

SUBJECT: INVESTMENT POLICY

Governing Authority

Legality: The investment program shall be operated in conformance with federal, state, and other legal requirements, including Wis. Stat. § 66.0603 and ch. 881.

Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds.

Pooling of Funds: Except for cash in certain restricted and special funds, the City of Madison will consolidate cash and reserve balances from all 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.

General Objectives

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

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

a. Credit Risk: The City of Madison will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed elsewhere in this Investment Policy.
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City of Madison will do business in accordance with the section titled Suitable and Authorized Investments.
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

The City of Madison will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market 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 and limiting the average maturity of the portfolio in accordance with this policy.

2. Liquidity

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

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 and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

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

4. Local Considerations

Where possible, funds may be invested for the betterment of the local economy or that of local entities within Wisconsin. The City of Madison may accept a proposal from an eligible institution which provides for a reduced rate of interest provided that such institution documents the use of deposited funds for community development projects.

5. Socially Responsible Investing

Investments in corporate equities and bonds will be limited to companies with an Environmental, Social and Governance (ESG) score within the top 50% of the ranking index and consistent with Common Council authorized guidance.

Standards of Care

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 responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

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,

considering the probable safety of their capital as well as the possible income to be derived.”

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Madison.

3. Delegation of Authority

Authority to manage the investment program is granted to the Treasury and Revenue Manager under the supervision of the Finance Director (hereinafter referred to as investment officer) and derived from the following: MGO 3.055 and Wis. Stat. § 62.09(9). 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.

Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. 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.

Authorized Financial Institutions, Depositories, and Broker/Dealers

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

A list will be maintained of financial institutions and depositories authorized to provide investment services. The full extent of services offered by Disadvantaged Business Enterprises (DBE) financial institutions will be thoroughly investigated. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness, experience, and other relevant factors, such as a Financial Industry Regulatory Authority (FINRA) broker review and reasonable efforts to utilize DBE firms.

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

- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines.
- Proof of FINRA certification (not applicable to Certificate of Deposit counterparties).
- Proof of state registration.
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties).

- Certification of having read and understood and agreeing to comply with the City of Madison's investment policy.
- Evidence of adequate insurance coverage.

A regular review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer.

2. Minority and Community Financial Institutions

From time to time, the investment officer may choose to invest in instruments offered by minority and community financial institutions. In such situations, a waiver to certain parts of the criteria under Paragraph 1. within this section, may be granted. All terms and relationships will be fully disclosed prior to purchase and will be reported to the mayor on a consistent basis and should be consistent with state or local law. These types of investment purchases should be approved by the Finance Committee in advance.

Safekeeping and Custody

1. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

2. Safekeeping

Securities will be held by an independent third-party custodian selected by the City of Madison as evidenced by safekeeping receipts in the city's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. Internal Controls

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Madison are protected from loss, theft, or misuse. Details of the internal controls system shall be documented in an investment procedures manual and shall be reviewed and updated annually. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Suitable and Authorized Investments

1. Investment Types

The following investments will be permitted by this policy and are those defined by state and local law where applicable:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value (e.g., debt issued by the Federal National

Mortgage Association, Federal Home Loan Mortgage Corp, Federal Home Loan Bank, Federal Farm Credit Bank);

- Certificates of deposit and other evidences of deposit in any credit union, bank, savings bank, trust company or savings and loan association which is authorized to transact business in Wisconsin if the time deposits mature in not more than 3 years;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1 or higher) by a nationally recognized rating agency;
- Investment-grade obligations of state and local governments and public authorities which mature or which may be tendered for purchase at the option of the holder within not more than 7 years of the date on which it was acquired;
- Any corporate security which matures or which may be tendered for purchase at the option of the holder within not more than 7 years of the date on which it is acquired, if that security has a rating which is the highest or 2nd highest rating category assigned by a nationally recognized rating agency (e.g., Standard & Poor's, Moody's);
- Repurchase agreements whose underlying securities consist of U.S. Treasury obligations or U.S. government agency or instrumentality obligations;
- Money market mutual funds regulated by the Securities and Exchange Commission and invested primarily in government or government agency money market instruments;
- Local government investment pools administered by the state of Wisconsin or developed through joint powers statutes and other intergovernmental agreement legislation.

2. Collateralization

All demand deposit accounts, including checking accounts and non-negotiable certificates of deposit, should be fully collateralized.

3. Repurchase Agreements

Repurchase agreements shall be consistent with the Recommended Practices on Repurchase Agreements of the Government Finance Officers Association.

Investment Parameters

1. Diversification

The investments shall be diversified by:

- limiting investments to avoid over-concentration in securities from a specific issuer or business sector. In general, no limits are necessary for U.S. Treasury securities; no more than 40% should be invested in a single government agency issuer; no more than 20% in a single money market fund (excluding the Wisconsin LGIP); no more than 10% in corporate bonds; no more than 10% in commercial paper; no more than 3% in a single issuer of corporate bonds; and no more than 3% in a single issuer of commercial paper. In no case should combined corporate bond/commercial paper holdings in a particular business sector exceed 10%;
- 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.

2. Maximum Maturities

To the extent possible, the City of Madison shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Madison will not directly invest in securities maturing more than ten (10) years from the date of purchase or in accordance with state and local statutes or ordinances. Reserve funds remaining after short-term fund requirements are met will be invested using a "laddered maturity" approach. This portfolio should have a weighted average maturity (WAM) of less than 5 years. The exception will be investments made to coincide as nearly as practicable with the expected use of funds. Care will be taken that any securities purchased be liquid with an active secondary market that can be accessed if it becomes necessary to sell a security prior to its maturity.

3. Competitive Bids

The investment officer shall obtain competitive bids from at least two brokers or financial institutions on all purchases of investment instruments purchased on the secondary market.

4. Management

The Investment Officer may consult with internal and external partners regarding the diversification of the portfolio and cash management.

5. Limitations on nuclear weapons producers

The investment officer shall not invest City of Madison funds in companies that produce nuclear weapons and will limit the amount invested to U.S. Treasury securities to no more than 20% of the investment portfolio unless otherwise required by Bond indentures or other contractual requirements or through either waiver by the Finance Director for up to 50% of the portfolio and waiver above 50% of the portfolio by the Finance Committee.

Reporting

1. Methods

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. This management summary will be prepared in a manner which will allow the City of Madison to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the mayor, the Finance Committee, and other entities whose funds are pooled with the city's funds. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains and losses resulting from appreciation or depreciation by listing the cost and market value of securities.

- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- List of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.
- Demographic data for broker/dealers engaged for City investments.

2. Performance standards

The City of Madison's cash management portfolio shall be designed with the objective of regularly meeting or exceeding the average return on three-month U.S. Treasury bills.

3. Marking to Market

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

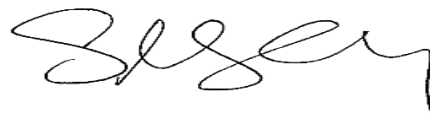
Policy Considerations

1. Exemption

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

2. Amendments

This policy shall be reviewed on an annual basis. Any changes must be approved by the investment officer and any other appropriate authority, as well as the individuals charged with maintaining internal controls.



Satya Rhodes-Conway
Mayor

APM 1-7
November 5, 2024

Original APM dated 7/14/2008
(Revised 11/25/2019)