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(ITEM) From the Milwaukee County Treasurer, requesting authorization to modify Milwaukee County’s Investment Policies to preserve the security of Milwaukee County operating funds, by recommending adoption of the following:

A RESOLUTION

WHEREAS, a resolution was adopted in 1994 on the recommendation of the Department of Administration-Controller’s Division to establish specific investment policies; and

WHEREAS, it is necessary and appropriate to regularly review Milwaukee County’s investment policies and to recommend to the County Board such modifications to that policy that reflect appropriate investment strategies to meet the needs of changing economic conditions; and

WHEREAS, at its meeting of October 28, 2010, the Committee on Finance and Audit recommended adoption of the said request (vote 6-0) and at the November 4, 2010, meeting the County Board, in File No. 10-354, adopted those recommendations for improving the County’s investment policies; and

WHEREAS, pursuant to County ordinances, which call for a periodic review of the County’s investment policy, the Milwaukee County Treasurer is hereby submitting to the County Board the following recommendations to improve those policies; now, therefore,

BE IT RESOLVED, that the following recommended investment policy changes are hereby adopted and all respective designated investment advisors are directed to adhere to these policies in the investment of County funds.

jmj
03/13/14
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**COUNTY OF MILWAUKEE
STATEMENT OF INVESTMENT POLICY**

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I. INTRODUCTION

The intent of the investment policy of Milwaukee County is to define the parameters within which funds are to be managed. In methods, procedures, and practices the policy formalizes the framework for Milwaukee County’s investment activities that must be exercised to ensure effective and judicious fiscal and investment management of County funds. The guidelines are intended to be broad enough to allow the Milwaukee County Treasurer 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 will be operated in conformance with federal, state, and other legal requirements, including Wisconsin State Statutes 66.0603.

III. SCOPE

This investment policy applies to all financial assets held or controlled by Milwaukee County, other than pension fund assets, consistent with the intent of State of Wisconsin Statutes.

IV. OBJECTIVES

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

1. Safety. Safety of principal is the foremost objective of Milwaukee County’s investment program. Investments will be undertaken 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 will remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
3. Return. The investment portfolio will 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.
4. Local Interests. The County will support investment in local financial institutions to the maximum extent possible, consistent with all other investment objectives.

V. DELEGATION OF AUTHORITY

A copy of the investment policy will be provided on a regular basis to all current employees and agents of Milwaukee County responsible for making or influencing investment decisions. A copy of the investment policy will also be included in all future new or renewal contracts with similar third parties.

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1. Any investment managers, advisors, or other third parties acting on behalf of Milwaukee County will adhere to this investment policy.
2. The responsibility for conducting investment transactions rests with the Milwaukee County Treasurer, and in the absence of the Milwaukee County Treasurer, the Milwaukee County Deputy Treasurer is authorized to conduct investment transactions.
3. In accordance with a formal competitive Request for Proposals process, the County shall contract with one (1) or more investment managers or advisors with authority to make investment commitments consistent with this policy.

VI. STANDARDS OF CARE

1. PRUDENCE

The standard of prudence to be used by investment officials will be the “prudent person” standard and will be applied in the context of managing an overall portfolio. Investment of County funds will be made with judgment and care under circumstances in which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable income to be derived, optimal diversification, and the duration of the portfolio as a whole.

County personnel 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.

2. ETHICS AND CONFLICTS OF INTEREST

Officers, employees, and contractors involved in the investment process will 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 will disclose any material interests in financial institutions with which they conduct business. Employees and officers will refrain from undertaking personal investment transactions with the same individual(s) with whom business is conducted on behalf of Milwaukee County.

VII. AUTHORIZED FINANCIAL INSTITUTIONS AND DEPOSITORIES

1. DEPOSITORIES

123 All banks and savings and loans in the County doing business under Wisconsin State
124 or United States laws will be considered suitable depositories for Milwaukee County
125 deposits.

126
127 All financial institutions acting as a depository for the County must enter into a
128 depository agreement with the County as per Section VIII, paragraph A below.
129 Selection of financial institutions and depositories will be at the sole discretion of the
130 County.

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132 **2. MINORITY, EMERGING, AND COMMUNITY FINANCIAL INSTITUTIONS**

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134 From time to time, the Milwaukee County Treasurer may choose to invest in
135 instruments offered by minority, emerging, and community financial institutions. All
136 terms and relationships will be fully disclosed prior to purchase and will be reported to
137 the appropriate entity on a consistent basis and should be consistent with state or local
138 law.

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140 **VIII. AUTHORIZED INVESTMENTS**

141 Consistent with the Government Finance Officers Association Policy Statement on
142 Local Laws Concerning Investment Practices, the following investments will be
143 permitted by this policy and are those defined by Wisconsin State Statutes 66.0603
144 and Milwaukee County ordinances where applicable. If additional types of securities
145 are approved for investment of public funds by State Statute, they will not be eligible
146 for investment by Milwaukee County until this Policy has been amended and the
147 amended version adopted by the governing body.

148
149 **1. Time and other money market deposits of banks, trust companies, savings and**
150 **loans, credit unions.**

151
152 **A. Deposits over the Federal Deposit Insurance Corporation (FDIC) insured amount**
153 **are to be fully collateralized with an acceptable form of collateral, surety, or**
154 **other guarantee assuring the principal repayment to Milwaukee County.**

155
156 **Collateral:**

157 (1) All investment institutions acting as a depository for the County must enter
158 into a "depository agreement" requiring the depository to pledge collateral
159 to secure amounts over and above FDIC guaranteed amounts. All securities
160 serving as collateral will be specifically pledged to the County (not as part
161 of a pooled fund) and placed in a custodial account at a Federal Reserve
162 Bank, the trust department of a commercial bank, or through another
163 financial institution. The custodian may not be owned or controlled by the
164 depository institution or its holding company unless it is a separately
165 operated trust institution. The custodian will send statements of pledged
166 collateral to the Milwaukee County Treasurer's office on a monthly basis.

- 167 (2) Amounts in excess of FDIC guaranteed amounts must be fully
168 collateralized and held by a third party or fully insured by an insurance
169 company with an A rating or better by A.M. Best. Acceptable collateral
170 includes the following:
171 (a) Securities of the United States (U.S.) Treasury
172 (b) Agency or Government Sponsored Enterprise (GSE) securities are
173 acceptable as long as they are fully guaranteed.
174
- 175 B. CDARS – Certificates of Deposit Account Registry Service, a placement service
176 in which a member institution uses CDARS to place funds into Certificate of
177 Deposits (CD) issued by banks that are members of the Network. This occurs in
178 increments below the standard FDIC insurance coverage maximum, allowing for
179 coverage of principal and interest.
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- 181 C. ADM – American Deposit Management, CD placement service and other
182 depository placement services.
183
- 184 2. U.S. Treasury obligations, government agency securities, and GSEs. Obligations of
185 the United States of America, its agencies and GSEs, provided that the principal
186 and interest is guaranteed by the full faith and credit of the U.S. government.
187
- 188 3. Municipal Securities including general obligation bonds, essential service bonds
189 rated AA or higher, or securities of any county, city, drainage district, vocational,
190 technical and adult education district, village, town, or school district of the State of
191 Wisconsin.
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- 193 4. State of Wisconsin Investment Board’s Local Government Investment Pool.
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- 195 5. Repurchase Agreements (Repos). Investment agreements pursuant to which a federal
196 or state credit union, federal or state savings and loan association, state bank,
197 savings and trust company, mutual savings bank, or national bank in the State of
198 Wisconsin agrees to repay funds advanced to it by the issuer, plus interest.
199 Repurchase agreements are to be secured by investment securities fully guaranteed
200 by the U.S. government.¹
201
- 202 ¹A repurchase agreement with an approved financial institution provides for sell and
203 simultaneous purchase of allowable collateral security (securities fully guaranteed
204 by the U.S. government). The difference in the sales and purchase price is the
205 interest rate on the repo agreement. A master repurchase agreement must be in
206 place with the approved financial institution.
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- 208 6. Corporate securities. Issued by private corporations, these securities must be rated in
209 the highest or second highest rating category assigned by Standard and Poor’s
210 Corporation, Moody’s Investors Service, some other Nationally Recognized

211 Statistical Rating Organization (NRSRO), or senior to or on parity with a security of
212 the same issuer which has such a rating.

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214 7. Commercial paper, which may be tendered for purchase at the option of the holder
215 within not more than two hundred seventy (270) days of the date acquired as
216 permitted by Wisconsin Statutes Section 66.0603(1m). These securities must be
217 rated in the highest or second highest rating category assigned by Standard and
218 Poor's Corporation, Moody's Investors Service, NRSRO, or senior to or on parity
219 with a security of the same issuer which has such a rating.

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221 8. Money Market funds. Open-ended Money Market funds restricted to investments
222 permitted in Wisconsin Statute Section 66.0603(1m), limited to a maximum average
223 maturity of sixty (60) days or less.

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225 **IX. RESTRICTED INVESTMENTS**

226 The following restrictions will apply to any investments made by Milwaukee County:

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228 1. *Leveraged investments.* No investments will be made in reverse repurchase
229 agreements. Nor will any investments be made with funds borrowed through the
230 use of County investment assets as collateral.

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232 2. *Securities denominated in foreign currencies.* No investments will be made in the
233 securities denominated in a currency other than the U.S. dollar.

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235 All other investments not listed in section VIII Authorized Investments, or in section
236 IX Restricted Investments, are prohibited from consideration of investment. At any
237 time, the Milwaukee County Treasurer may desire to be more conservative in its
238 investments and may limit or restrict certain of the investments listed above.

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240 **X. INVESTMENT PARAMETERS**

241 Credit risk is the risk that a security or a portfolio will lose some or all of its value due
242 to a real or perceived change in the ability of the issuer to repay its debt. Milwaukee
243 County will mitigate credit risk utilizing the following strategies:

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245 1. *Diversification.* It is the policy of Milwaukee County to diversify its investment
246 portfolio. To eliminate risk of loss resulting from the over-concentration of assets in
247 a specific maturity, issuer, or class of securities, assets in all the County's funds will
248 be diversified by maturity, issuer, and class of security. Diversification strategies will
249 be determined and revised periodically by the Milwaukee County Treasurer for all
250 funds.

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252 2. *Liquidity.* Liquid funds will be held in the State Local Government Investment Pool
253 (LGIP), money market mutual funds, or other collateralized deposits and repurchase
254 agreements.

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3. Investment Rating Downgrade. Milwaukee County may from time to time be invested in a security whose rating is downgraded by a NRSRO. In the event of a downgrade below the minimum credit rating permitted by this investment policy, the investment advisor will report the downgrade and immediately advise the Milwaukee County Treasurer or designee on the action to be taken.

4. Market Risk. Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. Milwaukee County recognizes that, over time, longer-term/core portfolios have the potential to achieve higher returns. On the other hand, longer-term/core portfolios have higher volatility of return. The County will 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 County further recognizes that certain types of securities, including variable rate securities, securities with the principal paydowns prior to maturity, and securities with embedded options, will affect the market profile of the portfolio differently in different interest rate environments.

Milwaukee County, in order to control and mitigate its exposure to market risk, to the extent possible, will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the County will not directly invest in securities maturing more than ten (10) years from the date of purchase. For adjustable rate securities, the time to coupon reset will be used as the effective maturity date.

XI. SAFEKEEPING AND CUSTODY

1. Third Party Safekeeping. All securities purchased will be properly designated as an asset of Milwaukee County and will be evidenced by safekeeping receipts in Milwaukee County's name and held in safekeeping by a third-party custodial bank or other third-party custodial institution designated by Milwaukee County, and chartered by the U.S. Government or the State of Wisconsin. No withdrawal of such securities, in whole or in part, will be made from safekeeping except by the Milwaukee County Treasurer or a designee.

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

3. Internal Controls. The Milwaukee County Treasurer will establish and maintain internal controls designed to ensure that the assets of the County are protected from loss, theft, or misuse. The internal controls shall recognize that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and

298 benefits requires estimates and judgments by management. The internal controls
299 will include the following:

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- Control of collusion

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- Separation of transaction authority from accounting and recordkeeping

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- Avoidance of physical delivery of securities

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- Clear delegation of authority to subordinate staff members

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- Staff training

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The Milwaukee County Comptroller and an auditor will independently review the

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Milwaukee County Treasurer's investments to assure compliance with state law and

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these County policies and procedures.

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XII. REPORTING AND REVIEW

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The Milwaukee County Treasurer will prepare an investment report at least quarterly

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for the Finance, Personnel, and Audit Committee of the Milwaukee County Board of

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Supervisors and the Milwaukee County Comptroller.

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1. The report will contain a management summary, prepared in such a manner that

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will allow the Committee to determine whether investment activities during the

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reporting period have conformed to the investment policy.

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2. The report will also include a listing of individual securities and information on the

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percentage of the total portfolio, which each type of investment represents. (An asset

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listing showing par value, cost, and accurate and complete market value of each

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security, type of investment, issuer, and interest rate.)

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3. The report will also include actual year-to-date investment performance and the

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projected annual performance.

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This policy will be reviewed on an annual basis by the Milwaukee County Treasurer.

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Recommended modifications to these investment policies will be submitted to the

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Finance, Personnel, and Audit Committee of the Milwaukee County Board of

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Supervisors for consideration and approval. The Milwaukee County Board of

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Supervisors may make modifications to the investment policy at any time.