

CITY OF LITTLETON INVESTMENT POLICY

POLICY PURPOSE

This Investment Policy supplements the Principles of Sound Financial Management – Policy 9 (Cash Management and Investment) adopted by the Council of the City of Littleton on November 6, 2018.

It is the policy of the City of Littleton (“the City”) to invest public funds in a manner that will provide preservation of capital, meet the daily liquidity needs of the City, diversify the City’s investments, conform to all local and state statutes governing the investment of public funds, and generate market rates of return a reasonable investment yield.

This Investment Policy addresses the methods, procedures and practices which must be exercised to ensure effective and judicious fiscal and investment management of the City’s funds. It replaces any previous investment policy or investment procedures of the City.

~~This Investment Policy was adopted by the City Council of the City of Littleton on March 13, 2013.~~

SCOPE

This Investment Policy shall apply to all funds accounted for in the City’s Comprehensive Annual Financial Report (CAFR).

Cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective balances relative to the total pooled balance in the investment portfolio. Interest earnings shall be distributed to the individual city funds on a monthly basis. The cash balances of entities holding an interest bearing account in their own name will not be included in the City’s pooled cash. This includes but is not limited to: Littleton Invests For Tomorrow (LIFT) and Littleton Building Authority (LBA) as well as some Special Revenue and Fiduciary accounts (Mindell W. Stein, J. Ernest Hockaday, and So Platte Park Irrigation.)

INVESTMENT OBJECTIVES

Funds shall be invested in accordance with all applicable City policies, State statutes and Federal regulations. The City’s principal investment objectives in priority order are:

- Safety. Preservation of capital, ~~and~~ protection of investment principal, and diversification to mitigate incurring unreasonable market risks.
- Liquidity. Maintenance of sufficient liquidity available cash to ~~meet anticipated cash flows~~ promptly pay the City’s financial obligations.

- Return on Investment. Attainment of a ~~market rate of return~~ reasonable yield on investments consistent with the safety and liquidity objectives.
- ~~Diversification to avoid incurring unreasonable market risks.~~
- ~~Conformance with all applicable City policies, State statutes and Federal regulations.~~

The Finance Director will determine whether a security will be sold prior to maturity. The following are examples of when a security might be sold prior to maturity:

- A security with a declining credit rating may be sold early to minimize loss of principal;
- A security swap ~~w~~could improve the quality, yield, return, or maturity distribution of the portfolio;
- Liquidity needs of the portfolio require that the security be sold; or
- The city will obtain a better rate of return on investments by taking advantage of market volatility and recognizing gains on a portion of the portfolio.

DELEGATION OF AUTHORITY

The Finance Director is vested with responsibility for managing the City's investment program and for implementing this Investment Policy. The Finance Director may delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. No person may engage in an investment transaction except as expressly provided under the terms of this Investment Policy.

The Finance Director shall establish procedures and internal controls for the operation of the City's investment program, designed to prevent loss of public funds due to fraud, error, misrepresentation and imprudent actions.

The City's Finance Director may engage the support services of outside investment advisors with respect to its investment program, so long as it can be demonstrated that these services produce a net financial advantage or necessary ~~financial~~ protection of the City's financial resources. All investments made through such investment advisors shall be within the guidelines of this Investment Policy.

PRUDENCE

The standard of prudence to be used for managing the City's investment program is the "prudent investor" standard applicable to a fiduciary, which states that a prudent investor "shall exercise the judgment and care, under the circumstances then prevailing, which men of prudence, discretion, and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of capital." (Colorado Revised Statutes [§ 15-1-304](#), Standard for Investments.)

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally without risk and that its investment activities are a matter of public record. Accordingly, the City recognizes that occasional measured losses may occur in a

diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the City.

The Finance Director and other authorized persons acting in accordance with established procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided appropriate action is taken to control adverse developments and ~~any significant~~ deviations from expectations are reported to the City Council ~~in the next monthly financial report~~ in a timely manner.

ETHICS AND CONFLICTS OF INTEREST

City employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the City's investment program or that could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees shall disclose to the Finance Director any material financial interest they have in financial institutions that conduct business with the City, and they shall subordinate their personal investment transactions to those of the City.

AUTHORIZED SECURITIES AND TRANSACTIONS

As a home rule city, the City may adopt a list of acceptable investment instruments differing from those outlined in C.R.S § 24-75-601.1, et. seq. which generally applies to the investment of public funds for state agencies. All investments will be made in accordance with the Colorado Revised Statutes as follows: C.R.S. 11-10.5-101, et seq. Public Deposit Protection Act; C.R.S. 24-75-601, et. seq. Funds – Legal Investments; C.R.S. 24-75-603, Depositories; and C.R.S. 24-75-702, Local governments – authority to pool surplus funds. Any revisions or extensions of these sections of the statutes will be assumed to be part of this Investment Policy immediately upon being enacted. However, in the event the amendments to these statutes conflict with this policy and past investments practices, the City may delay adherence to the new requirements when it is deemed in the best interest of the City to do so and the existing policy shall govern the City’s investments.

For the purposes of this policy, the diversification requirements are applicable to the overall portfolio holdings (the “Portfolio”) of the City, not on the basis of an individual portfolio.

The ratings requirements outlined in this section are those as published by Standard & Poor’s (“S&P”), a Nationally Recognized Statistical Rating Organization (“NRSRO”). Securities purchased may be rated by Standard & Poor’s, Moody’s Investors Service, or Fitch Ratings, therefore, the ratings equivalents of those entities as they relate to S&P are listed below:

LONG-TERM RATINGS		
<u>Standard & Poor's</u>	<u>Moody's Investors Service</u>	<u>Fitch Ratings</u>
<u>AAA</u>	<u>Aaa</u>	<u>AAA</u>
<u>AA+</u>	<u>Aa1</u>	<u>AA+</u>
<u>AA</u>	<u>Aa2</u>	<u>AA</u>
<u>AA-</u>	<u>Aa3</u>	<u>AA-</u>
<u>A+</u>	<u>A1</u>	<u>A+</u>
<u>A</u>	<u>A2</u>	<u>A</u>
<u>A-</u>	<u>A3</u>	<u>A-</u>

SHORT-TERM RATINGS		
<u>Standard & Poor's</u>	<u>Moody's Investors Service</u>	<u>Fitch Ratings</u>
<u>A-1+</u>	<u>P-1</u>	<u>F1+</u>
<u>A-1</u>	<u>P-1</u>	<u>F1</u>

Sources: Standard & Poor's Corporation, Moody's Investors Service, Fitch Ratings

This Investment Policy further restricts the investment of City funds to the following types of securities and transactions:

1. U.S. Treasury Obligations: Any security issued by, fully guaranteed by, or for which the full credit of the United States Treasury is pledged for payment including, but not limited to, Treasury bills, Treasury notes, Treasury bonds and Treasury STRIPS with maturities not exceeding five years from the date of trade settlement. The City may invest up to 100% of the book value of its investment portfolio in U.S. Treasury Obligations.

2. Federal Agency and Instrumentality Securities: ~~Debentures, discount notes, callable securities, step-up securities and stripped principal or coupons with maturities not exceeding five years from the date of trade settlement issued by the following only~~Any security issued by, fully guaranteed by, or for which the full credit of the following is pledged for interest: ~~the fFederal nNational mMortgage aAssociation (FNMA), The Federal-federal Farm-farm Credit-credit Bbanks (FFCB), the federal land bank, Federal Agricultural Mortgage Corporation (FAMCA), a fFederal hHome lLoan bBanks (FHLB), the fFederal hHome lLoan Mortgage-mortgage Corporation-corporation (FHLMC), and the Private Export Funding Company (PEFCO)~~the export-import bank, the Tennessee Valley Authority, the government national mortgage association, the world bank, or an entity or organization that is not listed in this paragraph but that is created by, or the creation of which is authorized by, legislation enacted by the United States congress and that is subject to control by the federal government that is at least as extensive as that which governs an entity or organization listed in this paragraph. Such securities shall be rated at least AA- or the equivalent at the time of purchase by at least two NRSROs and have maturities not exceeding five years from the date of trade settlement. The City may invest up to 100% of the book value of its investment portfolio in Federal Agency and Instrumentality Securities and no more than 30% of the City's investment portfolio may be invested in the obligations of a single issuer. Subordinated debt may not be purchased.

~~2.~~

3. Repurchase Agreements with a termination date of ~~180-90~~ days or less collateralized by U.S. Treasury ~~Obligations,~~ or Federal Agency ~~securities or~~ Federal Instrumentality securities listed in 1. and 2. above with a final maturity not exceeding ten years. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the transaction. Collateral shall be held by the City's third-party custodian bank, and the market value of the collateral securities shall be marked-to-the market daily. ~~The financial institution that holds City securities for safekeeping is known as the "custodian" (Please see the "Safekeeping" section for additional information).~~ Repurchase Agreements shall be entered into only with broker/dealers recognized as primary dealers by the Federal Reserve Bank of New York, or with firms that have a primary dealer within their holding company structure. Approved Repurchase Agreement counterparties ~~if rated,~~ shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent by ~~each a Nationally Recognized Statistical Rating Organization (NRSRO) that rates them.~~ Repurchase agreement counterparties shall execute a City-approved Master Purchase Agreement with the City. The City may invest up to 35% of the book value of its investment portfolio in Repurchase Agreements and no more than 5% of the City's investment portfolio may be invested with a single counterparty.

4. Commercial Paper ~~issued by domestic corporations~~ with an original maturity of 270 days or less ~~issued by any corporation or bank.~~ Such securities must be U.S. dollar-denominated and that is rated at least A-1, P-1 or the equivalent at the time of purchase by at least two NRSROs, and rated not less by all NRSROs that rate the commercial paper. ~~If the commercial paper issuer has senior debt~~

~~outstanding, it must be rated at least AA-, Aa3 or the equivalent at the time of purchase by at least two NRSROs and rated not less by all NRSROs that rate the issuer. The City may invest up to 4035% of the book value of its investment portfolio in these securities as long as the aggregate investment in commercial paper and corporate debt does not exceed 20% of the City's investment portfolio, and no more than 540% of the City's investment portfolio may be invested in the obligations of any one issuer.~~

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5. ~~Corporate Debt~~ with a maturity not exceeding ~~three-five~~ years from the date of trade settlement ~~and~~, issued by any corporation or bank ~~organized and operating within the United States. The debt~~Such securities must be U.S. dollar-denominated ~~and must be~~ rated at least AA-, Aa3 or the equivalent ~~at the time of purchase~~ by at least two NRSROs, ~~and rated not less by any NRSRO that rates it.~~ The City may invest up to ~~4035%~~ of the book value of its investment portfolio in ~~corporate debt these securities as long as the aggregate investment in commercial paper and corporate debt does not exceed 20% of the City's investment portfolio,~~ and no more than ~~540%~~ of the City's investment portfolio may be invested in the obligations of any one issuer.

6. ~~Municipal Bonds, General Obligation Bonds, Revenue Obligation Bonds and Certificates of Participation of state or local governments with a maturity not exceeding five years from the date of trade settlement. issued by any state in the United States, the District of Columbia, or any territorial possession of the United States or of any political subdivision, institution, department, agency, instrumentality, or authority of any of such governmental entities. Such obligations must be rated at least A or the equivalent by at least two NRSRO's. The City may invest up to 35% of the City's investment portfolio in municipal bonds and no more than 5% of the City's investment portfolio may be invested in the obligations of a single issuer.~~

7. ~~Negotiable Certificates of Deposit ("Negotiable CDs") with a maturity not exceeding five years from the date of trade settlement and issued by in any FDIC insured state or national bank located in Colorado that is an eligible public depository as defined in C.R.S. 11-10.5-103. Certificates of deposit that exceed FDIC insurance limits shall be collateralized as required by the Public Deposit Protection Act. Negotiable CD's must be U.S. dollar-denominated. If applicable, these investments must, at the time of purchase have either a) a long-term rating of at least AA- or the equivalent by at least two NRSROs, or b) short term ratings of A-1 or the equivalent by two NRSROs. The City may invest up to 35% of its investment portfolio in Negotiable CDs, and no more than 5% of the City's investment portfolio may be invested in a single issuer. with a maturity not to exceed five years and principal investment (plus one year's accrued interest) not to exceed the FDIC insured limit at the time of purchase.~~

8. ~~Non-negotiable Certificates of Deposit ("Time CDs") with a maturity not exceeding five years in any FDIC insured state or national bank located in Colorado that is an eligible public depository as defined in C.R.S. § 11-10.5-103. Certificates of deposit that exceed FDIC insurance limits shall be collateralized as required by the Public Deposit Protection Act. The City may invest up to 20%~~

of its investment portfolio in Time CDs and no more than 5% of the City's investment portfolio may be invested in a single issuer.

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7.9. Local Government Investment Pools ("LGIPs") organized pursuant to the provisions of Article 75, Title 24, Part 7 of C.R.S. authorized under C.R.S. §24-75-702 that: a) are "no-load" (no commission or fee shall be charged on purchases or sales of shares); b) have a constant net asset value of \$1.00 per share; c) limit assets of the pool to those authorized by state statute; d) have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and e) have a rating of AAAM or the equivalent by one or more NRSROs. The City may invest up to 100% of its investment portfolio in LGIPs with no more than 50% of the City's investment portfolio in any one LGIP.

10. Money Market Mutual Funds registered under the Investment Company Act of 1940 that: 1) are "no-load" (no commission or fee shall be charged on purchases or sales of shares); 2) have seek a constant net asset value of \$1.00 per share; 3) limit assets of the fund to those authorized by state statute; 34) have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and 45) have a rating of AAAM or the equivalent by anyone or more NRSROs, or if the fund's assets are at least one billion dollars. The City may invest up to 100% of its investment portfolio in money market mutual funds with no more than 50% of the City's investment portfolio in any single fund.

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9. Municipal Bonds with a maturity not exceeding five years from the date of trade settlement, issued by any state in the United States, the District of Columbia, or any territorial possession of the United States or of any political subdivision, institution, department, agency, instrumentality, or authority of any of such governmental entities. A general obligation debt must be rated at least AA by at least two NRSRO's. A revenue obligation debt must be rated at least AA by at least two NRSRO's. The City may invest up to 20% of the City's investment portfolio, and no more than 10% of the City's investment portfolio may be invested in the obligations of any one issuer.

The portfolio shall be limited to an aggregate exposure of 50% for the following investment types: Commercial Paper, Bankers Acceptances, Corporate Debt and Negotiable Certificates of Deposit.

The foregoing list of authorized securities and transactions shall be strictly interpreted. Any deviation from this list must be pre-approved by the City Council.

The City may, from time to time issue bonds, the proceeds of which must be invested to meet specific cash flow requirements. In such circumstances and notwithstanding the paragraph immediately above, the reinvestment of debt issuance or related reserve funds may, upon the advice of Bond Counsel or financial advisors, deviate from the provisions of this Investment Policy with the written approval of the Finance Director.

SUMMARY OF ELIGIBLE INVESTMENTS AND TRANSACTIONS

The ratings requirements outlined in this summary grid of eligible investments and transactions are those as published by Standard & Poor's ("S&P"), a Nationally Recognized Statistical Rating Organization ("NRSRO"). Securities purchased may be rated by Standard & Poor's, Moody's Investors Service, or Fitch Ratings, therefore, the ratings equivalents of those referenced by S&P are outlined on page 3 of this policy.

<u>Security Type</u>	<u>Maximum Portfolio %</u>	<u>Maximum Issuer %</u>	<u>Maturity Restrictions</u>	<u>Rating Requirements</u>
<u>U.S. Treasuries</u>	<u>100%</u>	<u>100%</u>	<u>5 years</u>	<u>N/A</u>
<u>Federal Agencies and Instrumentalities</u>	<u>100%</u>	<u>30%</u>	<u>5 years</u>	<u>AA- by 2 NRSROs</u>
<u>Repurchase Agreements</u>	<u>35%</u>	<u>5%</u>	<u>90 days</u>	<u>N/A</u>
<u>Commercial Paper</u>	<u>35%</u>	<u>5%</u>	<u>270 days</u>	<u>A-1 by 2 NRSROs</u>
<u>Corporate Debt</u>	<u>35%</u>	<u>5%</u>	<u>5 years</u>	<u>AA- by 2 NRSROs</u>
<u>Municipal Bonds</u>	<u>35%</u>	<u>5%</u>	<u>5 years</u>	<u>A by 2 NRSROs</u>
<u>Negotiable Certificates of Deposit ("Negotiable CD's")</u>	<u>35%</u>	<u>5%</u>	<u>5 years</u>	<u>AA- or A-1 by 2 NRSROs (as applicable)</u>
<u>Non-negotiable Certificates of Deposits ("Time CDs")</u>	<u>20%</u>	<u>5%</u>	<u>5 years</u>	<u>N/A</u>
<u>Local Government Investment Pools</u>	<u>100%</u>	<u>50%</u>	<u>N/A</u>	<u>AAAm by any NRSRO</u>
<u>Money Market Mutual Funds</u>	<u>100%</u>	<u>50%</u>	<u>N/A</u>	<u>AAAm by any NRSRO</u>

INVESTMENT DIVERSIFICATION

The City shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Nevertheless, the asset allocation in the investment portfolio should be flexible depending upon the outlook for the economy, the securities markets and the City's anticipated cash flow needs.

INVESTMENT MATURITY AND LIQUIDITY

The investment portfolio shall remain sufficiently liquid to meet all cash requirements that may be reasonably anticipated. To the extent possible, investments shall be matched with anticipated cash flows and known future liabilities. Investments shall be limited to maturities not exceeding five years from the date of trade settlement.

SELECTION OF BROKER/DEALERS

The Finance Director shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the City to purchase securities only from those authorized firms.

To be eligible, a firm must meet at least one of the following criteria:

1. Be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a Primary Dealer within its holding company structure,
2. Report voluntarily to the Federal Reserve Bank of New York,
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

The Finance Director will select broker/dealers on the basis of their expertise in public cash management and their ability to provide service to the City's account. Each authorized broker/dealer shall be required to submit and annually update a City approved Broker/Dealer Information Request form ~~that and~~ includes the firm's most recent financial statements.

~~The City may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in item 5 of the Authorized Securities and Transactions section of this Investment Policy.~~

COMPETITIVE TRANSACTIONS

All investment transactions shall be conducted competitively with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid or offering prices shall be recorded. If the City is offered a security for which there is no other readily available competitive offering, quotations for comparable or alternative securities will be documented.

SAFEKEEPING AND CUSTODY

The Finance Director shall approve one or more banks to provide safekeeping and custodial services for the City. A City approved safekeeping agreement shall be executed with each custodian bank. Each financial institution that holds City securities in safekeeping is known as a "custodian" bank. The City's safekeeping banks shall qualify as eligible public depositories as defined in C.R.S. ~~11-10.5-103~~ [§ 24-75-603](#).

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. Ownership of all securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except non-negotiable Certificates of Deposit, Local Government Investment Pools and Money Market Mutual Funds, purchased by the City

will be delivered by either book entry or physical delivery and will be held in third-party safekeeping by the City approved custodian bank, its correspondent bank or the Depository Trust Company (DTC).

~~All Fed wireable book entry securities shall be evidenced by a safekeeping receipt or a customer confirmation issued to the City by the custodian bank stating that the securities are held in the Federal Reserve system in a Customer Account for the custodian bank which will name the City as "customer."~~

~~All Depository Trust Company (DTC) eligible securities shall be held in the custodian bank's DTC participant account and the custodian bank shall issue a safekeeping receipt evidencing that the securities are held for the City as "customer."~~

The City's custodian will be required to furnish the City a monthly report of safekeeping activity, including a list of month-end holdings. In addition, safekeeping receipts or customer confirmations shall be issued for each transaction.

PERFORMANCE BENCHMARKS

The investment portfolio shall be designed to attain a ~~market rate of return~~reasonable investment yield throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the investment portfolio shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the investment portfolio's weighted average effective maturity. When comparing the performance of the investment portfolio, all fees involved with managing it shall be included in netted from the computation of its rate of return if it is practical to do so and the fees are material net of fees.

REPORTING

The Finance Director will submit, at minimum, a quarterly report to the City Council ~~listing summarizing~~ the investments held by the City by type as listed in the "Authorized Securities and Transactions" section of this policy. The summary report will include book and market values of the investments, selected portfolio characteristics and performance benchmark results. The City's external auditors will review the year-end investment report for accuracy and compliance with this policy and will report any material exceptions to the City Council.

~~The report shall include a summary of investment earnings during the period.~~

POLICY REVISIONS

This Investment Policy shall be reviewed annually by the Finance Director ~~and City Council~~ and may be amended by the City Council as conditions warrant.

Adopted: March 13, 2013

Revised: November 19, 2019