DENVER WATER

TITLE:

Investment Policy For The Water Works Fund

POLICY OWNER:

Chief Finance Officer

EFFECTIVE DATE:	PREVIOUS EFFECTIVE DATES:
May 9, 2018	**August 26, 2015**

ENTERPRISE POLICY APPROVED:

DocuSigned by:

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President

5/11/2018

Approval Date

I. GOVERNING AUTHORITY

The investment program shall be operated in conformance with federal, state, and other legal requirements, including section 10.1.7 of the Charter of The City and County of Denver ("Charter"), which gives the Board of Water Commissioners ("Board") authority to invest the monies in the Water Work s Fund ("WWF") until they are required for operations of the Board. Title 24 Article 75 Part 6 of the Colorado Revised Statutes which outlines the legal investments of public funds shall be followed in matters not specifically addressed in this document. Unspent bond proceeds shall be invested in accordance with Section 148 of the Internal Revenue Code of 1986, as described in a bond indenture.

II. SCOPE

This investment policy ("Policy") replaces the policy adopted on August 26, 2015 and applies to all monetary assets of the WWF, including proceeds of bond sales and debt service accounts. Funds held by trustees or fiscal agents, such as employee retirement funds or escrow accounts, are excluded from these rules and shall be covered by separate policies.

Except for funds in certain restricted and special funds, the Board commingles its funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. INVESTMENT OBJECTIVES

The primary objectives of investment activities (in priority order) sfor th WWF portfolio hall be safety of principal, liquidity, and yield:

A. 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 by mitigating credit risk and interest rate risk. Credit risk shall be minimized by restricting investments to those listed in this Policy and portfolio diversification. Interest rate risk shall be minimized by holding securities to maturity except as outlined in section C. below, timing maturities to coincide with large cash outflows and limiting the average maturity of the portfolio.

B. 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. Simultaneously, the portfolio should consist largely of securities with active secondary or resale markets and contain investments that offer same-day liquidity.

C. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return, as specified in the investment procedures manual, throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Majority of the investments on the portfolio are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. STANDARDS OF CARE

A. Delegation of Authority

Authority for management of the portfolio is hereby delegated to the Chief Finance Officer, who may delegate day-to-day investment responsibilities to the Treasurer. The Chief Finance Officer or the Treasurer shall be responsible for all transactions undertaken and shall establish an investment procedures manual, consistent with this Policy. Such procedures shall include, but not necessarily be limited to, explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Finance Officer.

The Chief Finance Officer or the Treasurer shall maintain a list of financial institutions, qualified broker/dealers, intermediaries, money market funds, and security issuers with which Board employees may deal when investing WWF assets. The Chief Finance Officer may delegate management responsibility for any portion of the investment portfolio to an experienced external fixed income portfolio manager. The Chief Finance Officer or the Treasurer shall be responsible for administration of the contract.

B. Prudence

The standard of prudence to be used by Board employees involved in the investment process shall be that of the prudent investor standard applicable to a fiduciary and it shall be applied in the context of managing an overall portfolio. Investments shall be made with the 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 safety of their capital as well as the probable income to be derived.

Employees 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 change, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The standard of care expected of any external manager of the investment portfolio or any securities lending agent shall be that of a prudent investor. Such expectations shall be defined by contract.

C. Ethics and Conflicts of Interest

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees involved in the investment process shall disclose to the Chief Finance Officer any material financial interests in financial institutions that conduct business with the Board, and they shall further disclose any personal financial investment positions that could be related to the performance of the Board's portfolio. Employees involved in the investment process shall subordinate their personal investment transactions to those of the Board, particularly with regard to the timing of purchases and sales. Staff and employees involved in making investments should be insured in order to protect the public against possible malfeasance or defalcation.

V. Authorized Brokers and Dealers

Brokers and dealers eligible for inclusion on the list of the financial institutions authorized to provide investment services to the Board shall be well-established dealers in treasury or agency securities. Preference will be given to firms listed as primary government securities dealers by the Federal Reserve Bank of New York. All brokers/dealers shall have minimum net capital of $10 million and all non-primary broker/dealers shall have been in continuous operation for a minimum of 5 years. The investment procedures manual shall provide guidelines for broker/dealer selection and monitoring process.

VI. Safekeeping and Custody

A. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

B. Safekeeping

To protect against potential fraud or embezzlement, investments other than any money market funds or investments linked to the depository account , shall require dual authorizations, be evidenced by same day written receipts and be settled through an independent third-party custodian selected by the Board.

C. Internal Controls

The Chief Finance Officer or the Treasurer shall establish a system of internal controls, which shall be documented in an investment procedures manual and shall be reviewed at least annually and updated if necessary. 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, and imprudent actions by Board employees.

VII. Permitted Investments

- U.S. Treasury obligations - obligations in the form of bills, notes, bonds or certificates of indebtedness backed by the full faith and credit of the United States of America;
- U.S. government agency and instrumentality obligations - obligations, participations or other instruments of any Federal agency, instrumentality or United States government-sponsored enterprise as described in CRS 24-75-601.1(1)(b) (an "Agency" or "Agencies"); subordinate debt of any issuer is not authorized;
- Commercial paper and corporate bonds - any corporate or bank security that is denominated in United States dollars; subordinate debt of any issuer is not authorized; the commercial paper programs shall be at least $1 billion in size as listed on Bloomberg and issued under Section 3(a)(3) of the 1933 Securities Act;
- Money market mutual funds- shares of beneficial interest issued by diversified management companies that are registered with the Securities and Exchange Commission under the Investment Company Act of 1940, subject to the investment restrictions of Rule 2a-7 and the total size of each portfolio shall be $1 billion or more;
- Local government investment pools - any interest in a local government investment pool organized under CRS 24-75-701;
- Certificates of deposit and other evidences of deposit - issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank that meet the requirements of the Public Deposit Protection Act;
- Bankers' acceptances - bills of exchange or time drafts that are drawn on and accepted by a commercial bank;
- Repurchase agreements - collateralized with Treasury or Agency Securities only,
- Municipal bonds - General Obligation Bonds and Revenue Obligation Bonds of state or local governments.

VIII. Investment Parameters

A. Diversification

It is the policy of the Board to diversify its investment portfolios by maturity, issuer, or class of securities to control and mitigate the risk of loss. The risk mitigation strategies shall include:

- limiting investment in securities that have higher credit risks,
- limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- investing in securities with varying maturities, and
- investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

B. Credit Quality

Credit criteria listed in this section refer to the credit rating at the time the security is purchased. Rating categories defined by nationally recognized statistical rating organizations ("NRSROs") shall include intermediate rating categories. For example, the second highest rating category ("AA") includes bonds rated AA+, AA and AA- for Standard & Poor's and Fitch, and Aa1, Aa2 and Aa3 for Moody's Investors Service.

All securities with the exception of US Treasury securities shall meet the following credit quality guidelines:

- U.S. government agency and instrumentality obligations - shall be rated in one of the two highest rating categories by at least two NRSROs;
- Commercial paper - shall carry at least two credit ratings from any NRSRO and both must be at least "A-1", "P1" or "F1";
- Corporate bonds - shall be rated in one of the two highest categories by at least two NRSROs;
- Money market mutual funds - shall have the highest ranking provided by at least one NRSROs;
- Local government investment pools - shall have the highest ranking provided by at least one NRSROs;
- Certificates of deposit and other evidences of deposit - shall be rated in one of the two highest categories by a NRSRO;
- Bankers' acceptances - shall be rated in one of the two highest categories by at least two NRSROs;
- Repurchase agreements - may be executed only with institutions that have a long term rating in one of the two highest categories by at least two NRSROs;.
- Municipal bonds-shall be rated in one of the two highest rating categories (as described in the Credit Criteria section) by at least two NRSROs..

In the event that an investment originally purchased within policy guidelines is downgraded below the minimum rating level, the Treasurer will review the exposure of that security holding, report it to the Chief Finance Officer and recommend a sale or a hold, considering such factors as the reason for the downgrade, prognosis for recovery or further rating downgrades, and the market price of the security.

C. Maximum Maturities

When placing investments, staff shall select maturity dates that precede or coincide with cash needs as shown on the most current forecast for the next 12 months. After daily liquidity and projected needs for debt service, payroll, construction contract payments, and retirement plan funding have been provided for, funds may be invested for periods in excess of one year. However, no more than 25% of the portfolio shall be invested for periods in excess of three years and no less than 30% of the portfolio shall be held in US Treasury securities.

1. **Maximum Maturity - by Security (at time of purchase):**
    - U.S. Treasury obligations - 5 years,
    - U.S. government agency and instrumentality obligations - 4 years,
    - Commercial paper - 270 days,
    - Corporate bonds - 3 years,
    - Money market mutual funds - n/a, funds may be redeemed daily
    - Local government investment pools - n/a, funds may be redeemed daily,
    - Certificates of deposit and other evidences of deposit - 180 days,
    - Bankers' acceptances - 180 days,
    - Repurchase agreements - overnight only,
    - Municipal bonds - 5 years.

2. **Callable securities:**

    The percent of callable securities in the portfolio shall not exceed 15%.

Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit ratings 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.

D. Maximum Concentrations

Maximum concentration each Issuer - as a percentage of book value of the aggregate portfolio at time of purchase:

- U.S. Treasury obligations - no limit,
- U.S. government agency and instrumentality obligations - 15% of the portfolio,
- Commercial paper, corporate bonds and bankers' acceptances of any single issuer - 5 % of the portfolio,
- Money market mutual funds - 5% of the portfolio each fund company,
- Local government investment pools - 5% of the portfolio each trust company,
- Certificates of deposit - 10% of the portfolio,
- Repurchase agreements - 25 % of the portfolio;
- Municipal bonds - 5% of the portfolio.

Maximum concentration in aggregate - as a percentage of book value of the aggregate portfolio at time of purchase:

- U.S .Treasury obligations - no maximum; minimum of 30% of the portfolio,
- U.S. government agency and instrumentality obligations - 50% of the portfolio,
- Commercial paper, corporate bonds and bankers' acceptances - 25% of the portfolio,
- Money market mutual funds - 25 % of the portfolio,
- Local government investment pools - 10% of the portfolio,
- Certificates of deposit - 15% of the portfolio,
- Repurchase agreements - 25 % of the portfolio,
- Municipal bonds - 15% of the portfolio.

Due to fluctuations in the aggregate portfolio balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time subsequent to the purchase of a particular issuer or investment type. 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.

IX. Reporting Requirements

The Chief Finance Officer shall report the status of the WWF portfolio to the Board at least monthly.

X. Policy Considerations

The Chief Finance Officer is responsible for the investment activities for all monetary assets of the WWF, including the development of operating guidelines to implement this policy.

The Policy shall be reviewed at least annually by the Chief Finance Officer. The Policy shall be presented to the Board for approval of any changes, but no less frequently than every three years. If no changes are needed, the existing approved Policy will remain in effect until the Board approves the recommended update to the Policy.