Town of East Hampton
Investment Policy

I. Background

The responsibility to implement the investment policy is the responsibility of the Town Treasurer (as defined in section 7-359). These practices and policies are in accordance with the CT State Statutes and Town Charter.

The Town will consolidate cash and reserve balances from all funds to maximize investment earnings If not specifically noted, the Town as a practice will follow State statues.

The Town of East Hampton will consolidate cash balances and reserve balances from all funds to maximize investment earnings, and 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.

The Town Finance Director or designee shall act as the investment officer and to invest all funds in accordance with this Policy unless otherwise prohibited.

II. Policy Purpose

The purpose of this document is to specify the policies and guidelines that provide for prudent and productive investment of funds.

III. Scope

This policy applies to the investment of all Town governmental funds and proprietary funds, excluding the investment of employees' retirement funds, proceeds from certain bond issues, as well as fiduciary funds or Private-Purpose Trust & Agency Funds.

IV. Investment Objectives

Investments shall be made in accordance with the following principles in order of priority:

1. **Safety of principal**
2. **Liquidity of investment**
3. **Investment yield**

A. Safety of Principal

Safety of principal, the primary objective, shall be pursued in a number of ways.

1. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to protect against credit risks and interest rate risk.

    a. Credit Risk:

    The Town of East Hampton will minimize credit risk, the risk of loss due to the failure of the issuer, by: limiting investments to the safest types of securities, pre-qualifying the financial institutions and advisors with which the Town will do business and diversifying the investment portfolio.

    b. Interest Rate Risk:

    The Town will minimize interest risk, the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by: structuring investments to mature to meet cash requirements thereby avoiding the need to sell securities prior to maturity and investing operating funds primarily in shorter term securities, money market mutual funds or investment pools.

2. All repurchase agreements shall be fully collateralized, with a custodian bank receiving delivery of the collateral.

B. Liquidity

The investment portfolio shall be structured to meet all of the Town's cash requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs. Furthermore, since all cash requirements cannot be anticipated, the portfolio should consist largely of securities with secondary markets and investments in local government investment pools and money market mutual funds, which offer same day liquidity.

C. Yield

The investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the municipality's liquidity requirements. Return of investment is of secondary importance compared to the safety and liquidity objectives listed above.

The portfolio shall be managed with the objective of exceeding the average of three-month U.S. Treasury Bill rates for the equivalent period. This index is considered a benchmark for near-riskless investment transactions and, therefore, comprises a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with stated risk limitations and prudent investment principles.

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.

V. Standards of Care

A. Prudence

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.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviation from expectations are reported in a timely fashion in writing and appropriate action is taken to control adverse developments.

B. Ethics

Officers and 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 and investment officials shall disclose in writing to the Town Manager any material financial interests in financial institutions with whom they conduct business. They shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio, particularly with regard to the time of purchase and sales. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with which business is conducted on behalf of East Hampton.

VI. Authorized Financial Institutions, Depositories and Broker/Dealers:

The list of approved Bank Depositories and Custodians of Town Funds will be maintained at all times. In addition, a list of approved security broker/dealers selected by creditworthiness (e.g. a minimum capital requirement of $10,000,000 and at least five years of operation) that may include "primary" dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule). The

State of Connecticut requires that each bank depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk based capital ratio. All approved depositories, financial institutions and broker/dealers qualified for investment transactions must supply the following as appropriate:

- Audited Financial statements demonstrating compliance with state and federal capital adequacy guidelines
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the Town's Investment policy.
- Evidence of adequate insurance coverage
- Quarterly Public Depository Qualification Forms

VII. Safekeeping and Custody

Settlement

All settlements of investments shall be on a "Delivery Vs. Payment" (DVP) basis. Physical delivery shall be avoided if at all possible, with book-entry being the preferred method of safekeeping.

Safekeeping and Collateralization

All investment securities purchased or owned by the Town shall be held in third-party safekeeping by an institution designated as primary agent. The primary agent shall issue a safekeeping receipt to the Town listing the specific instrument, rate, maturity and other pertinent information.

VIII. Suitable and Authorized Investments

All investments must be made in securities authorized by CGS 3-24f, 3-27f and 7-403a or in deposits authorized by CGS 7-401 to 402. To further clarify and limit allowable investments, East Hampton has adopted the following investment guidelines:

East Hampton may invest in the following securities and deposits (excludes Loss and retiree benefits reserve fund):

- U. S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available.
- U. S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Certificates of deposit and other evidences of deposit at financial institution;
- Bankers acceptances;

- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
- Investment-grade obligations of state, provincial and local governments and public authorities; (e.g., ratings of not less than A by Moody's, A- by Standard and Poor's, or A- by Fitch).
- Repurchase agreements whose underlying purchased securities consist of the aforementioned instruments;
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation. (The State Treasurer's Short-Term Investment Fund established pursuant to CGS 3-27a and the State Treasurer's Tax-Exempt Proceeds Fund established pursuant to CGS 3-24a.)

Loss and Retiree Benefits Reserve Fund (Compensated Absences Reserve Fund)

East Hampton may invest in the following securities and deposits:

(1) Not more than forty per cent, or with respect to a reserve fund for retiree benefits for which the budget-making authority has adopted an asset allocation and investment policy, fifty per cent, of the total amount of the reserve fund shall be invested in equity securities, and (2) any portion of such reserve fund not so invested may be invested in: (A) Bonds or obligations of, or guaranteed by, the state or the United States, or agencies or instrumentalities of the United States, (B) certificates of deposit, commercial paper, savings accounts and bank acceptances, (C) the obligations of any state of the United States or any political subdivision thereof or the obligations of any instrumentality, authority or agency of any state or political subdivision thereof, provided at the time of investment such obligations are rated within the top rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner, and applicable to such obligations, (D) the obligations of any regional school district in this state, of any municipality in this state or any metropolitan district in this state, provided at the time of investment such obligations of such government entity are rated within one of the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner, and applicable to such obligations, (E) in any fund in which a trustee may invest pursuant to section 36a-353, (F) in investment agreements with financial institutions whose long-term obligations are rated within the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner or whose short-term obligations are rated within the top rating category of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner, or (G) investment agreements fully secured by obligations of, or guaranteed by, the United States or agencies or instrumentalities of the United States.

East Hampton shall not invest in the following:

Investments in "derivative" securities such as futures, swaps, options, interest-only or principal-only mortgage-backed securities, inverse floaters, COFI floaters, and range floaters may not be made. These types of securities can experience high price volatility with changing market conditions, and their market values may not return to par even at the time of an interest rate adjustment. These restrictions apply to direct investments as well as to investments through custodial arrangements. Thus, if a custodial arrangement, pool or fund includes securities prohibited by this paragraph, the municipality may not invest in shares or other interest in such custodial arrangement, pool or fund.

Diversification

The investment officer shall diversify the municipality's investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual issuers or maturities. Diversification strategies shall include:

- limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- limiting investments in securities that have higher credit risks,
- investing in securities with varying maturities, and
- continuously 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.

Maximum Maturities

To the extent possible, the Town shall attempt to match its investments with anticipated cash flow requirements. The dollar-weighted average portfolio maturity (including interest rate reset periods) may not exceed one year; individual maturities may not exceed three years. Reserve funds may be invested in securities exceeding three years if the maturity of such investments coincides as nearly as practicable with the expected use of funds. Investments in securities with maturities in excess of three years should be separately identified and discussed in quarterly investment reports.

A U.S. government or agency security with a variable interest rate that resets no less frequently than annually shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.

In calculating the dollar-weighted average maturity (WAM) of the overall portfolio, investments in custodial arrangements, pools or money market funds managed to maintain a constant net asset value due to their high degree of liquidity, should be factored in as having one-day maturities.

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 Local Government Investment Pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet on-going obligations.

Adoption

This policy and revisions hereto shall be approved by the East Hampton Town Council. Any investment held at the time of this policy's adoption that does not conform to the policy shall be exempted from the requirements of the policy so long as such investment is a permitted municipal investment under Connecticut statutes. At maturity or liquidation of such investment, all proceeds shall be reinvested only as provided by this policy.

Recommended by: East Hampton Board of Finance

June 21, 2010 (Original)

Adoption by: East Hampton Town Council

July 13, 2010 (Original)

APPENDIX II

RELEVANT INVESTMENT STATUTES

Section 3-24a. Tax-Exempt Proceeds Fund created

Section 3-24f. Purchase of investments in Tax-Exempt Proceeds Fund by other state instrumentalities

Section 3-27a. Short Term Investment Fund. Payment of certain interest to board or boards of trustees

Section 3-27f. Investment by Treasurer in participation certificates

Section 7-400. Investment of funds

Section 7-401. Definitions

Section 7-402. Deposit of public money and trust funds

Sec. 7-403a. Loss and retiree benefits reserve fund

Section 36a-33. Commissioner to prepare lists of banks

Protection of Public Deposits

Section 36a-330. Definitions

Section 36a-333. Collateral requirements