TRIMET

Memo

Date: September 23, 2020

To: Board of Directors

From: Doug Kelsey

Subject: **RESOLUTION NO. 20-09-37 OF THE TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET) ADOPTING A REVISED INVESTMENT POLICY**

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1. **Purpose of Item**
   This Resolution requests that the TriMet Board of Directors (Board) adopt a revised Investment Policy (Policy).

2. **Type of Agenda Item**
   ☐ Initial Contract
   ☐ Contract Modification
   ☒ Other: Revised Investment Policy

3. **Reason for Board Action**
   State law and TriMet's Investment Policy require the Board to review the Policy on an annual basis.

4. **Type of Action**
   ☒ Resolution
   ☐ Ordinance 1st Reading
   ☐ Ordinance 2nd Reading
   ☐ Other _____________

5. **Background**
   Investment of public funds is controlled by Oregon statutes, primarily ORS Chapter 294. The Oregon Short Term Fund (OSTF) Board, part of the Oregon State Treasurer's office, provides guidance and makes recommendations to Oregon public entities with respect to their investment policies, with a focus on compliance with Oregon statutes and "best practices" for investment of public funds.

   As of June 30, 2020, TriMet's investment portfolio held over $650 million in various investment instruments. Approximately 70% of TriMet's portfolio consists of restricted investments (bonds, grants). TriMet's Investment Policy establishes the rules and guidelines governing how TriMet's funds may be invested and provides a framework for accountability, oversight and reporting with respect to District investments.

   An annual review of the Investment Policy is necessary because the Board has ultimate responsibility and authority for the investment of District funds. TriMet's Policy is ordinarily updated annually by Finance & Administrative Services, with review by the Board. When there are significant changes from one year to the next, TriMet submits the

Policy to the OSTF Board for review and approval. On July 7, 2020, TriMet's Policy was presented to the OSTF Board, and the OSTF Board made suggestions that have been incorporated into the updated Investment Policy.

This Resolution amends and replaces TriMet's existing Investment Policy, adopted in June 2017 by Resolution 17-06-54. The updated 2020 Policy is set forth in the attached Exhibit A – as a clean version and a red-lined version. The Policy revisions align with the OSTF Board's recommendations and best practices for investment policies for local governments.

Significant changes to the Investment Policy are summarized below:

- "Purpose" in Section 1.0 and "Scope" in Section 3.0 are further defined to exclude investments held by a trustee, such as TriMet's defined benefits plan trusts and other post-employment benefit trust fund. These trust funds are governed by separate rules and are outside the scope of the Policy.

- Section 4.0, "Liquidity," now includes language to ensure that a portion of the portfolio is invested in readily available funds and that the weighted average maturity of the portfolio does not exceed 24 months.

- Section 7.0, "Authorized and Suitable Investments," further defines specific investment instruments consistent with the OSTF Board's sample Investment Policy for Local Governments.

- Section 8.0, "Investment Parameters," presents a diversification table that includes a maximum percentage allowed in the portfolio by investment type and per issuer of that investment type. The percentage allowed for commercial paper and corporate bonds was increased from 10% to 25%, with a maximum of 5% per issuer. The OSFT Board allows up to 35% of the portfolio to be invested in commercial paper and corporate bonds, with a maximum of 5% per issuer.

- Section 8.2, "Interest Rate Risk," adds strategies to mitigate interest rate risk, and the glossary was updated to include a definition of Interest Rate Risk.

- Section 8.6, "Guideline Measurement & Adherence," includes language providing that during times of excessive cash flows (e.g., high payroll tax revenues), an investment may temporarily exceed thresholds, which is consistent with investment policies of other public entities.

- Section 10.0, "Investment Policy Adoption," includes exemption language providing that any investments held prior to the adoption of the Policy will be exempt from the new requirements, but at maturity, the funds shall be reinvested in compliance with the Policy.

6. **<u>Financial/Budget Impact</u>**

There will be no financial impact as a result of the adoption of TriMet's updated Investment Policy.

7. **Impact if Not Approved**
If the updates and revisions to TriMet's Investment Policy are not adopted, TriMet will not be in compliance with Oregon law and best practices with respect to the investment of public funds, as recommended by the OSTF Board.

RESOLUTION NO. 20-09-37

RESOLUTION NO. 20-09-37 OF THE TRI-COUNTY METROPOLITAN TRANSPORTATION DISTRICT OF OREGON (TRIMET) ADOPTING A REVISED INVESTMENT POLICY

WHEREAS, the TriMet Board of Directors (Board) originally adopted a Working Capital Investment Policy and Guidelines on May 25, 1988; and

WHEREAS, the Board adopted a revised Investment Policy on July 26, 1995, that was updated by the Board's Finance and Audit Committee in October of 2003; and

WHEREAS, the Investment Policy has subsequently been reviewed by the Board on an annual basis; and

WHEREAS, the Investment Policy is periodically revised and adopted as financial and statutory requirements change;

NOW, THEREFORE, BE IT RESOLVED:

That the TriMet Investment Policy is hereby revised and adopted as set forth in the attached Exhibit A.

Dated: September 23, 2020

Bruce Warner
____
Presiding Officer

Attest:

Kimberley Angove
____
Recording Secretary

Approved as to Legal Sufficiency

Gregory E. Skillman

Legal Department

Exhibit A

Policy Statement

It is the policy of the Tri-County Metropolitan Transportation District of Oregon (“TriMet” or “the District”) to invest public funds in a manner which will provide the maximum security with a market rate of investment return, while meeting daily cash flow requirements and conforming to all state statutes governing the investing of District funds.

Reference: Resolution 20-09-XX

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1.0 PURPOSE

This policy defines the parameters within which funds are to be invested by TriMet. This policy also formalizes the framework, pursuant to ORS 294.135, for TriMet's investment activities to ensure effective and judicious management of funds within the scope of this policy.

These guidelines are intended to be broad enough to allow designated investment staff to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies in order to ensure optimal cash availability. TriMet shall maintain a comprehensive cash management program that includes collection of accounts receivable, prudent investment of its available cash, disbursement of payment in accordance with invoice terms, and the management of banking services.

2.0 GOVERNING AUTHORITY

TriMet's investment program shall be operated in conformance with Oregon Revised Statutes and applicable Federal and State laws, IRS Regulations, GAAP and GASB guidelines and GFOA best practices. All funds within the scope of this policy are subject to laws established by the State of Oregon.

3.0 SCOPE

This Investment Policy applies to all activities of the District with regard to investing the financial assets of the District, with the exception of externally managed retirement plan assets, including the defined benefit plan trust funds and the other post-employment benefits trust fund. Deferred Compensation funds are governed by separate rules and not covered within this policy.

The District's funds are referred to as (1) **Unrestricted,** or (2) **Restricted.**

Unrestricted Funds
Unrestricted funds include general fund investments used to provide for operating, capital project expenditures and daily liquidity requirements.

Restricted Funds
Restricted funds are assets set aside to meet externally imposed legal and contractual obligations. Restricted assets are used in accordance with their requirements and where both restricted and unrestricted resources are available for use, restricted resources are used first. Restricted assets include certain proceeds from the District's bond sales, as well as certain resources set aside for their repayment, and capital contributions restricted for costs of certain capital projects.

4.0 OBJECTIVES

District's funds will be invested in a manner that is in conformance with federal, state and other legal requirements. In addition, the objectives, in order of priority, of the District's investment activities will be as follows:

4.1 **Preservation of Invested Capital.** The District's investments will be undertaken in a manner that seeks to ensure the preservation of capital. The goal is to mitigate credit risk and interest rate risk through diversification, maturity constraints and credit quality.

4.2 **Liquidity**. The District's unrestricted investment portfolio will remain sufficiently liquid to enable the District to meet all operating and capital spending requirements which are reasonably anticipated. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds. The portfolio's weighted average maturity shall not exceed twenty-four (24) months.

4.3 **Return.** The District's investment portfolio will be structured with the objective of attaining a market rate of return throughout economic cycles, taking into consideration the safety and liquidity needs of the portfolio. Although return consists of both principal return (gains and losses due to market value fluctuations) and income return (yield), this policy discourages active trading and turnover of investments. Investments should generally be held to maturity.

5.0 STANDARDS OF CARE

5.1 **Delegation of Authority**

5.1.1 The ultimate responsibility and authority for the investment of District funds resides with the governing body – the Board of Directors. The Board hereby designates the Executive Director of Finance and Administration ("CFO") to manage the investment program and ensure compliance with the investment policy, designate eligible investment securities, prepare and review periodic investment reports and monitor investment transactions.

5.1.2 The CFO may designate personnel under his/her supervision to administer the policy, place investments, maintain accounting records, and prepare investment reports. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the CFO. The CFO shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of personnel under his/her supervision. All participants in the investment process will seek to act responsibly as custodians of the public trust.

5.1.3 Subject to required procurement procedures, the District may engage the services of external investment manager(s) to assist in the management of the District's investment portfolio in a manner consistent with this investment policy. Investment professionals may be hired on a non-discretionary basis. All investment transactions by approved investment professionals must be pre-approved in writing and compliant with this investment policy. External investment providers will be licensed with the State of Oregon Division of Finance and Regulation and subject to Oregon Revised Statutes and the provisions of this investment policy.

5.2 **Prudence**

5.2.1 The standard of prudence to be used by the CFO and any designees in the context of managing the overall portfolio shall be the prudent person standard which states: *Investments will 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*.

5.2.2 The District's CFO and staff acting in accordance with this investment policy, written procedures, and Oregon Revised Statutes 294.035 and 294.040 and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes or other loss, provided deviations from expectations are reported and appropriate action is taken to control adverse developments in a timely fashion as defined by this policy.

5.3 **Ethics and Conflict of Interest**

5.3.1 Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Such employees shall disclose any material interests in financial institutions with which they conduct District business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Officers and employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of TriMet. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244 and the District's Conflict of Interest Policy.

6.0 SAFEKEEPING, CUSTODY AND AUTHORIZED DEALERS

6.1 **Custody**

6.1.1 ***Delivery vs. Payment***. All trades of marketable securities will be executed (cleared and settled) by delivery vs. payment (DVP) to ensure that securities are deposited in TriMet's safekeeping institution prior to the release of funds.

6.1.2 ***Safekeeping.*** All safekeeping arrangements shall be designated by the CFO and an agreement of the terms executed in writing. The third-party custodian shall be required to issue original safekeeping receipts to the District listing each specific security, rate, description, maturity, and CUSIP number. Each safekeeping receipt will clearly state that the security is held for the District or pledged to the District. Upon request, the safekeeping institution shall make available a copy of its Statement of Standards for Attestation Engagements (SSAE) No. 16.

6.2 **Depositories**

All financial institutions utilized as depositories for funds of the District as defined by ORS Chapter 295, must be included on the qualified Oregon Depositories list.

6.3 **Authorized Financial Dealers**

The District shall maintain a maximum of four broker/dealers that are approved to transact with the District for investment purposes. Any firm is eligible to make an application to the CFO provided that they can meet the minimum criteria stated below. Additions and deletions to the list will be made at the District's discretion.

6.3.1 ***Authorized firms.*** Authorized Broker/Dealer firms must meet the following minimum criteria:

- Provide proof of Securities and Exchange Commission (SEC) registration.
- Provide proof of Financial Industry Regulatory Authority (FINRA) registration.
- Provide most recent audited financials.
- Provide FINRA Focus Report filings.
- Provide positive references from at least three other local government clients.
- Complete the TriMet Broker/Dealer questionnaire.

6.3.2 ***Approved Employees.*** Authorized Broker/Dealer employees who execute transactions with TriMet must meet the following minimum criteria:

- Be a registered representative with the Financial Industry Regulatory Authority (FINRA);
- Be licensed by the state of Oregon;
- Provide certification (in writing) of having read; understood; and agreed to comply with the most current version of this investment policy.
- Provide notification (in writing) within 30 days of any formal investigations or disciplinary actions initiated by federal or state regulators.

6.3.3 ***Periodic review.*** A periodic review of all authorized broker/dealers and their respective authorized registered representatives will be conducted by the CFO, or their designee.

6.4 **Accounting Method**

The District shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies including but not necessarily limited to, the Governmental Accounting Standards Board (GASB); the American Institute of Certified Public Accountants (AICPA); and the Financial Accounting Standards Board (FASB).

6.5 **Internal Controls and Audit**

6.5.1 The CFO is responsible for establishing and maintaining an adequate internal control structure designed to reasonably assure that invested funds are invested within the parameters of this investment policy, and protected from loss, theft or misuse. Internal controls shall be documented in writing and updated periodically.

6.5.2 The District may enter into contracts with third-party investment advisory firms or financial consultants when their services are deemed to be beneficial to the District. The advisor or consultant will serve as a fiduciary for the District and must comply with this Investment Policy. The advisor or consultant may only act on a non-discretionary basis. Therefore, the advisor or consultant must present investment recommendations and receive approval to execute the recommendation from the CFO, or designee, prior making purchases or sells on behalf of the District.

6.5.3 An external audit will be performed on an annual basis. The audit will include procedures to assure compliance with Oregon state law.

7.0 AUTHORIZED AND SUITABLE INVESTMENTS

7.1 **Authorized Investments**

All investments of the District shall be made in accordance with Oregon Revised Statutes: ORS 294.035 (*Investment of funds of political subdivisions; approved investments*), ORS 294.040 (*Restriction on investments under ORS 294.035*), ORS 294.135 (*Investment maturity dates*), ORS 294.145 (*Prohibited conduct for custodial officer including not committing to invest funds or sell securities more than 14 business days prior to the anticipated date of settlement*), ORS 294.805 to 294.895 (*Local Government Investment Pool*), and ORS 294.052 *(Investment by Municipality of Proceeds of Bonds).* Any revisions or extensions of these sections of the ORS Chapter shall be assumed to be part of this Investment Policy immediately upon being enacted.

If additional types of securities become eligible for investment under Oregon state statute, investment in such securities shall not be permitted until this Policy has been amended and the amended version adopted by TriMet.

7.2 **Suitable Investments and Cash Management Tools**

Type	Definition
U.S. Treasury Obligations	Direct obligations of the United States Treasury that carry the full faith and credit guarantee of the United States for the timely payment of principal and interest (ORS 294.035).
U.S. Agency Obligations and Instrumentalities	Senior debenture obligations of U.S. federal agencies and instrumentalities or U.S. Government Sponsored Enterprises (*GSEs*) – Federal Instrumentality Securities.
Corporate Indebtedness – Commercial Paper	Debt obligations of corporate issuers that are exempt securities under Section 3(a)(2) or 3(a)(3) of the Securities Act of 1933, that are rated on the settlement date at least P-1 by Moody's and A-1+ by Standard and Poor's. In the event of multiple ratings, the lowest rating will be utilized to be conservative and insure compliance with statute.
Corporate Indebtedness – Corporate Bonds	Securities issued by corporations with a rating on the settlement date of Aa3 or better by Moody's Investors Service or AA- or better by Standard & Poor's. These debt obligations may be purchased only if there has been no default in payment of either the principal or interest on the obligations of the issuing entity for a period of five years preceding the date of the investment. (ORS 294.035). In the event of multiple ratings, the lowest rating will be utilized to be conservative and insure compliance with statute.
Bankers' Acceptance	Bankers' Acceptances that are rated at least P-1 by Moody's and A-1+ by Standard and Poor's. They must be issued by qualified financial institutions eligible for discount by the Federal Reserve System and by a qualified institution whose short-term credit rating is rated in the highest category by one or more nationally recognized rating organizations. (ORS 294.035).

Type	Definition
Oregon Short Term Fund (Local Government Investment Pool)	The Local Government Investment Pool, (LGIP) also named the Oregon Short Term Fund (OSTF) is an open-ended, no-load diversified portfolio offered to eligible participants that includes, but is not limited to, any municipality, political subdivision or public corporation of the State of Oregon that by law is made the custodian of, or has control of, any public funds. The LGIP is commingled with the State of Oregon's short term funds. The OSTF is allowed to invest up to 50% of the funds in corporate securities down to a single A rating. The maximum maturity is 3 years and 50% of the pool must mature or reset within 93 days. The portfolio is managed by Treasury professionals at the State of Oregon. The fund is expected to maintain $1.00 per every dollar put into the fund, but $1.00 Net Asset Value is not guaranteed. The District's total fund balance held in the pool is limited by statute (ORS 294.810).
Time Deposit Open Accounts, Certificates of Deposit and Savings Accounts	Held in insured institutions as defined in ORS Section 706.008 that maintains an office in Oregon. All deposits certificates of deposit and savings accounts purchased shall be FDIC insured or collateralized in accordance with the provisions of ORS Chapter 295.
Municipal Debt Obligations	Lawfully issued debt obligations of the agencies and instrumentalities of the State of Oregon and its political subdivisions. Also, lawfully issued debt obligations of the State of California, Idaho, Washington, and their political subdivisions. These debt obligations must have a long-term debt rating of AA- or better by Standard & Poor's or Aa3 or better by Moody's Investors Service. These debt obligations may be purchased only if there has been no default in payment of either the principal or interest on the obligations of the issuing entity for a period of five years preceding the date of the investment. (ORS 294.035, ORS 295.040).

Ratings requirements are determined at the time of purchase. If the credit rating of a security is subsequently downgraded below the minimum required rating level, the CFO shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The CFO will apply the general objectives of safety, liquidity, yield and legality to make the decision. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this policy, the CFO shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.

7.3 Prohibited Investments

The following investments are not allowed under the investment policy:

7.3.1 Private placement or "144A" securities (for purposes of this policy, SEC Rule 144A securities are defined to include commercial paper privately placed under section 4(a)(2) of the Securities Act of 1933)

7.3.2 US Agency mortgage-backed securities including mortgage backed securities issued by FNMA and FHLMC

7.3.3 Securities lending – the District shall not lend securities nor directly participate in a securities lending program.

8.0 INVESTMENT PARAMETERS

8.1 Credit Risk

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. Credit risk will be mitigated by following the guidelines:

8.1.1 ***Diversification.*** The District will diversify the investment portfolio with respect to security type, issuer, and maturity to disperse credit risk.

8.1.2 ***Credit Ratings.*** Investments must have a rating from the following nationally recognized statistical ratings organizations: Moody's Investors Service and Standard & Poor's. Ratings used to apply the guidelines should be investment level ratings and not issuer level ratings. Minimum ratings are defined in Section 7.2 of the investment policy document.

8.1.3 ***Portfolio Average Credit Rating.*** The minimum weighted average credit rating of the portfolio's rated investments shall be Aa and AA by Moody's Investors Service and Standard & Poor's, respectively.

8.1.4 ***Exposure Constraints.*** The following table defines the maximum amounts (defined as % of the market value of the portfolio) which may be invested in any asset category. Due to fluctuations in the aggregate fund balances, the maximum percentages for 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.

Diversification:

Issuer Type	% of Portfolio	Per Issuer Constraints
U.S. Treasury Obligations	100%	100%
U.S. Agency Obligations	90%	33%
Commercial Paper & Corporate Bonds	25%	5%
Bankers' Acceptance	10%	5%
Oregon Short Term Fund	Maximum allowed per ORS 294.810	
Time Deposit open accounts, Certificates of Deposit, and Savings Accounts	50%	25%
Municipal Debt Obligations	10%	5%

8.2 **Interest Rate Risk**

The District will use the following strategies to control and mitigate adverse changes in the market value of the portfolio due to changes in interest rates.

- Where feasible and prudent, investment maturities should be matched with expected cash outflows to mitigate market risk.
- The maximum percent of callable securities in the portfolio shall be 15%.
- The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy.
- The portfolio's weighted average maturity shall not exceed twenty-four (24) months.

8.3. **Investment Maturity**

8.3.1 The District will not directly invest unrestricted funds in securities maturing more than five (5) years from the date of purchase.

8.3.2 The District will invest Restricted Funds to match the expected requirements.

8.3.3 The maximum weighted maturity of the portfolio shall not exceed 2.0 years. This maximum is established to limit the portfolio to excessive price change exposure.

8.3.4 Unrestricted funds will be invested to provide for operating needs.

8.3.5 Total portfolio maturity constraints:

Under 30 days	10% minimum of total portfolio
Five years	Maximum maturity of any single security
2.0 Years	Maximum Weighted Average Maturity (WAM) of the portfolio

8.4 **Competitive Transactions**

8.4.1 The CFO's investment designee will obtain at least three telephone, faxed or emailed quotes before purchasing or selling an investment. The designee will select the quote which best satisfies the investment objectives of the investment portfolio within the parameters of this policy. The designee will maintain a written record of each bidding process including the name and prices offered by each participating financial institution.

8.4.2 No commitments to buy or sell securities may be made more than 14 days prior to the anticipated settlement date. No fees shall be received other than interest for future deliveries.

8.4.3 If the District hires an investment consultant or advisor to provide investment services, the consultant or advisor must provide documentation of competitive pricing execution on each transaction. The investment advisor will retain documentation and provide upon request.

8.5 **Investment of Proceeds from Debt Issuance**

8.5.1 Investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. Bond proceeds shall be invested in accordance with the applicable bond covenants and tax laws.

8.5.2 Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and are maturity matched with outflows. As such, funds within the scope of ORS 294.052 are not subject to the liquidity risk constraints within Section 8.1.4 of this policy.

8.6 **Guideline Measurement and Adherence**

8.6.1 ***Measurement.*** Guideline measurements will use market value of investments.

8.6.2 ***Compliance.*** If the portfolio is found to be managed inconsistently with the investment policy, the CFO shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible. Violations of the investment policy, and actions taken to bring the portfolio back into compliance shall be documented and reported to the Board of Directors.

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. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained. Investment maturities may exceed the guidelines for a period not to exceed 10 successive business days. The LGIP Pool and bank balances may temporarily exceed limits during periods of quarterly payroll tax receipts and grant fund receipts.

9.0 REPORTING REQUIREMENTS

9.1 Specific Requirements

The CFO will retain and, at a minimum quarterly, provide the Board with a comprehensive investment report. The report will include the following information:

- Book Yield
- Holdings Report including mark to market, security description and credit rating of each category of holdings.
- Average days to maturity or call

9.2 Performance Standards

9.2.1 The performance of investments will be measured against a benchmark which reflects the risk profile of the District's investments. Preservation of capital and maintenance of sufficient liquidity will be considered prior to attainment of market return performance.

9.2.2 A market benchmark (i.e.: 0-3 or 0-5 Treasury or Agency Index) will be determined if appropriate for longer term investments based on the District's risk and return profile. Return comparisons of the portfolio to the market benchmark will be calculated on a monthly basis. When comparing the performance of the District's portfolio, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.

9.2.3 The CFO shall make available to the Board of Directors reports that contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program. Available information includes the following:

- A listing of all investments held during the requested reporting period showing: par/face value; accounting book value; market value; type of investment; issuer; credit ratings; and yield to maturity (yield to worst if callable).
- Average maturity of the portfolio at requested period-end.
- Maturity distribution of the portfolio at requested period-end.
- Average portfolio credit quality at requested period-end.
- Average weighted yield to maturity (yield to worst if callable) of the portfolio.
- Distribution by type of investment.
- Transactions since last submitted quarterly report.
- Distribution of transactions among broker/dealers.

- Violations of portfolio guidelines or non-compliance issues that occurred during the requested period with documentation of resolution.

10.0 INVESTMENT POLICY ADOPTION

10.1 **Exemptions**

Any investment held prior to the adoption of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested as provided by this policy.

10.2 **Review and Adoption**

This Investment Policy shall be reviewed and adopted by the Board of Directors annually in accordance with ORS 294.135. Any significant changes to the policy must be reviewed by the Oregon Short-Term Fund Board, prior to submitting to the Board for adoption.

11.0 GLOSSARY OF TERMS

Agency Securities: Bonds and notes issued by government-sponsored enterprises (GSEs), including Fannie Mae, Freddie Mac and the Federal Home Loan Bank.

Bankers' Acceptance (BA): A time draft accepted (endorsed) by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. Bankers Acceptances are short-term non-interest-bearing notes sold at a discount and redeemed by the accepting bank at maturity for full face value.

Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

Bid: The indicated price at which a buyer is willing to purchase a security or commodity.

Bond: An interest-bearing security issued by a corporation, government, governmental agency, or other body. It is a form of debt with an interest rate, maturity, and face value, and it is sometimes secured by specific assets. Most bonds have a maturity of greater than one year and generally pay interest semiannually. *See* Debenture.

Bond Ratings: Agency's ability to meet its financial obligation

S&P	Moody's	Rating Description
AAA	Aaa	Extremely Strong Capacity, Highest Quality Minimal Credit Risk
AA+ AA AA-	Aa1 Aa2 Aa3	Very Strong Capacity, High Quality Low Credit Check
A+ A A-	A1 A2 A3	Strong Capacity, Upper Medium Grade Subject to Low Credit Risk
BBB+ BBB BBB-	Baa1 Baa2 Baa3	Weakened Capacity, Medium Grade Subject to Moderate Credit Risk
BB+ BB BB-	Ba1 Ba2 Ba3	Exposure to Adverse conditions, Subject to Substantial Credit Risk

Broker: An intermediary who brings security buyers and sellers together and handles their orders, generally charging a commission for this service. In contrast to a principal or a dealer, the broker does not own or take a position in securities.

Collateral: Securities or other property that a borrower pledges as security for the repayment of a loan.

Commercial Paper: Short-term, unsecured, negotiable promissory notes issued by corporations.

Current Maturity: The amount of time left until an obligation matures. For example, a one-year bill issued nine months ago has a current maturity of three months.

Current Yield: The coupon payments on a security as a percentage of the security's market price. (In many instances the price should be gross of accrued interest, particularly on instruments where no coupon is left to be paid until maturity.)

CUSIP: The Committee on Uniform Security Identification Procedures, which was established under the auspices of the American Bankers Association to develop a uniform method of identifying municipal, U.S. government, and corporate securities.

Dealer: An individual or firm that ordinarily acts as a principal in security transactions. Typically, dealers buy for their own account and sell to a customer from their inventory. The dealer's profit is determined by the difference between the price paid and the price received.

Debenture: Medium to long-term debt instrument used by companies and agencies to borrow money, at a fixed rate of interest.

Delivery: Either of two methods of delivering securities: delivery vs. payment and delivery vs. receipt (also called "free"). Delivery vs. payment is delivery of securities with an exchange of money for the securities.

Duration: A measure used to calculate the price sensitivity of a bond or portfolio of bonds to changes in interest rates. The calculation involves present value, yield, coupon, final maturity and call features.

Full Faith and Credit of the US Government: Indicator that the unconditional guarantee of the United States government backs the repayment of a debt.

General Obligation Bonds (GOs): Bonds secured by the pledge of the municipal issuer's full faith and credit, which usually includes unlimited taxing power.

Government Bonds: Securities issued by the federal government; they are obligations of the U.S. Treasury; also known as "Treasuries."

Interest: Compensation paid or to be paid for the use of money. The rate of interest is generally expressed as an annual percentage.

Interest Rate Risk: The risk associated with declines or rises in interest rates which cause an

investment in a fixed-income security to increase or decrease in value.

Investment Funds: Core funds are defined as operating fund balance which exceeds the District's daily liquidity needs. Core funds are invested out the yield curve to diversify maturity structure in the overall portfolio. Having longer term investments in a portfolio will stabilize the overall portfolio interest earnings over interest rate cycles.

Investment Securities: Securities purchased for an investment portfolio, as opposed to those purchased for resale to customers.

Liquidity: The ease at which a security can be bought or sold (converted to cash) in the market. A large number of buyers and sellers and a high volume of trading activity are important components of liquidity.

Liquidity Component: A percentage of the total portfolio that is dedicated to providing liquidity needs for the District.

Mark to Market: Adjustment of an account or portfolio to reflect actual market price rather than book price, or purchase price.

Municipals: A debt security issued by a state or local government entity. Municipals are usually exempt from federal taxes and from most state and local taxes. Also known as a "muni."

Par Value: The face value of a bond, or the stock value stated in a corporate charter. Represents the redemption value of the bond at maturity. Represents the initial issuance price for stock shares.

Portfolio: A grouping of financial assets such as bonds, held by an individual or entity.

Prudent Person Rule: A long-standing common-law rule that requires a trustee who is investing for another to make investments 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.

Quotation or Quote: A bid to buy or the lowest offer to sell a security in any market at a particular time.

Treasury Bill (T-Bill): An obligation of the U.S. government with a maturity of one year or less. T-bills bear no interest but are sold at a discount of the par value to create a positive yield to maturity.

Treasury Bonds and Notes: Obligations of the U.S. government that bear interest, which is paid every six months. Notes have maturities of one to ten years; bonds have longer maturities.

Yield: The annual rate of return on an investment, expressed as a percentage of the investment's cost. Income yield is obtained by dividing the current dollar income by the current market price for the security. Net yield, or yield to maturity, is the current income yield minus any premium above par or plus any discount from par in the purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Yield to Maturity: The average annual yield on a security, assuming it is held to maturity; equals to the rate at which all principal and interest payments would be discounted to produce a present value equal to the purchase price of the bond.