



CITY OF HENDERSONVILLE INVESTMENT POLICY

I. Introduction

The intent of the Investment Policy of The City of Hendersonville is to define the parameters within which funds are to be managed. In methods, procedures and practices, the policy formalizes the framework for the City's investment activities that must be exercised to ensure effective and judicious fiscal and investment management of the City's funds. The guidelines are intended to be broad enough to allow the investment officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

II. Governing Authority

The investment program shall be operated in conformance with federal, state, and other legal requirements, including the North Carolina General Statutes (hereafter "G.S."), specifically The Local Government Budget and Fiscal Control Act, primarily G.S. 159.30 – Investment of idle funds, and G.S. 159-31 – Selection of depository.

III. Scope

This policy applies to activities of The City of Hendersonville with regard to investing the financial assets of all funds. All funds are subject to regulations established by the state of North Carolina. The covered funds, and any new funds created by the City of Hendersonville, unless specifically exempted by the City Council are defined in the City's Comprehensive Annual Financial Report.

Except for funds in certain restricted and special funds, the City of Hendersonville commingles its funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

IV. General Objectives

The primary objectives, in priority order, of investment activities shall be:

1) Safety

Safety of principal is the foremost objective of the investment program. Investments shall be under taken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The goal will be to mitigate credit risk and interest rate risk.

2) Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

3) Return

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 of safety and liquidity needs.



CITY OF HENDERSONVILLE INVESTMENT POLICY

VI. Standards of Care

The following standards of care will be required:

1) 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 liability for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The “prudent person” standard states that,

“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.”

2) Ethics and Conflicts of Interest

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 investment 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 any personal investment transactions with the same individual with whom business is conducted on behalf of the City of Hendersonville.

VII. Delegation of Authority and Responsibilities

1) Governing Body

The City Council will retain ultimate fiduciary responsibility for the portfolios. The governing body will receive quarterly reports, designate investment officers and annually review the investment policy making any changes necessary by adoption.

2) Investment Officers

Authority to manage the investment program is granted to the Finance Director hereinafter referred to as the investment officer as designated by the City Council.

Responsibility for the operation of the investment program is hereby delegated to the investment officer who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. The investment officer will prepare quarterly investment reports and other special reports as may be deemed necessary.

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.



CITY OF HENDERSONVILLE INVESTMENT POLICY

3) Investment Adviser

The City of Hendersonville may engage the services of one or more external investment managers to assist in the management of the City's investment portfolio in a manner consistent with the City's objectives. Such managers must be registered under the Investment Advisers Act of 1940.

VIII. Authorized Financial Institutions, Depositories, and Broker/Dealers

The investment officer shall determine which financial institutions are authorized to provide investment services to The City of Hendersonville after completing a due diligence process. Banking or investment services may not be retained from persons working for Financial Institutions, Depositories, Broker/Dealers or any business owned or managed by a member of City Council or their immediate family or by any employee involved in financial decisions for the City or that employee's immediate family. Investments may not be purchased from persons working for Financial Institutions, Depositories, Broker/Dealers or any business owned or managed by a member of City Council or their immediate family or from any employee involved in financial decisions for the City or that employee's immediate family.

IX. Competitive Transactions

The investment officer shall obtain competitive bid information on all purchases of investment instruments purchased on the secondary market. A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.

If the City is offered a security for which there is no readily available competitive offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities. 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.

If the City hires an investment adviser to provide investment management services, the adviser must provide documentation of competitive pricing execution on each transaction. The investment adviser will retain documentation and provide upon request.

Safekeeping and Custody

1) Delivery vs. Payment

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.

2) Third Party Safekeeping

- a) Securities will be held by an independent third-party safekeeping institution selected by the City of Hendersonville. All securities will be evidenced by safekeeping receipts in the City's name.
- b) The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011.)



CITY OF HENDERSONVILLE INVESTMENT POLICY

- 3) Internal Controls
 - a) Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Hendersonville are protected from loss, theft or misuse.
 - i) The internal control structure shall be designed to provide reasonable assurance that objectives are met. 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:
 - ii) Control of collusion
Separation of transaction authority from accounting and recordkeeping.
 - iii) Custodial Safekeeping
Avoidance of physical delivery securities
 - iv) Clear delegation of authority to subordinate staff members.
Written confirmation of transactions for investments and wire transfers.
 - v) Dual authorizations of wire transfers.
 - vi) Staff Training
Review, maintenance and monitoring of security procedures both manual and automated.
 - 4) The external auditor shall provide an annual independent review to assure compliance with state law, policies and procedures.

X. Suitable and Authorized Investment

1. Investment Types: Only the investments authorized by G.S. § 159-30 will be permitted by this policy. If additional types of securities are approved for investment by public funds by state statute, they will be eligible for investment by the City of Hendersonville.
 - (a) A local government or public authority may deposit at interest or invest all or part of the cash balance of any fund. The finance officer shall manage investments subject to whatever restrictions and directions the governing board may impose. The finance officer shall have the power to purchase, sell, and exchange securities on behalf of the governing board. The investment program shall be so managed that investments and deposits can be converted into cash when needed.
 - (b) Moneys may be deposited at interest in any bank, savings and loan association, or trust company in this State in the form of certificates of deposit or such other forms of time deposit as the Commission may approve. Investment deposits, including investment deposits of a mutual fund for local government investment established under subdivision (c)(8) of this section, shall be secured as provided in G.S. 159-31(b).
 - b1) In addition to deposits authorized by subsection (b) of this section, the finance officer may deposit any portion of idle funds in accordance with all of the following conditions:
 1. The funds are initially deposited through a bank or savings and loan association that is an official depository and that is selected by the finance officer.



CITY OF HENDERSONVILLE INVESTMENT POLICY

2. The selected bank or savings and loan association arranges for the redeposit of funds in deposit accounts of the local government or public authority in one or more federally insured banks or savings and loan associations wherever located, provided that no funds shall be deposited in a bank or savings and loan association that at the time holds other deposits from the local government or public authority.
 3. The full amount of principal and any accrued interest of each deposit account are covered by federal deposit insurance.
 4. The selected bank or savings and loan association acts as custodian for the local government or public authority with respect to the deposit in the local government's or public authority's account.
 5. On the same date that the local government or public authority funds are redeposited, the selected bank or savings and loan association receives an amount of federally insured deposits from customers of other financial institutions wherever located equal to or greater than the amount of the funds invested by the local government or public authority through the selected bank or savings and loan association.
- (c) Moneys may be invested in the following classes of securities, and no others:
- 1) Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States.
 - 2) Obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Fannie Mae, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, the United States Postal Service.
 - 3) Obligations of the State of North Carolina.
 - 4) Bonds and notes of any North Carolina local government or public authority, subject to such restrictions as the secretary may impose.
 - 5) Savings certificates issued by any savings and loan association organized under the laws of the State of North Carolina or by any federal savings and loan association having its principal office in North Carolina; provided that any principal amount of such certificate in excess of the amount insured by the federal government or any agency thereof, or by a mutual deposit guaranty association authorized by the Commissioner of Banks of the Department of Commerce of the State of North Carolina, be fully collateralized.
 - 6) Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation.
 - 7) Bills of exchange or time drafts drawn on and accepted by a commercial bank and eligible for use as collateral by member banks in borrowing from a federal reserve bank, provided that the accepting bank or its holding company is either (i) incorporated in the State of North Carolina or (ii) has outstanding publicly held obligations bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligations.



CITY OF HENDERSONVILLE INVESTMENT POLICY

- 8) Participating shares in a mutual fund for local government investment; provided that the investments of the fund are limited to those qualifying for investment under this subsection (c) and that said fund is certified by the Local Government Commission. The Local Government Commission shall have the authority to issue rules and regulations concerning the establishment and qualifications of any mutual fund for local government investment.
- 9) A commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3.
- 10) A commingled investment pool established by interlocal agreement by two or more units of local government pursuant to G.S. 160A-460 through G.S. 160A-464, if the investments of the pool are limited to those qualifying for investment under this subsection (c).
- 11) Evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of the United States government or obligations the principal of and the interest on which are guaranteed by the United States, which obligations are held by a bank or trust company organized and existing under the laws of the United States or any state in the capacity of custodian.
- 12) Repurchase agreements with respect to either direct obligations of the United States or obligations the principal of and the interest on which are guaranteed by the United States if entered into with a broker or dealer, as defined by the Securities Exchange Act of 1934, which is a dealer recognized as a primary dealer by a Federal Reserve Bank, or any commercial bank, trust company or national banking association, the deposits of which are insured by the Federal Deposit Insurance Corporation or any successor thereof if:
 - a. Such obligations that are subject to such repurchase agreement are delivered (in physical or in book entry form) to the local government or public authority, or any financial institution serving either as trustee for the local government or public authority or as fiscal agent for the local government or public authority or are supported by a safekeeping receipt issued by a depository satisfactory to the local government or public authority, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated at least daily, of not less than one hundred percent (100%) of the repurchase price, and, provided further, that the financial institution serving either as trustee or as fiscal agent for the local government or public authority holding the obligations subject to the repurchase agreement hereunder or the depository issuing the safekeeping receipt shall not be the provider of the repurchase agreement;
 - b. A valid and perfected first security interest in the obligations which are the subject of such repurchase agreement has been granted to the local government or public authority or its assignee or book entry procedures, conforming, to the extent practicable, with federal regulations and satisfactory to the local government or



CITY OF HENDERSONVILLE INVESTMENT POLICY

- public authority have been established for the benefit of the local government or public authority or its assignee;
- c. Such securities are free and clear of any adverse third party claims; and
 - d. Such repurchase agreement is in a form satisfactory to the local government or public authority.
- 13) In connection with funds held by or on behalf of a local government or public authority, which funds are subject to the arbitrage and rebate provisions of the Internal Revenue Code of 1986, as amended, participating shares in tax-exempt mutual funds, to the extent such participation, in whole or in part, is not subject to such rebate provisions, and taxable mutual funds, to the extent such fund provides services in connection with the calculation of arbitrage rebate requirements under federal income tax law; provided, the investments of any such fund are limited to those bearing one of the two highest ratings of at least one nationally recognized rating service and not bearing a rating below one of the two highest ratings by any nationally recognized rating service which rates the particular fund.
- d) Investment securities may be bought, sold, and traded by private negotiation, and local governments and public authorities may pay all incidental costs thereof and all reasonable costs of administering the investment and deposit program. Securities and deposit certificates shall be in the custody of the finance officer who shall be responsible for their safekeeping and for keeping accurate investment accounts and records.
 - e) Interest earned on deposits and investments shall be credited to the fund whose cash is deposited or invested. Cash of several funds may be combined for deposit or investment if not otherwise prohibited by law; and when such joint deposits or investments are made, interest earned shall be prorated and credited to the various funds on the basis of the amounts thereof invested, figured according to an average periodic balance or some other sound accounting principle. Interest earned on the deposit or investment of bond funds shall be deemed a part of the bond proceeds.
 - f) Registered securities acquired for investment may be released from registration and transferred by signature of the finance officer.
 - g) A local government, public authority, an City eligible to participate in the Local Government Employee's Retirement System, or a local school administrative unit may make contributions to a Local Government Other Post-Employment Benefits Trust established pursuant to G.S. 159-30.1
 - h) A unit of local government employing local law enforcement officers may make contributions to the Local Government Law Enforcement Special Separation Allowance Fund established in G.S. 147-69.5. (1957, c. 864, s. 1; 1967, c. 798, ss. 1, 2; 1969, c. 862; 1971, c. 780, s. 1; 1973, c. 474, ss. 24, 25; 1975, c. 481; 1977, c. 575; 1979, c. 717, s. 2; 1981, c. 445, ss. 1-3; 1983, c. 158, ss. 1, 2; 1987, c. 672, s. 1; 1989, c. 76, s. 31; c. 751, s. 7(46); 1991 (Reg. Sess., 1992), c. 959, s. 77; c. 1007, s. 40; 1993, c. 553, s. 55; 2001-193, s. 16; 2001-487, s. 14(o); 2005-394, s. 2; 2007-384, ss. 4, 9; 2010-175, s. 1; 2013-305, s. 1.)
 - i) Collateralization
 1. As required by G.S. 159-31(b) – Selection of depository; deposits to be secured, full collateralization will be required on all funds on deposit or deposited at interest.



CITY OF HENDERSONVILLE INVESTMENT POLICY

2. The finance director is to notify the depository at the time a new deposit account is opened or a certificate of deposit is purchased that the account is a public deposit account subject to the collateralization requirements. \
3. Authorized Collateral
Acceptable collateral for bank deposits and repurchase agreements shall include only:
 - a. Obligations of the U.S. Government, its agencies and GSEs, including mortgage backed securities
 - b. Obligations of any state, city, county or authority rated at least AA by two nationally recognized statistical rating organizations.

XI. Investment Parameters

1. Mitigating credit risk in the portfolio.

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. The City of Hendersonville shall mitigate credit risk by adopting the following:

The investments shall be diversified by:

- i. Limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities). No more than 5% of the City's investment funds may be invested in a specific company's commercial paper and no more than 20% of the City's investment funds may be invested in commercial paper.
 - ii. limiting investment in securities that have higher credit risks,
 - iii. Investing in securities with varying maturities, and continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations. No more than 30% of the City's investments may be invested in any one US Agency's Securities.
- #### **2. Mitigating market risk in the portfolio.**

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The City of Hendersonville recognizes that, over time, Longer- term/core portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The City of Hendersonville shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The City of Hendersonville further recognizes that certain types of securities, including variable rate securities, securities with principal pay downs prior to maturity, differently in different interest rate environments. The City of Hendersonville, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- a. The City of Hendersonville shall maintain a minimum of three months of budgeted operating expenditures in short term investments to provide sufficient liquidity for expected disbursements
- b. The maximum percent of callable securities in the portfolio shall be 15%;
- c. The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy; and,
- d. Liquidity funds will be held in the State Pool or in money market instruments maturing one year and shorter.



CITY OF HENDERSONVILLE INVESTMENT POLICY

- e. Longer term/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 1 day and 5 years and will be only be invested with securities as defined in section X of this policy.
3. Total Portfolio Maturity Constraints:
 - a. Exception to 5-year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.
 - b. 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 subsequent to the purchase of a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular security. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made.

XII. Performance Standards/ Evaluation

The performance of investments will be measured against the performance of the Local Government Investment Pool, Preservation of capital and maintenance of sufficient liquidity will be considered prior to attainment of market return performance. Given these considerations, the City's portfolio should provide a net yield that is equal or better to that attained by the Local Government Investment Pool over interest rate cycles. When comparing the performance of the City's portfolio, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.

XIII. Reporting/Disclosure

1. Methods
 - a. The investment officer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter.
 - b. This management summary will be prepared in a manner which will allow the City of Hendersonville to ascertain whether investment activities during the reporting period have conformed to the investment policy.
 - c. The report should be provided to the City Manager and the City Council.
2. Statutorily Required Reports

The Finance Director shall prepare and timely file the following reports:

 - a. A "Notification of Public Deposit" on Form INV-91 with each depository and provide a copy to the State Treasurer as of June 30 of each year;
 - b. The semi-annual reports on Form LGC 203 required to be filed with the Local Government Commission pursuant to G.S. 159-33 – Semiannual report on status of deposits and investments;



CITY OF HENDERSONVILLE INVESTMENT POLICY

- c. The annual Financial Information Report (“AFIR”) required to be filed with the Local Government Commission pursuant to G.S. 159-33.1 – Semiannual report of financial information; and
- d. Such other report as may be required.

3. Annual audit

Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls. Such audit will include tests deemed appropriate by the auditor.

XIV. Policy Considerations

This policy shall be reviewed on an annual basis. Any changes must be approved by the City Council.

XV. Approval of Investment Policy

The investment policy and any modifications to that policy shall be formally approved and adopted by the governing body of the City of Hendersonville.