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(ITEM ) From the Milwaukee County Deputy Treasurer, requesting authorization to modify Milwaukee County’s Statement of Investment Policy, 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 policy and to recommend to the Milwaukee County Board of Supervisors such modifications to that policy that reflect appropriate investment strategies to meet the needs of changing economic conditions; and

WHEREAS, at its meeting of March 13, 2014, the Committee on Finance, Personnel, and Audit recommended adoption of File 13-891 inclusive of recommendations for improving the County’s investment policy (vote 9-0), and at the March 20, 2014, meeting of the Milwaukee County Board of Supervisors, said file was adopted as amended (vote 18-0); and

WHEREAS, pursuant to County ordinances which call for a periodic review of the County’s investment policy, the Deputy 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, hereto attached to this file, are hereby adopted and that all respective designated investment advisors are directed to adhere to these policies in the investment of County funds.

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**COUNTY OF MILWAUKEE  
STATEMENT OF INVESTMENT POLICY**

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**I. INTRODUCTION**

42 The intent of the investment policy of Milwaukee County is to define the parameters within  
43 which funds are to be managed. In methods, procedures, and practices the policy  
44 formalizes the framework for Milwaukee County's investment activities that must be  
45 exercised to ensure effective and judicious fiscal and investment management of County  
46 funds. The guidelines are intended to be broad enough to allow the Milwaukee County  
47 Treasurer to function properly within the parameters of responsibility and authority, yet  
48 specific enough to adequately safeguard the investment assets.

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**II. GOVERNING AUTHORITY**

51 The investment program will be operated in conformance with federal, state, and other  
52 legal requirements, including Wisconsin State Statutes 66.0603.

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**III. SCOPE**

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

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**IV. OBJECTIVES**

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

- 62 1. Safety. Safety of principal is the foremost objective of Milwaukee County's  
63 investment program. Investments will be undertaken in a manner that seeks to  
64 ensure the preservation of capital in the overall portfolio. The goal will be to  
65 mitigate credit risk and interest rate risk.
- 67 2. Liquidity. The investment portfolio will remain sufficiently liquid to meet all  
68 operating requirements that may be reasonably anticipated.
- 70 3. Return. The investment portfolio will be designed with the objective of attaining a  
71 market rate of return throughout budgetary and economic cycles, taking into  
72 account the investment risk constraints of safety and liquidity needs.
- 74 4. Local Interests. The County will support investment in local financial institutions  
75 to the maximum extent possible, consistent with all other investment objectives.

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**V. DELEGATION OF AUTHORITY**

78 A copy of the investment policy will be provided on a regular basis to all current  
79 employees and agents of Milwaukee County responsible for making or influencing  
80 investment decisions. A copy of the investment policy will also be included in all  
81 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**

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

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

## 2. MINORITY, EMERGING, AND COMMUNITY FINANCIAL INSTITUTIONS

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

## VIII. AUTHORIZED INVESTMENTS

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

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

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

Collateral:

(1) All investment institutions acting as a depository for the County must enter into a "depository agreement" requiring the depository to pledge collateral to secure amounts over and above FDIC guaranteed amounts. All securities serving as collateral will be specifically pledged to the County (not as part of a pooled fund) and placed in a custodial account at a Federal Reserve Bank, the trust department of a commercial bank, or through another financial institution. The custodian may not be owned or controlled by the depository institution or its holding company unless it is a separately

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

213 Corporation, Moody's Investors Service, some other Nationally Recognized  
214 Statistical Rating Organization (NRSRO), or senior to or on parity with a security of  
215 the same issuer which has such a rating.

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

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

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## 228 IX. RESTRICTED INVESTMENTS

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

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231 1. Leveraged investments. No investments will be made in reverse repurchase  
232 agreements. Nor will any investments be made with funds borrowed through the  
233 use of County investment assets as collateral.

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

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

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## 243 X. INVESTMENT PARAMETERS

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

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

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

257 agreements. The Treasurer shall confer with the Comptroller on the appropriate  
258 amount of funds to be held liquid to meet the County's operational needs  
259 throughout the year.

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

266

267 4. Market Risk. Market risk is the risk that the portfolio value will fluctuate due to  
268 changes in the general level of interest rates. Milwaukee County recognizes that,  
269 over time, longer-term/core portfolios have the potential to achieve higher returns.  
270 On the other hand, longer-term/core portfolios have higher volatility of return. The  
271 County will mitigate market risk by providing adequate liquidity for short-term cash  
272 needs, and by making longer-term investments only with funds that are not needed  
273 for current cash flow purposes. The County further recognizes that certain types of  
274 securities, including variable rate securities, securities with the principal paydowns  
275 prior to maturity, and securities with embedded options, will affect the market  
276 profile of the portfolio differently in different interest rate environments.

277

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

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## 285 XI. SAFEKEEPING AND CUSTODY

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

293

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

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299 3. Internal Controls. The Milwaukee County Treasurer will establish and maintain  
300 internal controls designed to ensure that the assets of the County are protected from

301 loss, theft, or misuse. The internal controls shall recognize that the cost of a control  
302 should not exceed the benefits likely to be derived and the valuation of costs and  
303 benefits requires estimates and judgments by management. The internal controls  
304 will include the following:

- 305
- 306 • Control of collusion
- 307 • Separation of transaction authority from accounting and recordkeeping
- 308 • Avoidance of physical delivery of securities
- 309 • Clear delegation of authority to subordinate staff members
- 310 • Staff training

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312 The Milwaukee County Comptroller and an auditor will independently review the  
313 Milwaukee County Treasurer's investments to assure compliance with state law and  
314 these County policies and procedures.

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## 316 **XII. REPORTING AND REVIEW**

317 The Milwaukee County Treasurer will prepare an investment report at least quarterly  
318 for the Finance, Personnel, and Audit Committee of the Milwaukee County Board of  
319 Supervisors and the Milwaukee County Comptroller.

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- 321 1. The report will contain a management summary, prepared in such a manner that  
322 will allow the Committee to determine whether investment activities during the  
323 reporting period have conformed to the investment policy.  
324
- 325 2. The report will also include a listing of individual securities and information on the  
326 percentage of the total portfolio, which each type of investment represents. (An asset  
327 listing showing par value, cost, and accurate and complete market value of each  
328 security, type of investment, issuer, and interest rate.)  
329
- 330 3. The report will also include actual year-to-date investment performance and the  
331 projected annual performance.

332

333 This policy will be reviewed on an annual basis by the Milwaukee County Treasurer.  
334 Recommended modifications to these investment policies will be submitted to the  
335 Finance, Personnel, and Audit Committee of the Milwaukee County Board of  
336 Supervisors for consideration and approval. The Milwaukee County Board of  
337 Supervisors may make modifications to the investment policy at any time.