

## Management Committee

For the Metropolitan Council meeting of: March 9, 2016

**Subject:** Authorization to Amend the Metropolitan Council Investment Policy

### Proposed Action

That the Metropolitan Council approve the updated Investment Policy.

### Summary of Committee Discussion/Questions

Richard Koop, Senior Treasury Manager, stated the Council Investment Policy was written on September 11, 1998 and has been revised 3 times.

Appendix A attached to the business items shows the changes to the policy. On page #1 of the policy under the Objective section, Liquidity language was cleaned up to better describe the portfolio duration to meet long-term cash flow needs.

On Page #2 of the policy, language was added under item #5 which describes Commercial Paper. The first item adds, "The total Commercial Paper holdings do not exceed 30% of the aggregate portfolio balance (long-term and short-term)". The second item adds, "Individual Commercial Paper holdings do not exceed \$10 million per issuer".

Having no more than \$10 million of Commercial Paper in any one given name at any given time has been the Council's practice. The Investment Review Committee (IRC) felt it made sense to formalize that practice in the policy. The IRC approved these changes at their February 17, 2016 meeting.

Motion by Barber, seconded by Kramer. Consent to Council.

## Management Committee

Meeting date: February 24, 2016

For the Metropolitan Council meeting of March 9, 2016

**Subject:** Authorization to Amend the Metropolitan Council Investment Policy

**District(s), Member(s):** All

**Policy/Legal Reference:** 3-4-4

**Treasury Staff Prepared/Presented:** Rich Koop, Senior Manager (602-1629)

**Division/Department:** Finance

### Proposed Action

That the Metropolitan Council approve the updated Investment Policy.

### Background

In 1998 the Metropolitan Council approved an Investment Policy which governs the investment of Council cash. This policy has been updated 3 times over the years. The policy includes a section titled "Allowable Investments" which lists the acceptable investments allowed to be purchased per Minnesota Statue 118A. Item number 5 on the Allowable Investments list states "Commercial Paper issued by U.S. Corporations or their Canadian subsidiaries rated in the highest category by two rating agencies and maturing in 270 days or less".

In order to minimize the risk of loss of principal with Commercial Paper (CP), Treasury has a practice of not investing more than \$10 million in any one CP name at any given time. This method of diversification assures if a Commercial Paper issuer defaults on the repayment of principal, the Council's exposure is limited.

The Investment Review Committee (IRC) met and advised staff to formalize this practice in the Investment Policy. On the second page of Appendix A under Allowable Investments, you will see the language added under item #5 relating to Commercial Paper. The IRC also provided some revised language under Liquidity which is item #3 under Objective. The IRC approved this policy update at its February 17, 2016 meeting and is recommending approval by the Management Committee.

### Rationale

The IRC felt it was good policy to formalize this practice in the Investment Policy.

### Funding

Not Applicable

### Known Support / Opposition

None

METROPOLITAN COUNCIL  
Investment Policy  
Dated: February 17, 2016

## POLICY - INVESTMENTS

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Section/Number: 3-4-4	Total Pages: 4
Dept. Responsible: Finance	Effective Date: 9/11/98
Revision No. (4) 2/17/16	

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### 2I. Policy:

The Metropolitan Council will direct the investment of all public funds under its care through prudent financial management practices and in conformity with applicable laws, regulations and statutes.

#### Objectives

The following objectives are to be taken into consideration, in the order listed, for implementation of the investment program:

1. Compliance. Investments shall be made in a manner such that they comply with the rules and regulations of applicable governing and regulatory bodies.
2. Safety: Safety of principal is the primary objective of the investment program. Investments of the Council shall be purchased and managed in a manner that ensures the preservation of capital in the overall portfolio.
3. Liquidity: To meet its short-term cashflow needs, the Council's investment portfolio will remain sufficiently liquid to enable the Council to meet anticipated cash requirements without the occurrence of significant investment losses. ~~To meet the Council's long-term cashflow needs, the average duration of the investment portfolio should match the average duration of liabilities, subject to regulatory requirements.~~ The average duration of the investment portfolio should be calibrated to meet long-term cashflow needs.
4. Diversification: The investment portfolio will be diversified to avoid the risk of losses resulting from an over-concentration of assets in a specific maturity, issuer, or class of securities.
5. Rate of Return: The Council will seek the highest possible rate of return on its invested assets (net of expenses) after meeting its objectives for compliance, safety, liquidity and diversification.

#### Allowable Investments

Investment instruments purchased by the Council must comply with Minnesota Statute 118A, as amended, and, to a further degree, Council-defined criteria. The Council has authorized investments to be made in the following asset classes:

1. Obligations of the U.S. Treasury.

2. Obligations of the U.S. government agencies, instrumentalities, or any organization created by an Act of Congress.
3. Any State or local government obligation that is rated by at least one national rating agency with a rating level of at least the following rating:
  - a. general obligation rated “A” or better
  - b. revenue obligation rated “AA” or better
  - c. general obligations of the Minnesota Housing Finance Agency rated “A” or better.
4. Bankers Acceptances of a United State bank.
5. Commercial Paper issued by U.S. corporations or their Canadian subsidiaries rated in the highest category by two rating agencies and maturing in 270 days or less, provided:
  - a. Total commercial paper holdings do not exceed 30% of the aggregated portfolio balance (long-term and short-term), and;
  - b. Individual commercial paper holdings do not exceed \$10 million per issuer.
6. Repurchase Agreements.
7. Guaranteed Investment Contracts (GICs) issued or guaranteed by U.S. banks, domestic branches of foreign banks and U.S. insurance companies or their Canadian subsidiaries which are rated in the two highest rating categories.
8. Mortgage-Backed Securities (MBS) that are direct obligations, guaranteed, or insured by the United States government, its agencies, its instrumentalities, or any organization created by an Act of Congress and are not classified by the Investment Review Committee (IRC) as high risk securities.
9. Mutual funds investing only in securities allowable for direct investment by the Council.
10. Time Deposits fully insured by the FDIC, secured by a surety bond or collateralized with U.S. treasury or agency securities or allowable municipal bonds.
11. Energy Forward Pricing Mechanisms (EFPs), including futures, options, etc., as a budget risk tool (pursuant to M.S. 473.1293) for purchases of Council-consumed commodities,(e.g. diesel fuel and natural gas), when they have a holding period and expiration of not more than 24 months from their trade date.

The Council will not invest in Reverse Repurchase Agreements.

Variances to the preceding allowed and disallowed investments must be approved in advance by two members of the IRC. The IRC may implement additional restrictions to allowable investments.

Investments are purchased on a hold to maturity basis (vis-à-vis, held for trading basis). Notwithstanding this strategy, securities may be sold before their maturity or call date to meet immediate cash needs or to improve the overall net present value of the portfolio.

#### **Standard of Conduct**

The standard of conduct to be followed by investment staff and IRC shall be the “Prudent Person Standard” and shall be applied in the context of managing an overall portfolio. The Council’s investment purchases and sales shall be made with judgment and care under the then-prevailing circumstances. All investment transactions shall be made just as personal transactions would be made by individuals of prudence, discretion, and intelligence would 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. Investment staff acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

#### **Safekeeping and Custody**

All securities purchased by the Council will be held by a third party safekeeping agent appointed as custodian by the Council. The custodian shall issue a safekeeping receipt to the Council for each transaction detailing all pertinent aspects of the specific security and the name and account in which the security is held.

All security transactions entered into by the Council shall be conducted on a delivery versus payment basis except for money market mutual funds, fixed income mutual funds, overnight repurchase agreements, and Energy Forward Pricing Mechanisms.

Safekeeping and custody of EFPMs, and the cash directly supporting such mechanisms, shall follow industry practices including maintenance of accounts at brokerage companies.

Notwithstanding this authorization, the Council will seek the highest level of safety available in establishing accounts and procedures to support this program. The Council may establish secure alternatives to broker standards for cash or securities being held in a brokerage account.

Alternatives include establishment of escrow and custody accounts, letters of credit by the broker, collateral accounts, third-party agreements, etc.

#### **Securities Lending**

The Council authorizes the practice of lending its investment security holdings for the purpose of generating additional investment income from its financial assets.

#### **Internal Controls**

The Chief Financial Officer shall establish a system of internal controls and monitoring procedures. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Council. The Chief Financial Officer will oversee designated staff who manage the portfolio on a day-to-day basis. The Chief Financial Officer will establish management controls specific to EFPMs.

#### **Bank and Securities Broker Relationships**

All banks and brokerage companies doing business with the Council, whether they are receiving funds as deposits or for investments, must be approved by the Council before they receive Council funds.

To comply with State Statutes, the Council, prior to completing an initial transaction with a broker, shall receive from said brokerage company a fully executed "Notification to Broker and Certification by Broker" form.

The current list of Authorized Financial Institutions is maintained on file in Treasury.

#### **Reporting**

A report is to be prepared by Treasury staff on a quarterly basis which provides summary portfolio characteristics of the Council's investment holdings and transactions relative to the objectives of compliance, safety, liquidity, diversification and rate of return. An economic summary as it relates to the Council's holdings will also be prepared. The Council's quarterly Report On Investments will report on EFPM holdings and activity.

### **External Registered Investment Advisors**

To the extent the Council employs any external registered investment advisor for the purpose of investing Council funds, such advisor must comply with the Policy.

### **Audits**

The internal auditors will conduct periodic reviews of the Council's investment program. Such audit will focus on verifying previously reported investment information and compliance with policies and procedures and the system of internal control. External auditors may also conduct independent audit review of the investment function. The Council's external auditor may audit the Energy Forward Pricing Program in conjunction with the Council's annual financial audit. Internal auditors shall audit EFPMs in conjunction with reviews of the Council's investment program.

## **II. Purpose of policy:**

This Policy is designed to guide the Council, its Investment Review Committee and associated staff in the investment and management of these funds so as to meet the compliance, safety, liquidity, diversification and rate of return needs of the Council.

## **III. Background and reasons for policy:**

The general authority and approach to managing the Council's investment program is derived from Minnesota Statute 118A.

## **IV. Implementation/Accountability:**

The Investment Review Committee (IRC) will provide on-going oversight and review of the Council's investment program. The IRC will establish policies, procedures and objectives as they relate to investments and monitor compliance thereto. The IRC consists of two Council members; two members with strong relevant financial background who are not Council employees/members; and the Chief Financial Officer. Prospective external members will be required to disclose any potential conflicts before appointment. Members shall be appointed by the Council Chair and approved by the full Council.

The IRC will be supported by the Treasury Director and related staff and will meet quarterly, or as needed but at least twice per year. This Policy applies to all financial assets, funds and transactions of the Council and its divisions.