Poplar Bluff Municipal Library
Investment Policy
Adopted Board of Trustees
Approved Board of Trustees on April 1, 2019

I. Scope

This policy applies to the investment of all operating funds of the Poplar Bluff Municipal Library District (The District). Longer-term funds, including investments of employees' retirement funds and proceeds from certain bond issues, are covered by a separate policy.

Pooling of Funds
Except for cash in certain restricted and special funds, the District will consolidate all cash balances

External Management of Funds
Investment through external programs, facilities and professionals operating in a manner consistent with this policy will constitute compliance.

II. General Objectives

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk
The District will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by:

- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business.
- Diversifying the portfolio so that potential losses on individual securities will be minimized.

- The District will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity).

Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in bank deposits or repurchase agreements or overnight investments that offer same-day liquidity for short-term funds.

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.

- A security swap would improve the quality, yield, or target duration in the portfolio.

- Liquidity needs of the portfolio require that the security be sold.

III. Standards of Care

1. Prudence

All participants in the investment process shall act responsibly as custodians of the public trust. The standard of prudence to be applied by the personnel of the Investment Division is the “prudent investor” rule, which states, “Investments shall 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."

Investment officers 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 to the governing body and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2. Ethics and Conflicts of Interest

Trustees and employees involved in the investment process shall 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 shall disclose any material interests in financial institutions with which they conduct business. They shall also disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and trustees shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of the District.

3. Delegation of Authority

Authority to manage the investment program is delegated to the Assistant Director who shall act in accordance with this policy and established written procedures and internal controls, under the supervision of the Board Treasurer. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy, adopted by the Poplar Bluff Municipal Library District Board of Trustees, and the procedures established by the Assistant Director.

IV. Investment Transactions

1. Authorized Financial Dealers and Institutions

A list will be maintained of financial dealers and institutions authorized to provide investment transactions. Determination of authorized dealers and/or institutions will be determined by the Assistant Director and approved by the Board of Trustees.

All financial institutions and broker/dealers who desire to become qualified for instrument transactions must supply the following as appropriate:

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification.
- Proof of state registration
- Completed broker/dealer questionnaire.

- Certification of having read and understood and agreeing to comply with the District's investment policy.

  An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Assistant Director.

2. Internal Controls

The Assistant Director is responsible for establishing and maintaining an internal control structure that will be reviewed annually with the District's independent auditor. The internal control structure shall be designed to ensure that the assets of the District are protected from loss, theft or misuse and to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits require estimates and judgments by management.

The internal controls shall address the following points:

- Control of collusion.
- Separation of transaction authority from accounting and record keeping.
- Custodial safekeeping.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation of transactions for investments and wire transfers.
- Development of a wire transfer agreement with the lead bank and third party custodian.

3. Delivery vs. Payment

All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in eligible financial institutions prior to the release of funds. All securities shall be perfected in the name or for the account of the District and shall be held by a third-party custodian as evidenced by safekeeping receipts.

V. Suitable and Authorized Investments

1. Investment Types

In accordance with and subject to restrictions imposed by current statutes, the following list represents the entire range of investments that the District will consider and which shall be authorized for the investments of funds by the District.

a. Governmental and Agency Debt—those securities issued by and or guaranteed by the Federal Government or an Agency or Instrumentality of the Federal Government:

i. **<u>United States Treasury Securities.</u>** The District may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.

ii. **<u>United States Agency Securities.</u>** The District may invest in obligations issued or guaranteed by any agency of the United States Government as described in V.d.

b. Fixed Income Investments secured by FDIC insurance and/or Collateral:

i. **Repurchase Agreements**

The District may invest in contractual agreements between the District and commercial banks or primary government securities dealers. The purchases in a repurchase agreement (repo) enters into a contractual agreement to purchase U. S. Treasury and government agency securities while simultaneously agreeing to resell the securities at predetermined dates and prices.

ii. **Collateralized Public Deposits (Certificates of Deposit)**

Instruments issued by financial institutions which state that specified sums have been deposited for specified periods of time and at specified rates of interest. The certificates of deposit are required to be backed by acceptable collateral securities as dictated by State statute.

c. Other Fixed Income Debt Issued by Commercial Enterprises

It should be noted that investments require an additional level of care and prudence when undertaken by the investment officer. Because these investments are in commercial credits as opposed to governmental credit, or subject to the added safety of collateral, the risk of loss of principal is significantly higher for the following investments than I the four prior categories. Added financial training and education is recommended for the Investment Officer wishing to participate in and/or mnge commercial paper program. Outside professional management with RFP and a five-year contract for commercial paper is preferred.

i. <u>Bankers Acceptances</u>.

Bills of exchange or time drafts on and accepted by a commercial bank, otherwise known as bankers' acceptances are options. An issuing bank must have received the highest letter and numeral ranking (i.e., A1 /P1) by at least two nationally recognized statistical rating organizations (NRSRO's). The acceptances must be issued by domestic commercial banks. Purchases or bankers' acceptances may not exceed 180 days to maturity. No more than five percent of the total market value of the portfolio may be invested the bankers' acceptances of any one issuer and no more than 25 percent of the entire portfolio may be invested in banker's acceptances.

ii. <u>Commercial Paper</u>.

The District may invest in commercial paper issued by domestic corporations, which has received the highest rating (i.e., A1 /P1) by at least two national recognized statistical rating organizations (NRSRO's). Eligible paper is further limited to issuing corporations that have total commercial paper program size in excess of five hundred million dollars ($250,000,000) and have long term debt ratings, if any, of "a" or better rom at least one NRSRO. Purchases of the commercial paper may not exceed 180 days to maturity. Approved commercial paper programs should provide some diversification by industry.

Additionally, purchases of commercial paper in industry sectors that may from time to time be subject to undue risk and potential illiquidity should be avoided.

d. <u>Security Selection.</u>

The following list represents the entire range of United States Agency Securities that the District will consider and which shall be authorized for the investment of funds by the District. Additionally, the following definitions and guidelines should be used in purchasing the instruments:

- <u>U.S. Govt. Agency Coupon and Zero Coupon Securities</u>. Bullet coupon bond with no embedded options.
- <u>U.S. Govt. Agency Discount Notes</u>. Purchased at a discount with maximum maturities of one (1) year.
- <u>U.S. Govt. Agency Callable Securities</u>. Restricted to securities callable at par only with final maturities of five (5) years.
- <u>U.S. Govt. Agency Step-Up Securities</u>. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed term. Restricted to securities with final maturities of five (5) years.
- <u>U.S. Govt. Agency Floating Rate Securities</u>. The coupon rate floats off one index. Restricted to coupons with no interim caps that reset at least quarterly.
- <u>U.S. Govt. Mortgage Backed Securities</u>. Restricted to securities with final maturities of five (5) years.

2. <u>Investment Restrictions and Prohibited Transactions.</u>

To provide for the safety and liquidity of the District's funds, the investment portfolio will be subject to the following restrictions:

- Borrowing for investment purposes ("Leverage") is prohibited.

- Instruments known as Structured Notes (e.g. inverse floaters, leveraged floaters, and equity-linked securities) are not permitted. Investment in any instrument, which is commonly considered a "derivative" instrument (e.g. options, futures, swaps, caps, floors, and collars), is prohibited.

- Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited.

- No more than 5% of the total market value of the portfolio may be invested in bankers' acceptances issued by any one commercial bank and no more than 5% of the total market value of the portfolio may be invested in commercial paper of any one issuer.

VI. Collateralization

1. Collateralization will be required on two types of investments: certificates of deposit and repurchase agreements. The market value (including accrued interest) of the collateral should be at least 100%.

2. For certificates of deposit, the market value of collateral must be at least 100% or greater of the amount of certificates of deposits plus demand deposits with the depository, less the amount, if any, which is insured by the Federal Deposit Insurance Corporation, or the National Credit Unions Share Insurance Fund.

3. All securities, which serve as collateral against the deposits of a depository institution, must be safe kept at a non-affiliated custodial facility. Depository institutions pledging collateral against deposits must, in conjunction with the custodial agent, furnish the necessary custodial receipts within five business days from the settlement date.

4. The District shall have a depositary contract and pledge agreement with each safekeeping bank that will comply with the Financial Institutions, Reform, recovery, and Enforcement Act of 1989 (FIRREA). This will ensure that the District's security interest in collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution.

VII. Repurchase Agreements

The securities for which repurchase agreements will be transacted will be limited to U.S. Treasury and government agency securities that are eligible to be delivered via the Federal Reserve Fedwire book entry system. Securities will be delivered to the District's designated Custodial Agent. Funds and securities will be transferred on a delivery vs. payment basis.

VIII. Investment Parameters

1. Diversification

The investments shall be diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities.

Diversification strategies shall be established and periodically reviewed. At a minimum, diversification standards by security type and issuer shall be:

- U.S. treasuries and securities having principal and/or interest guaranteed by the U. S. government…100%
- Collateralized time and demand deposits…100%
- U. S. Government agencies, and government sponsored enterprises…no more than 60%
- Collateralized repurchase agreements…50%
- U. S. Government agency callable securities…no more than 30%

2. <u>Maximum Maturities</u>

To the extent possible, the District shall attempt to match its investments with anticipated cash flow requirements. Investments in bankers' acceptances and commercial paper shall mature and become payable not more than ninety days (90) from the date of purchase. All other investments shall mature and become payable not more than five (5) years from the date of purchase. The District shall adopt weighted average maturity limitations that should not exceed three (3) years and is consistent with the investment objectives.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as in bank deposits or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

IX. Reporting

1. <u>Methods</u>

   The Assistant Director shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the District to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the governing body of the District. The report will include the following:

   a. Listing of individual securities held at the end of the reporting period.

   b. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration (in accordance with Government Accounting Standards Board (GASB) 31 requirements). [Note, this is only required annually]

c. Average weighted shield to maturity of portfolio on investments as compared to applicable benchmarks.

d. Listing of investment by maturity date.

e. Percentage of the total portfolio which each type of investment represents.

2. Performance Standards

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks may be established against which portfolio performance shall be compared on a regular basis.

3. Marking to Market

The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least annually to the governing body of the District. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

X. Policy Considerations

Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempt from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

This policy shall be adopted by resolution of the District's governing body. The policy shall be reviewed annually by the Assistant Director for Business and Finance and recommended changes will be presented to the Board of Trustees for consideration.

GLOSSARY

As used in the attached investment policy, the following terms shall mean:

Annual Review:

For the purpose of reviewing authorized financial institutions, annual review requires the Assistant Director to ensure that the financial institution is in compliance with the governing body's established procedures.

Banker's Acceptance:

A short-term financial instrument that is the unconditional obligation of the accepting bank. Banker's acceptances arise from transactions involving the import, export, transit, or storage of goods – domestic as well as international transit. For investment purposes, one must realize that the underlying transaction that gives rise to a banker's acceptance is almost completely irrelevant to the credit quality of the liquidity of the instrument. The actual banker's acceptance is created at a late stage in the underlying transaction when a bank accepts its obligation to pay the holder of the accepted draft. When the transaction becomes a banker's acceptance, it becomes an unconditional obligation of the accepting bank. From an investor's point of view, a banker's acceptance is a bank obligation that has at least the same credit strength as any CD issued by the same bank. Baker's acceptances are typically stronger than CDs because in addition to the credit strength of the accepting bank, they are backed by the credit strength of a drawer; an endorsing bank, if one is involved in the transaction; and usually by the pledge of documents representing ownership of the trade goods and insurance on the goods. Banker's acceptances do not carry federal deposit insurance but are considered safe, liquid, short-term money market investments.

Bond Proceeds:

The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

Callable Bond:

A bond that the issuer has the right to redeem prior to maturity. Some callable bonds may be redeemed on one call date while others have multiple call dates. Some callable bonds may be redeemed at par while others can only be redeemed at a premium.

Certificate of Deposit (CD):

A deposit of funds, in a bank or savings and loan association, for a specified term that earns interest at a specified rate. CD terms may be as short as week or as long as or longer than 10 years.

Commercial Paper:

Unsecured. short-term promissory notes issued by corporations for specific amounts and with specific maturity dates. Firms with lower ratings or firms without well-known names usually back their commercial paper with guarantees or bank letters of credit. Commercial paper may be sold on a discount basis or may bear interest. Terms can be as short as 1 day and usually do not exceed 270 days.

Custodial Agent:

An entity that holds collateral for deposits with financial institutions, investment securities, or securities underlying repurchase agreements.

Delivery vs. Payment:

The simultaneous exchange of securities and cash. The safest method of settling either the purchase or sale of a security. In a Delivery vs. Payment settlement, the funds are wired from the buyer's account and the security is delivered from the seller's account in simultaneous, interdependent wires.

GASB 31:

Statement No. 31 of the Governmental Accounting Standards Board: Accounting and Financial Reporting for Certain Investments and for External Investment Pools, establishes accounting standards for securities owned by governmental entities.

Government Accounting Standards Board (GASB):

An accounting industry organization; part of the Financial Accounting Foundation. GASB issues statements of accounting standards that define and govern GAAP for state and local government entities in the United States.

Mark to Market:

The process of restating the carrying value of an asset or liability to equal its current market value.

Market Value:

The price at which a security is trading and presumably could be purchased or sold at a particular point in time.

Maturity:

The date on which the principal or stated value of an investment becomes due and payable.

Operating Funds:

Includes all investable funds of the political entity with the exception of bond proceeds and shall include all fund balances and surplus funds.

Par Value:

The amount of principal which must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in $1,000 increments per bond.

Repurchase Agreement (Repo):

A form of secured, short-term borrowing in which a security is sold with a simultaneous agreement to buy it back from the purchaser at a future date. The sale is a cash transaction while the return purchase is a forward transaction since it occurs at a future date. The seller/borrower pays interest to the buyer at a rate negotiated between the parties. Rates paid on repos are short-term money market interest rates and are completely unrelated to the coupon rate paid on the instrument being purchased.

Safekeeping:

An arrangement under which a third party holds securities or other valuables under safe, controlled conditions. A safekeeping arrangement is evidenced by a safekeeping receipt.

U.S. Treasury Obligations:

Debt obligations of the United States Government sold by the Treasury Department in the forms of Bills, Notes, and Bonds. Bills are short-term obligations that mature in 1 year of less and are sold on the basis of a rate of discount. Notes are obligations that mature between 1 year and 10 years. Bonds are long-term obligations that generally mature in 10 years or more.