to, and with sufficient detail to comply with ORS 294.085 and 294.155.

#### ii. Delegation of Authority

Authority to manage investments within the scope of this policy and operate the investment program in accordance with established written procedures and internal controls is granted to the Treasurer, or his/her designee (hereinafter referred to as Investment Officer), and derived from the following: ORS 294.035 to 294.053, 294.125 to 294.145, and 294.810.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

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 supporting procedures.

iii. Investment Committee

The Investment Officer may seek to establish an investment committee to provide guidance to the Investment Officer and monitor investment policy compliance.

iv. Investment Advisor

The Treasurer may engage the services of one or more external investment managers to assist in the management of the CWS investment portfolio in a manner consistent with this investment policy. Investment advisers may be hired on a non-discretionary basis. All investment transactions by approved investment advisers must be pre-approved in writing by the Investment Officer and compliant with this Investment Policy. If CWS hires an investment adviser to provide investment management services, the adviser is authorized to transact with its direct dealer relationships on behalf of CWS.

## 6. Transactional Counterparties

### A. Broker/Dealers

The Investment Officer shall determine which broker/dealer firms and registered representatives are authorized for the purposes of investing funds within the scope of this investment policy. A list will be maintained of approved broker/dealer firms and affiliated registered representatives.

The following minimum criteria must be met prior to authorizing investment transactions. The Investment Officer may impose more stringent criteria.

- i. Broker/Dealer firms must meet the following minimum criteria:
  - a. Be registered with the Securities and Exchange Commission (SEC)
  - b. Be registered with the Financial Industry Regulatory Authority (FINRA)
  - c. Provide most recent audited financials
  - d. Provide FINRA Focus Report filings
- ii. Approved broker/dealer employees who execute transactions with CWS must meet the following minimum criteria:
  - a. Be a registered representative with the Financial Industry Regulatory Authority (FINRA);
  - b. Be licensed by the state of Oregon;

- c. Provide certification (in writing) of having read, understood, and agreed to comply with the most current version of this investment policy.
- iii. The Investment Officer may want to establish policy for engaging broker/dealer firms and registered representatives that are more restrictive than stated in this policy. Additional requisites or due diligence items may include:
  - a. Positive references from at least three other local government clients.
  - b. As part of the periodic due diligence review, inquiries with other local government clients with regard to their recent experiences with broker/dealer firms or registered representatives and any change in relationship status.
  - c. Requirement that approved registered representatives provide notification within 30 days of any formal investigations or disciplinary actions initiated by federal or state regulators.
  - d. Requirement that prospective registered representatives have an established history of advising local governments with similar amounts of assets under management.
- iv. Periodic (at least annual) review of all authorized broker/dealers and their respective authorized registered representatives will be conducted by the Investment Officer. Factors to consider would be:
  - a. Pending investigations by securities regulators
  - b. Significant changes in net capital
  - c. Pending customer arbitration cases
  - d. Regulatory enforcement actions
- v. The Investment Officer shall maintain and review annually a list of all authorized financial institutions and broker/dealers that are approved to transact with CWS for investment purposes.

The Investment Officer or designee may utilize the investment advisor's approved broker/dealer list in lieu of CWS's own approved list. The advisor must submit the approved list to CWS annually and provide updates throughout the year as they occur. The advisor must maintain documentation of appropriate license and professional credentials of broker/dealers on the list. The annual investment advisor broker/dealer review procedures should include:

- a. FINRA Certification check
  - Firm Profile
  - Firm History
  - Firm Operations
  - Disclosures of Arbitration Awards, Disciplinary and Regulatory Events
  - State Registration Verification
- b. Financial review of acceptable FINRA capital requirements or letter of credit for clearing settlements.

The advisors must provide CWS with any changes to the list prior to transacting on behalf of CWS.

The advisor may be authorized through the contracted agreement to open accounts on behalf of CWS with the broker/dealers on the approved list. CWS will receive documentation directly from the brokers for account verification and regulatory requirements.

## **B. Investment Advisor**

A list will be maintained of approved advisors selected by conducting a process of due diligence.

- i. The following items are required for all approved Investment Advisors:
  - a. The investment advisor firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon (Note: Investment advisor firms with assets under management > \$100 million must be registered with the SEC, otherwise the firm must be licensed by the state of Oregon).
  - b. All investment advisor firm representatives conducting investment transactions on behalf of CWS must be registered representatives with FINRA.
  - c. All investment advisor firm representatives conducting investment transactions on behalf of CWS must be licensed by the state of Oregon.
  - d. Certification, by all of the advisor representatives conducting investment transactions on behalf of this entity, of having read, understood and agreed to comply with this investment policy.
- ii. A periodic (at least annual) review of all authorized investment advisors under contract will be conducted by the Treasurer to determine their continued eligibility within the portfolio guidelines. The investment Advisor must notify CWS immediately if any of the following issues arise while serving under a CWS contract:
  - a. Pending investigations by securities regulators.
  - b. Significant changes in net capital.
  - c. Pending customer arbitration cases.
  - d. Regulatory enforcement actions.

## **C. Depositories**

All financial institutions who desire to become depositories must be qualified Oregon Depositories pursuant to ORS Chapter 295.

## **D. Competitive Transactions**

- i. The Investment Officer shall obtain and document competitive bid information on all investments purchased or sold in the secondary market. Competitive bids or offers should be obtained, when possible, from at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.



- ii. In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities.
- iii. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price. However, the Investment Officer is encouraged to document quotations on comparable securities.
- iv. If an investment advisor provides investment management services, the advisor must retain documentation of competitive pricing execution on each transaction and provide upon request.

## 7. Administration and Operations

### A. Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) by delivery vs. payment (DVP) to ensure that securities are deposited in the CWS safekeeping institution prior to the release of funds.

### B. Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by the CWS. All securities will be evidenced by safekeeping receipts in Clean Water Services name. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16. CWS will have online access through the safekeeping bank for verification of the account holdings and transactions. CWS may hold bank deposits or certificates of deposits at banks qualified under ORS.295.

### C. Internal Controls

The Treasurer and Board of Directors are jointly responsible for establishing and maintaining an adequate internal control structure designed to reasonably assure that invested funds are invested within the parameters of this Investment policy and, protected from loss, theft or misuse. Specifics for the internal controls shall be documented in writing. The established control structure shall be reviewed and updated periodically by the Board of Directors.

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

- i. Compliance with investment policy constraints and requirements
- ii. Clear delegation of authority
- iii. Segregation of duties and separation of responsibilities for trade execution, accounting, and record keeping
- iv. Written confirmation of transactions and funds transfers
- v. Timely reconciliation of custodial reports

- vi. Appropriate security for online transactions and access to bank accounts and bank data
- vii. Custodial safekeeping
- viii. Control of collusion
- ix. Review, maintenance and monitoring of security procedures both manual and automated
- x. Dual authorizations of wire and automated clearing house (ACH) transfers
- xi. Avoidance of physical delivery of securities wherever possible and address control requirements for physical delivery where necessary

An external auditor shall provide an annual independent review to assure compliance with Oregon state law and Clean Water Services policies and procedures.

#### **D. Accounting Method**

CWS shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies including but not necessarily limited to, the Governmental Accounting Standards Board (GASB); the American Institute of Certified Public Accountants (AICPA); and the Financial Accounting Standards Board (FASB).

Pooling of Funds: Except for cash in certain restricted and special funds, CWS will consolidate 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 generally accepted accounting principles.

## **8. Authorized and Suitable Investments**

#### **A. Permitted Investments**

All investments of CWS shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (Investment of surplus funds of political subdivisions; approved investments), ORS 294.040 (Restriction on investments under ORS 294.035), ORS 294.135 (Investment maturity dates), ORS 294.145 (Prohibited conduct for custodial officer including not committing to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement), and ORS 294.805 to 294.895 (Local Government Investment Pool). Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted. Minimum credit ratings and percentage limitations apply to the time of purchase.

The following lists allowable investment types:

**US Treasury Obligations:** Direct obligations of the United States Treasury whose payment is guaranteed by the United States. [ORS Section 294.035(3)(a)]

**US Agency Obligations:** Federal agency and instrumentalities of the United States or enterprises sponsored by the United States Government (GSE) and whose payment is guaranteed by the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government. [ORS Section 294.035(3)(a)]

**Municipal Debt:** Lawfully issued debt obligations of the States of Oregon, California, Idaho and Washington and political subdivisions of those states if the obligations have a long-term rating on the settlement date of AA- or better by S&P or Aa3 or better by Moody's or equivalent rating by any nationally recognized statistical rating organization, or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization. [ORS Section 294.035(3)(c)]

**Corporate Indebtedness:** Corporate indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933, and not listed on the Fossil Free Index (FFI) Carbon Underground (FFICU) 200™ annual listing. Corporate indebtedness must be rated on the settlement date AA- or better by S&P or Aa3 or better by Moody's or equivalent rating by any nationally recognized statistical rating organization. [ORS Section 294.035(3)(i)]

**Commercial Paper:** Corporate indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933, as amended. Commercial Paper must be rated A1 by Standard and Poor's or P1 by Moody's or equivalent rating by any nationally recognized statistical rating organization. Issuer constraints for commercial paper combined with corporate notes will be limited by statute to 5% of market value per issuer. [ORS Section 294.035(3)(i)]

**Certificates of Deposit:** Certificates of deposit in insured institutions as defined in ORS 706.008, in credit unions as defined in ORS Section 723.006 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state [ORS Section 294.035(3)(d)].

**Bank Time Deposit/Savings Accounts:** Time deposit open accounts or savings accounts in insured institutions as defined in ORS Section 706.008, in credit unions as defined in ORS Section 723.006 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state [ORS Section 294.035(3)(d)(e)].

**Bankers' Acceptances:** A short-term credit investment created by a non-financial firm and guaranteed by a qualified financial institution whose short-term letter of credit rating is rated in the highest category without any refinement or gradation by one or more nationally recognized statistical rating organization. For the purposes of this paragraph, "qualified financial institution" means: (i) A financial institution that is located and licensed to do banking business in the State of Oregon; or (ii) S financial institution that is wholly owned by a financial holding company or a bank holding company that owns a financial institution that is located and licensed to do banking business in the State of Oregon. [ORS 294.035(3)(h)]

**Local Government Investment Pool:** State Treasurer's local short-term investment fund up to the statutory limit per ORS Section 294.810.

## **B. Collateralization**

Time deposit open accounts, Certificates of Deposit and savings accounts shall be collateralized through the state collateral pool for any excess over the amount insured by an agency of the United States government in accordance with ORS 295.018. All depositories must be on the State

of Oregon's qualified list. Additional collateral requirements may be required if the Treasurer deems increased collateral is beneficial to the protection of the monies under CWS's management.

### **C. Approval of Permitted Investments**

If additional types of securities are considered for investment, per Oregon state statute they will not be eligible for investment until this Policy has been amended and the amended version adopted by Clean Water Services.

### **D. Prohibited Investments**

- i. CWS shall not invest in "144A" private placement securities, this includes commercial paper privately placed under section 4(a)(2) of the Securities Act of 1933.
- ii. CWS shall not lend securities nor directly participate in a securities lending or reverse repurchase program.
- iii. CWS shall not purchase mortgage-backed securities.
- iv. CWS shall not purchase, per ORS 294.040, any bonds of issuers listed in ORS 294.035(3)(a) to (c) that have a prior default history.
- v. CWS shall not invest directly in fossil fuel securities listed on the Carbon Fuel Underground 200 list.
- vi. No commitment to buy or sell securities may be made more than 14 days prior to the anticipated settlement date.

## **9. Investment Parameters**

### **A. Credit Risk**

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. Credit risk will be mitigated by the following guidelines:

- i. **Diversification:** It is the policy of CWS to diversify its investments. Where appropriate, exposures will be limited by security type; maturity; issuance, issuer, and security type. Allowed security types and Investment exposure limitations are detailed in the table below.
- ii. **Credit Ratings:** Investments must have a rating from at least one of the following nationally recognized statistical ratings organizations (NRSRO): Moody's Investors Service; Standard & Poor's; and Fitch Ratings Service as detailed in the table below. Ratings used to apply the guidelines below should be investment level ratings and not issuer level ratings.
- iii. The minimum weighted average credit rating of the portfolio's rated investments shall be AA-/Aa3/AA- by Standard & Poor's; Moody's Investors Service; and Fitch Ratings Service respectively.

- iv. Diversification and Credit Exposure Constraints: The following table limits exposures among investments permitted by this policy.

**Total Portfolio Diversification Constraints**

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P, Moody's, or Equivalent NRSRO	Maximum Maturity
US Treasury Obligations	100%	None	N/A	5.25 years
US Agency Obligations	100%	35%	N/A	5.25 years
Municipal Debt (OR, CA, ID, WA)	25%	5%	AA- / Aa3 Short Term*	5.25 years
Corporate Notes	35%**	5%***	AA- / Aa3	5.25 years
Commercial Paper			A1 / P1	270 days
Bank Time Deposits/Savings Accounts	20%	20%	Oregon Public Depository	N/A
Certificates of Deposit	10%	5%	Oregon Public Depository	5.25 years
Banker's Acceptances	10%	5%	A1 / P1	180 days
Oregon Short Term Fund	Maximum allowed per ORS 294.810	None	N/A	N/A

\*Short Term Ratings: Moody's - P1/MIG1/VMIG1. S&P - A-1/SP-1, Fitch F1

\*\*35% maximum combined corporate and commercial paper per ORS.

\*\*\*Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

**B. Investment Maturity**

- i. CWS will not directly invest in securities maturing more than 5.25 years\* from the date of purchase.
- ii. The maximum weighted maturity of the total portfolio shall not exceed 2.50 years. This maximum is established to limit the portfolio to excessive price change exposure.
- iii. Liquidity funds will be held in the State Pool or in money market instruments maturing one year and shorter.

- iv. Core funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between one day and 5.25 years and will be only invested in higher quality and liquid securities.

**Total Portfolio Maturity Constraints:**

<b>Maturity Constraints</b>	<b>Minimum % of Total Portfolio</b>
Under 30 days	10%
Under 1 year	25%
Under 5.25 years	100%
<b>Maturity Constraints</b>	<b>Maximum of Total Portfolio in Years</b>
Weighted Average Maturity	2.50
<b>Security Structure Constraint</b>	<b>Maximum % of Total Portfolio</b>
Callable Agency Securities	25%

\*Exception to 5.25-year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding 5.25 years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

## **10. Investment of Proceeds from Debt Issuance**

Investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. The investments will be made in a manner to match cash flow expectations based on managed disbursement schedules.

Liquidity for bond proceeds will be managed through the OSTF Pool or Bank deposit balances.

Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and maturity matched with expected outflows.

Information will be maintained for arbitrage rebate calculations.

## **11. Investment of Reserve or Capital Improvements**

Pursuant to ORS 294.135(1)(b), reserve or capital Improvement project monies may be invested in securities with a maturity of 5.25 years at the maximum when the funds in question are being accumulated for an anticipated use that will occur more than 18 months after the funds are invested, then, upon the approval of the governing body of the county, municipality, school district or other political subdivision, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used. Reserve or Capital Improvement Project monies may be invested in securities exceeding 5.25 years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

## **12. Guideline Measurement and Adherence**

### **A. Guideline Measurement**

Guideline measurements will use market value of investments.

### **B. Guideline Compliance**

- i. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.
- ii. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance and; reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the Board of Directors.
- iii. Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

## **13. Reporting and Disclosure**

### **A. Compliance**

The Investment Officer shall prepare a report at least quarterly that allows the Board of Directors to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment oversight body. The report will include, at a minimum, the following:

- i. A listing of all investments held during the reporting period showing: par/face value; accounting book value; market value; type of investment; issuer; credit ratings; and yield to maturity (yield to worst if callable).
- ii. Average maturity of the portfolio at period-end
- iii. Maturity distribution of the portfolio at period-end

- iv. Average portfolio credit quality of the portfolio at period-end
- v. Average weighted yield to maturity (yield to worst if callable investments are allowed) of the portfolio
- vi. Distribution by type of investment
- vii. Transactions since last report
- viii. Violations of portfolio guidelines or non-compliance issues that occurred during the prior period or that are outstanding. This report should also note actions (taken or planned) to bring the portfolio back into compliance.

## **B. Performance Standards/Evaluation**

- i. CWS yields will be compared to the OST Pool rates.
- ii. The portfolio will be invested into a predetermined structure that will be measured against a selected benchmark portfolio. The structure will be based upon a chosen minimum and maximum effective duration and will have the objective to achieve market rates of returns over long investment horizons. The purpose of the benchmark is to appropriately manage the risk in the portfolio given interest rate cycles. The core portfolio is expected to provide similar returns to the benchmark over interest rate cycles but may underperform or outperform in certain periods. The portfolio will be positioned to first protect principal and then achieve market rates of return. The benchmark used will be a 0-3 year or 0-5 year standard market index and comparisons will be calculated monthly and reported quarterly.
- iii. When comparing the performance of CWS's portfolio, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.
- iv. The mark to market pricing will be calculated monthly and be provided in a monthly report.

## **C. Reporting Requirements**

The Investment Officer will retain and provide quarterly investment reports to the Board of Directors in a similar manner as outlined in ORS 208.090. The reports also will be available upon request. Securities holdings and cash balances held in the investment portfolio will be provided on the reports.

The minimum quarterly reporting requirements for total portfolio are as follows:

- Earnings Yield
- Holdings Report (including mark to market)
- Transactions Report
- Weighted Average Maturity or Duration
- Compliance Report



## **14. Adoption of Policy**

This Investment Policy and any modifications to this policy must be formally approved in writing by the Clean Water Services Board of Directors. Regardless of whether this policy is submitted to the OSTF Board for comment, this policy shall be re-submitted not less than annually to the Board of Directors for approval.

## Glossary of Terms

**Accrued Interest:** The interest accumulated on a security since the issue date or since the last coupon payment. The buyer of the security pays the market price plus accrued interest.

**Agency Securities:** See “Federal Agency Securities.”

**Bankers’ Acceptance (BA’s):** A draft or bill of exchange drawn upon and accepted by a bank. Frequently used to finance shipping of international goods. Used as a short-term credit instrument, bankers’ acceptances are traded at a discount from face value as a month market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

**Basis Point:** A basis point is a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form. In most cases, it refers to changes in interest rates and bond yields.

**Benchmark:** A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance and duration of the actual portfolio’s investments.

**Bond:** An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and it is usually secured by specific assets. Most bonds have a maturity of greater than one year and in general, pay interest semiannually.

**Broker/Dealer:** A person or firm transacting securities business with customers. A “broker” acts as an agent between buyers and sellers, and receives a commission for these services. A “dealer” buys and sells financial assets from its own portfolio. A dealer takes risk by owning an inventory of securities, whereas a broker merely matches up buyers and sellers.

**Call:** An option to buy a specific asset at a certain price within a certain period of time.

**Callable:** A bond or preferred stock that may be redeemed by the issuer before maturity for a call price specified at the time of issuance.

**Call Date:** The date before maturity on which a bond may be redeemed at the option of the issuer.

**Certificate of Deposit (CD):** Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity).

**Collateral:** Securities or other property that a borrower pledges as security for the repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**Commercial Paper:** Short-term, unsecured, negotiable promissory notes issued by a company or financial institution. Issued at a discount and matures at par or face value. Usually a maximum maturity of 270 days, and given a short-term debt rating by one or more NRSROs.

**Core Fund:** Core funds are defined as operating fund balance which exceeds CWS's daily liquidity needs. Core funds are invested out the yield curve to diversify maturity structure in the overall portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

**Corporate Note:** A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years.

**Coupon Rate:** The annual rate of interest that the issuer of a bond promises to pay to the holder of the bond.

**Current Maturity:** The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

**Current Yield:** The coupon payments on a security as a percentage of the security's market price. In many instances the price should be gross of accrued interest, particularly on instruments where no coupon is left to be paid until maturity.

**CUSIP:** A CUSIP number identifies securities. CUSIP stands for Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

**Delivery Versus Payment (DVP):** Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

**Depository Trust Company (DTC):** A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs and BAs clear through DTC.

**Discount Notes:** Short term debt obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Discount Notes typically have very large primary (new issue) and secondary markets.

**Federal Agency Security:** A debt instrument issued by one of the federal agencies. Federal agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

**Federal Agency:** Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets.

**Federal Farm Credit Bank (FFCB):** A Government Sponsored Enterprise (GSE) system that is a network of cooperatively owned lending institutions that provide credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses.

FFCB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. Financial system and agricultural industry. Also issues notes under its "designated note" program.

**Federal Home Loan Bank System (FHLB):** A Government Sponsored Enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its "global note" and "TAP" programs.

**Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac"):** One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "reference note" program.

**Federal National Mortgage Association (FNMA or "Fannie Mae"):** One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "benchmark note" program.

**Federal Reserve Bank:** One of the 12 distinct banks of the Federal Reserve System.

**Federal Reserve System (the Fed):** The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven member Board of Governors known as the "Federal Reserve Board" and headed by its Chairman.

**General Obligation Bonds (GOs):** Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

**Government Bonds:** Securities issued by the federal government; they are obligations of the U.S. Treasury. Also known as "governments."

**Government Sponsored Enterprise (GSE):** Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the

economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. For this reason, these securities will offer a yield premium over Treasuries. Some consider GSEs to be stealth recipients of corporate welfare. Examples of GSEs include: FHLB, FHLMC, FNMA and FFCB.

**Interest:** Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

**Interest Rate:** The interest payable each year on borrowed funds, expressed as a percentage of the principal.

**Investment Advisor:** A company that provides professional advice managing portfolios, investment recommendations and/or research in exchange for a management fee.

**Investment Portfolio:** A collection of securities held by a bank, individual, institution, or government agency for investment purposes.

**Investment Securities:** Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

**Liquidity:** The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

**Liquidity Component:** A percentage of the total portfolio that is dedicated to providing liquidity needs for the City.

**Mark to Market:** Adjustment of an account or portfolio to reflect actual market price rather than book price, purchase price or some other valuation.

**Municipals:** Securities, usually bonds, issued by a state or its agencies. The interest on “munis” is usually exempt from federal income taxes and state and local income taxes in the state of issuance. Municipal securities may or may not be backed by the issuing agency’s taxation powers.

**NRSRO:** A “Nationally Recognized Statistical Rating Organization.” A designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating such as Moody’s, S&P, Fitch and Duff & Phelps.

**Par Value:** The value of a security expressed as a specific dollar amount marked on the face of the security, or the amount of money due at maturity. Par value should not be confused with market value.

**Prudent Person Standard:** Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee will act with care, skill, prudence, and diligence under the circumstances the prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the entity.

**Rate of Return:** Amount of income received from an investment, expressed as a percentage of the amount invested.

**State of Oregon Local Government Investment Pool (OSTF – Oregon Short Term Fund):** The OSTF is organized pursuant to ORS 294.805 through 294.895. Participation in the Pool will not exceed the maximum limit annually set by ORS 294.810.

**Total Return:** Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

**Treasury Bill (T-Bill):** An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount.

**Treasury Bonds and Notes:** Obligations of the U.S. government that bear interest. Notes have maturities of one to ten years; bonds have longer maturities.

**Yield:** The annual rate of return on an investment, expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

**Yield to Maturity:** The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.

**Ratings Table – Long-Term**

Three Highest Rating Categories	S&P	Moody's	Fitch	Definition
	AAA	Aaa	AAA	Highest credit quality
	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-	Very high credit quality
	A+, A, A-	A1, A2, A3	A+, A, A-	High credit quality
	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	Good credit quality
	BB+, BB, BB-	Ba1, Ba2, Ba3	BB+, BB, BB-	Non-investment grade

**Ratings Table – Short-Term**

Highest Rating Category	S&P	Moody's	Fitch	Definition
	A1+, A1	P1+, P1	F1+, F1	Highest credit quality
	<b>Municipal Commercial Paper</b>			
	A-1, A-1+, SP-1+, SP-1	P1, MIG1, VMIG1	F1+, F1	Highest credit quality