

Draft

TOWN OF SIMSBURY, CT INVESTMENT POLICY

1.0 Policy Statement

It is the policy of the Town of Simsbury that the administration and investment of Town funds shall be handled with the highest public trust. Investments shall be made in a manner which will provide the maximum safety for principal invested. Policy limits and diversification of the portfolio are established to protect liquidity for daily cash flow needs. Achieving a higher of return is secondary to the requirements for safety and liquidity. All investments will be made in full compliance with Town Charter and Code, State of Connecticut statutes, and any applicable IRS requirements.

2.0 Scope

This Investment Policy applies to the investment and management of all the funds under direct authority of the Town. The investment policy will apply to all funds accounted for in the Town's Annual Financial Report, with the exception of _____.

Except for cash in certain restricted and special funds, the Town will consolidate all funds. Investment income will be allocated or charged back to the general fund, or various funds based on their actual balances, and in accordance with generally accepted accounting principles. Interest will be calculated on a monthly basis, and credited back to all participating funds.

3.0 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.

3.1 Prudent Person Standard: 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 Director of Finance and all those delegated investment authority under this policy, when acting in accordance with the written procedures and this Policy and in accord with the Prudent Person Rule, shall be relieved of personal responsibility and liability in the management of the portfolio.

4.0 Objectives

The objective of the Town's investment and cash management program is to ensure the safety, liquidity and yield on the funds entrusted to it. These objectives, set by the policy, will ensure that all funds are immediately and continuously invested at the most reasonable market rates obtainable at the time of investment. The Town will 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 state laws that restrict the investment of public funds.

The primary objectives, in priority order, of the Town's investment action shall be:

4.1 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 and interest rate risk.

a. 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, creditworthy).
- Diversifying the investment portfolio by maturity and issuer so that potential losses on individual securities will be minimized.

b. 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.

4.2 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).

4.3 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 the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The investments authorized by this investment policy are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

5.0 Investment Authority

The investment authority for the Town is established by Connecticut General Statutes. The Town Director of Finance will be responsible for the daily investment management decisions and activities. The Director of Finance, on a quarterly basis, will prepare a report of investment decisions in the Town investment fund. The Board of Finance or delegate will review these decisions to ensure that investment policies are being adhered to as well as examining the reasonableness of the decisions.

6.0 Ethics and Conflict of Interest

Employees who have investment authority for the Town (specifically, the Director of Finance) 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 they shall further disclose any material personal financial/investment positions that could be related to the performance of the Town's portfolio. Employees shall comply with all applicable laws, regulations, professional codes of responsibilities and Town policies. Employees and investment officials shall also refrain from undertaking personal investment transactions with the same individual with whom the business is conducted on behalf of the Town.

7.0 Authorized and Suitable Investments

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

1. U.S. Treasury bills, notes and bonds.
2. Federal Agency debentures, discount notes, callable and step-up securities, with 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.
3. 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.
4. 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 1, 2 and 3 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.
5. 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.
6. State Treasurer’s Investment Fund (STIF).

8.0 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.

9.0 Maximum Maturities

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

10.0 Internal Controls

The Director of Finance shall incorporate additional internal controls into the current cash management process and document them in writing. The internal control procedures will be reviewed and approved by the Town's independent auditors. The 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 external auditors will annually review compliance with policies and procedures.

11.0 Performance Standards

The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the Town's investment risk constraints and cash flow needs.

11.1 Market Yield (Performance Benchmarks): 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).

12.0 Investment Policy Adoption

The Town investment policy shall be adopted by the Town Board of Finance. The policy shall be reviewed annually and any modifications made thereto must be approved by the Town Board of Finance.

