

INCORPORATED COUNTY OF LOS ALAMOS
INVESTMENT POLICY
Updated May 24, 2005

I. SCOPE

This policy applies to the investment of funds of the Incorporated County of Los Alamos (the County).

II. GENERAL OBJECTIVES

1. Investment goals. County funds shall be invested by the investment officer in an effort to:

- a. Maximize investment returns while minimizing risk;
- b. Maintain a level of liquidity to ensure meeting unanticipated cash needs;
- c. Allow for diversification of the county's portfolio;
- d. Recognize the impact of the county's investment program on the local economy; and
- e. Minimize the amount of money in non-interest-bearing accounts.

2. Criteria for investment selection. The criteria for selecting investments shall be in the following order of priority safety, liquidity, and total return :

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. The objective will be to minimize credit risk and interest rate risk.

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

- Limiting investments to securities as authorized in the County Code;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the County will do business; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

ii. Interest Rate Risk. The County will minimize the risk that the market value of securities in the portfolio will fall due to changes in the general level of interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and also satisfying requirements for cash reserves, thereby avoiding the need to sell securities on the open market prior to maturity.

b. **Liquidity.** The investment portfolio shall remain sufficiently liquid to meet all cash flow 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). Furthermore, since all possible cash demands cannot be anticipated, the portfolio of operating investments should consist largely of securities with active secondary or resale markets (dynamic liquidity).

c. **Total Return .** Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Within the constraints of prudent safety and liquidity parameters listed above, the portfolio shall be designed with the objective of attaining a market rate of return. Total returns will be maximized within these constraints.

3. Trading Restrictions. Securities shall not be sold prior to maturity with the following exceptions:

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

- b. A security swap would improve the quality, total return , or target duration in the portfolio; or
- c. Liquidity needs of the portfolio require that the security be sold.

III. SAFEKEEPING, CUSTODY, AND TRADING

1. **Authorized Financial Dealers and Institutions.** The finance division will maintain a list of financial institutions authorized to provide investment services and a list of approved security broker/dealers selected by creditworthiness. All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply each of the following:

- a. Audited financial statements,
- b. Proof of National Association of Securities Dealers (NASD) certification,
- c. Proof of New Mexico state registration,
- d. Completed broker/dealer questionnaire, and
- e. Certification of having read and understood and agreeing to comply with the County's investment policy.

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

2. **Internal Controls.** The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgments by management. An annual independent review by an external auditor shall assure compliance with policies and procedures.

The internal controls shall address the following points:

- a. Control of collusion,
- b. Separation of transaction authority from accounting and recordkeeping,
- c. Custodial safekeeping,
- d. Avoidance of physical delivery securities wherever possible,
- e. Clear delegation of authority to subordinate staff members,
- f. Written confirmation of transactions for investments and wire transfers, and
- g. Development of a wire transfer agreement with the lead bank and third-party custodian.

3. **Authorized Signatures.** The finance division will maintain a list of all authorized signatories for all authorized County bank and investment accounts. The County Council will approve this list at least annually or whenever a signature is added or deleted from the master list which ever is sooner.

4. **Trading Procedures .** The investment officer shall, whenever possible, obtain a minimum of three verbal or electronic bids/offers to obtain the best price for the County on all securities trades.

- a. To encourage local investing, at least one local Los Alamos broker will be included on all trades if available.
- b. Tie bids/offers will be decided by a coin toss, unless one of the tie firms proposed the trade or is a local broker.
- c. Brokers proposing a securities trade shall be protected if the trade is executed and will win any ties.
- d. Local brokers will win any remaining ties.
- e. Best price and execution will not be compromised.

f. The winner on all trades will be included on the competing list for the following trade unless, in the judgment of the staff, the firm does not have good capabilities in the sector related the subsequent trade.

g. Bond exchanges will be managed under the following guidelines:

- i. Recognizing the value of original ideas, proposed bond exchanges will not be shopped among other brokerage firms.
- ii. If uncertainty exists concerning the levels of the bid or offer prices on the proposed exchange, the level(s) should be checked with at least one other firm.
- iii. If a higher bid or offer is found, the proposing firm shall be given the opportunity to improve their bid or offer. The proposing firm shall win any ties.

A bid/offer form will be completed which will include date, type of investment, purchase date, maturity date, amount to be invested, institution name, contact name, investment type, face value, discount, and cost. Authorization for all investments shall be in writing.

IV. AUTHORIZED INVESTMENTS

Authorized investments are defined in Section 20-403 of the County Code.

V. INVESTMENT PARAMETERS

1. **Diversification.** The investments shall be diversified by:

- a. limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- b. limiting investment in securities that have higher credit risks,
- c. investing in securities with varying maturities, and
- d. continuously investing a portion of the portfolio in readily available funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

e. To maintain adequate diversification, the investment portfolio shall not have more than 20% of the portfolio invested in securities of a single issuer with the following exceptions:

- i. U.S. Government Obligations, deposits with the New Mexico State Treasurer's Local Government Investment Pool, and investments with the New Mexico State Investment Council's Long-term Investment Funds;
- ii. Repurchase agreement associated with required debt service reserves that are collateralized in accordance with code section 20-406; and
- iii. Deposits in a local qualified financial institution that are 100% collateralized in accordance with Section 20-403 of the County Code. This exception recognizes the impact of the county's investment program on the local economy.

2. **Maximum Maturities.** To the extent possible, the investment officer shall attempt to match the investment maturities with the anticipated cash flow requirements of the County. Unless designated as long-term funds or matched to a specific cash flow, the County will not invest its pooled investment funds directly in securities maturing more than five (5) years from the date of purchase, other than the portion of the pooled funds determined to be long-term in nature.

3. **Long-term Investments.** The County has institutional balances that are inherently or explicitly long-term in nature, including balances in the general county pooled investments (no more than 50% of the total), the capital projects permanent fund, the cemetery fund, and the utility decommissioning account. These funds, reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investments are made to coincide as nearly as practicable

with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the County Council.

Investments in the New Mexico State Investment Council’s long-term investment funds shall be made in accordance with the following asset allocation guidelines:

	<u>Target Weight</u>	<u>Target Range</u>
Fixed Income (Bonds)	30%	15-45%
Core Bond Fund	20%	10-35%
High Yield Bond Fund	10%	5-20%
Domestic Equity	55%	35-75%
Large Cap. Active and Index Funds	40%	20-60%
Mid/Small Cap. Active Fund	15%	5-30%
International Equity	15%	5-25%
Non-U.S. Active Fund	12%	5-20%
Emerging Markets Fund	3%	0-10%

It is recognized that economic and market conditions will cause the asset allocations to fluctuate within the target ranges.

4. **Collateralization.** New Mexico state law require that all certificates of deposit, money market, checking accounts, and any other investments not backed by the full faith and credit of the United States Government, other than investments in the New Mexico State Investment Council long-term investment funds, be secured by pledged collateral of at least 50 percent of the current market value. This collateral will be pledged in the name of the County and held by a third party institution, Federal Reserve Bank, or by a trust institution within the same bank as approved by the investment officer. The institution will issue safekeeping receipts to the County for securities held by a third party. The County will require that at all times, pledged collateral will be equal to, or greater than, 50 percent of the current market value of the County's applicable investments.

5. **Local Preference for Investing.** The investment officer will, whenever possible, try to invest funds which benefit the local economy on a competitive bid basis. The County code allows preference be given to local qualified financial institutions whenever competing bids from out-of-town qualified financial institutions do not exceed the highest bid from the local financial institutions.

VI. REPORTING

1. **Methods.** The investment officer 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 reporting period . This management summary will be prepared in a manner which will allow the County to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the County Administrator and the County Council. The report will include the following:

- a. Listing of individual securities held at the end of the reporting period.
- b. Changes from the previous report.
- c. Schedule of collateral.
- d. The cost and market value of individual securities.
- e. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- f. Listing of investment by maturity date.
- g. 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. A set of appropriate benchmarks shall be selected to use in evaluating portfolio performance on a regular basis.

VII. POLICY CONSIDERATIONS

1. **Exemption.** Any investment currently held that 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.

2. **Amendments.** This policy shall be reviewed by the investment officer on an annual basis and be revised to reflect changes in policy required by a changing investment market, changes required by federal, state or local laws, or changes to administrative policy. Any changes must be approved by the County Council.

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