

HUBBARD COUNTY, MINNESOTA INVESTMENT POLICY

HUBBARD COUNTY INVESTMENT POLICY (UPDATED 09/17/2017)

PURPOSE

The purpose of this policy is to set forth the investment objectives and parameters for the management of public funds of Hubbard County. This investment policy is designed to: safeguard funds on behalf of the County, assure the availability of operating and capital funds, ensure compliance with applicable Minnesota statutes, and provide a competitive investment return in light of statutory restrictions.

SCOPE

In accordance with accounting standards, financial reporting guidelines, and Minnesota statutes, this investment policy applies to all cash and investments held or controlled by the County Auditor-Treasurer on behalf of Hubbard County. This policy does not apply to funds related to the issuance of debt where there are other indentures in effect for such funds. In addition, any future revenues and proceeds, which have statutory investment requirements conflicting with this Investment Policy, are not subject to the provisions of this policy.

Except for cash in certain restricted funds, Hubbard County will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the general fund except for those investments that are restricted in accordance with generally accepted accounting principles.

INVESTMENT PHILOSOPHY

The general investment policies of the Hubbard County Auditor-Treasurer will be guided by the "prudent person" rule. Those with investment responsibility for public funds are fiduciaries and, as such, shall exercise judgment and care under the circumstances then prevailing that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of the capital to be invested.

INVESTMENT OBJECTIVES

The primary objectives in priority order, of the County's investment activities shall be safety, liquidity and yield.

A. Safety of Principal

The foremost objective of this investment policy is to ensure the safety of the principal of public funds. Investment transactions shall be undertaken in a manner to ensure the preservation of capital in the overall portfolio. This objective also includes minimizing credit and interest rate risk, deposit risk and have adequate deposit insurance, broker insurance, and or collateral as defined by state statutes.

1. Deposit/Investment Risk

Hubbard County will minimize Deposit Risk by having all of the Counties Deposits protected by federal deposit insurance, pledged collateral, or a corporate surety bond executed by a company authorized to do business in the state of Minnesota. Depositories will comply with MN Statue 118A.

2 Custodial Credit Risk

The County will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in this Investment Policy; and obtaining necessary documentation (e.g. broker certification forms and documentation of perfected security interests in pledged collateral) from the financial institutions, broker/dealers, intermediaries and advisors, as applicable, with which the County will do business in accordance with this Investment Policy.

3 Concentration Credit Risk

Hubbard County will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. This will be based on the applicable opinion units.

4 Interest Rate Risk

Hubbard County will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: 1) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and 2) investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the County's cash requirements.

5 Foreign Currency Risk

The County is not authorized to invest in investments which have this type of risk.

B. Maintenance of Liquidity

County funds shall be managed such that they are available to meet reasonably anticipated cash flow requirements.

C. *Yield/Return on Investment*

Hubbard County's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the applicable investment risk constraints and liquidity needs. It is understood that return on investment is of secondary importance when compared to the safety and liquidity objectives described above. Securities may be sold prior to maturity if a security with declining credit is sold early to minimize loss of principal or a security swap would improve the quality, yield, or target duration in the portfolio.

MANAGEMENT OF INVESTMENTS

The County Auditor-Treasurer is responsible for overseeing the day-to-day management of County investments. The County Auditor-Treasurer shall be responsible for the transferring of appropriate funds to affect investment transactions, for the investment of operating funds, and bond proceeds, consistent with this policy and actions of the County Board.

ETHICS AND CONFLICTS OF INTEREST

The County Auditor-Treasurer shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair one's ability to make impartial investment decisions. In addition, the County Auditor-Treasurer shall disclose to the Board any material financial interests in financial institutions that conduct business with the Board or the County, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the County's investment program.

DELEGATION OF AUTHORITY

In accordance with Minnesota Statute §118A.02, subdivision 1, the County Auditor-Treasurer has the authority to designate brokers and make investments in accordance with Minnesota Statute. §118A.01 to §188A.06. Furthermore, in accordance with Minnesota Statute § 385.071 the Auditor-Treasurer may make electronic funds transfers for investment purposes where it is deemed appropriate, expeditious and in the best interest of Hubbard County.

AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

Each depository used by the County must be one of the following:

- A. a savings association;
- B. a commercial bank;
- C. a trust company;
- D. a credit union;
- E. an industrial loan and thrift company

County funds will be invested in instruments which meet at least one of the following criteria as in M.S. 118A.04:

- A. United States securities: governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities), and other securities, which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- B. State and local securities:
 - In a general obligation of a state or local government with taxing powers which was rated "A" or better by a national bond rating service.
 - In a revenue obligation of a state or local government with taxing powers which was rated "AA" or better by a national bond rating service.
 - In a general obligation of the Minnesota Housing Finance Agency which is a moral obligation of the state of Minnesota and is rated "A" or better by a national bond rating agency.
- C. In commercial paper issued by a United States corporation or its Canadian subsidiary and that is rated in the highest quality category by at least two nationally recognized rating agencies, and matures in 270 days or less.
- D. In time deposits fully insured by the Federal Deposit Insurance Corporation.
- E. In bankers' acceptances issued by United States banks.
- F. MAGIC Fund
- G. In its own temporary obligations issued under Minnesota Statute 429.091, subd. 7 (special assessments), 469.178, subd. 5 (tax increment bonds), or 475.61, subd. 6.
- H. Other investment instruments as allowed by Minnesota statutes (e.g. repurchase agreements, reverse repurchase agrees, mutual funds, and units of a short-term investment fund), brokers investment, government mortgages, bonds and other investments as per State statutes.

All brokers, dealers and other financial institutions approved by the County shall be provided with current copies of this investment policy and shall provide in return to the Board, signed certification of having read, understood and agreement to comply with this investment policy.

COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

The County Auditor-Treasurer shall obtain bids from at least two (2) brokers or financial institutions on all purchases of investment instruments. Overnight sweep investment instruments shall not be subject to this section.

AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION

Investments and Depositories are restricted to those complying with the applicable sections of Minnesota Statutes 118A. Listed below are some specific examples:

- A. United States Government Securities
- B. United States Government Agencies
- C. Federal Instrumentalities (United States Government-Sponsored Enterprises)
- D. Certificates of Deposit
- E. Repurchase Agreements
- F. Commercial Paper
- G. Bankers' Acceptances
- H. Registered Investment Companies (Money Market Mutual Funds)

- I. MAGIC Fund
- J. Certain Mutual Funds

REPORTING

The County Auditor-Treasurer shall submit investment reports to the County Board. The reports shall include, at a minimum, the following information for each individual investment:

- ◆ Description of investment instrument
- ◆ Interest rate or yield to maturity
- ◆ Maturity date
- ◆ Purchase price or remaining principle(Book Value)

DIVERSIFICATION

It is the policy of Hubbard County to diversify its investment portfolios. Assets held in the common cash fund and other investment funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities.

In establishing specific diversification's strategies, the following general policies and constraints shall apply:

- ◆ Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.
- ◆ Positions in securities having potential default risk (e.g. commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- ◆ Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

POLICY CONSIDERATIONS

Any investment held at the time of the implementation of this policy that meets the requirements of Minnesota Statutes but does not meet the guidelines of this policy, shall be exempted 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 reviewed from time to time. The County Board must adopt any changes to this policy.

APPROVAL

The Commissioners of Hubbard County acknowledges it has read, understands and agrees to comply with the Investment Policy of Hubbard County. Approved this date: September 19, 2017.

By: _____
Hubbard County Commissioner

by: _____
Hubbard County Auditor-Treasurer