



***Department of Finance***

***Division of Treasury***

***Statement of Cash Management  
and Investment Policy***

Effective March 27, 2015



## Table of Contents

<i>Purpose</i>	3
<i>Scope of Investment Policy</i>	3
<i>Investment Objectives</i>	3
<i>Delegation of Authority</i>	4
<i>Standard of Prudence</i>	4
<i>Ethics and Conflict of Interest</i>	4
<i>Authorized Investments</i>	5
<i>Diversification</i>	5
<i>Maximum Maturity</i>	6
<i>Prohibited Investments and Investment Practices</i>	6
<i>Monitoring and Adjusting the Portfolio</i>	6
<i>Internal Controls</i>	7
<i>Eligible Banks and Broker/Dealers</i>	7
<i>Competitive Selection of Investment Instruments</i>	7
<i>Safekeeping and Custody</i>	8
<i>Performance Standards</i>	8
<i>Reporting</i>	8
<i>Conflict of Law</i>	8
<i>Investment Policy Effective Date</i>	8



## ***Purpose***

The purpose of this document is to identify the policy that will govern the investment activities of the Treasurer's Office of the City of Cleveland. This policy has been adopted by, and, if necessary, will be revised on an annual basis by, the Director of Finance.

This policy is designed to ensure prudent management of public funds, conformance to Chapter 178 of the Codified Ordinances of the City of Cleveland, availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

## ***Scope of the Investment Policy***

This policy applies to the investment of all moneys of the City of Cleveland under the custody and/or control of the Division of Treasury. Any practice not clearly authorized under this policy is prohibited. The guidance set forth herein is to be strictly followed by all those responsible for any aspect of the management or administration of these funds.

The City's investments shall be segregated into distinct portfolios, including portfolios for the General Fund, and the Divisions of Water, Airport, Utilities, Cemeteries, Safety, and Railroads. Total Average Portfolio, as defined in this policy, shall mean the average of the month-end market values for the prior twelve (12) month period of an individual portfolio.

The City of Cleveland bond proceeds shall be invested in the eligible securities as established by the applicable bond indentures.

## ***Investment Objectives***

All Portfolios shall be managed to accomplish the following hierarchy of objectives:

1. *Preservation of Principal* – The single most important objective of the City of Cleveland investment program is the preservation of principal of those funds within the Portfolio.
2. *Maintenance of Liquidity* – The Portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future operating requirements of the City of Cleveland.
3. *Maximize Return* – The Portfolio shall be managed in such a fashion as to attain a market-average rate of return throughout budgetary and economic cycles, within the context and parameters set forth by objectives 1 and 2 above.



## ***Delegation of Authority***

The Treasurer is responsible for the prudent investment of the City of Cleveland Treasury and shall oversee the establishment of investment procedures consistent with this policy. Such procedures shall include 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 Treasurer. The Treasurer shall be responsible for all trades undertaken, and shall establish a system of controls to regulate the activities of subordinate officials and shall exercise control over that staff. Investment staff shall be bonded in amounts appropriate to levels of responsibility and portfolio characteristics.

The City's Internal Auditor will review the investment program to ensure compliance with this policy.

## ***Standard of Prudence***

The standard of prudence to be applied to the investment of the City of Cleveland shall be the industry standard "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."*

Treasury staff acting in accordance with this policy or any other written procedures pertaining to the administration and management of the City of Cleveland and who exercise the proper due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that these deviations are reported immediately to the Treasurer and that appropriate action is taken to control and prevent any further adverse developments.

## ***Ethics and Conflict of Interest***

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. Further, no employee involved in the investment process shall use the authority to influence of office or employment to secure anything of value or the promise or offer of anything of value that would create an improper influence upon the public official or employee with respect to that person's duties.

Employees and investment officials shall comply fully with the reporting and disclosure requirements of Chapter 102 of the Ohio Revised Code.



## **Authorized Instruments**

The Treasurer is authorized to invest the funds of the City of Cleveland in instruments as described in section 178.12 of the Codified Ordinances as summarized and restricted below:

- A. U.S. Treasury Obligations.** United States Treasury bills, notes, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States.
- B. Federal Agency Obligations.** Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality.
- C. State and Municipal Bonds and Notes.** Bonds and notes of the State of Ohio, and any municipal corporation, village, county, township, or other political subdivision of Ohio for which the full faith and credit of the subdivision is pledged, so long as such subdivision has not defaulted in the payment of principal or interest on its bonds or notes within the last ten (10) years.
- D. State Pool.** State of Ohio Local Agency Investment Pool (STAR Ohio) authorized under section 135.45 of the Ohio Revised Code.
- E. Bank Deposits.** Time certificates of deposit (not to exceed one [1] year) or savings or deposit accounts in an eligible institution as defined in Chapter 178 of the Codified Ordinances of the City of Cleveland. Collateralization is required on all deposits of City funds as stated in Chapter 178 of the Codified Ordinances of the City of Cleveland.
- F. U.S. Government money market mutual funds.** Issued by open ended investment companies registered with the SEC, with an average maturity of one hundred twenty (120) days or less, which have the objective of maintaining a constant net asset value per share, and which invest exclusively in U.S. Treasury Obligations, Federal Agency Obligations, and repurchase agreements secured by such obligations.
- G. Repurchase Agreements.** Specific agreements shall not exceed a term of one (1) year with any eligible depository or designated securities broker/dealer which has entered into a master repurchase agreement pursuant to Codified Ordinance Section 178.12, division (c), under the terms of which agreement the City Treasurer purchases for the City, and such eligible depository or securities broker/dealer agrees to unconditionally repurchase, any of the securities listed in Section 178.12, divisions (b)(1), (b)(2), or (b)(3), of the Codified Ordinances of the City of Cleveland.

## **Diversification**

Each Portfolio shall be structured to diversify investments to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific type of security. The maximum percentage of the Total Average Portfolio permitted in each security is as follows:

A.	U.S. Treasury	100% maximum
B.	Federal Agency (Fixed Rate)	100% maximum
C.	Federal Agency (Callable)	55% maximum
D.	Certificates of Deposit	25% maximum
E.	Repurchase Agreements	25% maximum



F.	State Bonds and Notes	10% maximum
G.	Municipal Bonds and Notes	10% maximum
H.	STAR Ohio	75% maximum
I.	Money Market Mutual Funds	75% maximum

Each Portfolio will be further diversified to limit the exposure to any one issuer. No more than 2% of the Total Average Portfolio will be invested in the securities of any single issuer with the following exceptions:

U.S. Government Obligations	100% maximum
Money Market Mutual Funds	10% maximum
Repurchase Agreements Counterparties	5% maximum

### ***Maximum Maturity***

Maintenance of adequate liquidity to meet the cash flow needs of the City is essential. Accordingly, each Portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements in order to avoid the forced sale of securities prior to maturity.

Assets will be invested in permitted investments with a stated maturity of no more than five (5) years from the date of purchase unless the security is matched to a specific obligation or debt of the City. To control the volatility of the assets, the Treasurer of the City will determine a duration target, not to exceed three (3) years.

Notwithstanding these limitations, in no case will the assets in any Portfolio be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds.

### ***Prohibited Investments and Investment Practices***

The Treasurer is expressly prohibited from the following investments and investment practices. This is not an exclusive list.

1. Short sales (selling a specific security before it has been legally purchased);
2. Investment in complex derivatives such as range notes, dual index notes, inverse floating rate notes and leveraged notes, or notes linked to lagging indices or to long-term indices;
3. Collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs);
4. Investing in any security not specifically permitted by this Policy.

### ***Monitoring and Adjusting the Portfolio***

Those responsible for the day-to-day management of the Portfolios will routinely monitor the contents of each Portfolio, the available markets and the relative values of competing instruments, and will adjust each Portfolio as necessary to meet the investment objectives listed above. It is recognized and understood that this non-speculative active management of Portfolio holdings may cause a loss on the sale of an owned investment. It is the policy of the City of Cleveland to charge any such loss against the interest income account during the month in which the loss was realized.



The Division of Financial Reporting & Control, on a monthly basis, allocates the net income/losses earned on investments of pooled/commingled funds. The earnings are allocated based on each participating fund's cash balance in proportion to total pooled/commingled cash.

### ***Internal Controls***

The City Treasurer is responsible for monitoring a system of internal controls governing the administration and management of the Portfolio which include a review of all investment activity, trade reconciliation, and targeting cash balances. Such controls are designed to prevent and control losses of the City funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by any personnel. The internal controls address: control of collusion, separation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, written confirmation of telephone transactions, minimizing the number of authorized investments officials and documentation of investment transactions.

### ***Eligible Banks and Broker/Dealers***

The Director of Finance will establish and the Treasurer will maintain a list of eligible brokers, dealers, and banks with which investment transactions can be made, as described in Section 178.11 of the Codified Ordinances of the City of Cleveland. Qualified firms will be limited to "primary" dealers and other dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule) that are registered with the Ohio Department of Commerce to do business in the State of Ohio. All financial institutions and broker dealers must provide the following information, on an annual basis:

1. Sworn statement pledging to adhere to "Capital Adequacy Standards"
2. Annual financial statements for the most recent year showing the amount of liquid capital
3. A written statement from a certified public accountant certifying no weakness in the internal systems of controls of the dealer or broker were found
4. A completed "Broker/Dealer Request for Information" and all documentation required by Section 178.12 of the Codified Ordinances of the City of Cleveland.

Preference will be given to banks and broker/dealers who are headquartered or maintain a presence in the City of Cleveland.

Financial institutions and broker/dealers will be required to comply with this policy and to pledge to offer for sale only appropriate securities.

### ***Competitive Selection of Investment Instruments***

It will be the policy of the Treasurer to transact all security purchases/sales only with approved financial institutions through a competitive process. The City shall accept the offer which (a) has the highest rate of return within the maturity required; and (b) optimizes the investment objective of the overall portfolio. When selling a security, the Treasurer will select the bid that generates the highest sale price.

Primary fixed price Federal Agency offerings may be purchased from the list of qualified broker/dealers without competitive solicitation.

In making investment decisions, all other things being equal and subject to compliance with any applicable Internal Revenue Code requirements for bond proceeds, investment in corporations and financial institutions doing business in the City of Cleveland will be given preference over other investment options.



### ***Safekeeping and Custody***

All investment securities purchased by the Treasurer or held as collateral on deposits or investments shall be held in third-party safekeeping at the Federal Reserve Bank or at a secured and insured depository as required by Chapter 178 of the City of Cleveland Codified Ordinance and Section 113.05 of the Ohio Revised Code.

All securities in the Portfolio shall be held in the name of the Treasurer of the City of Cleveland and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. The depository shall issue a safekeeping receipt to the Treasurer listing the specific instrument, rate, maturity and other pertinent information.

Appropriate Treasury officials and representatives of the depository responsible for, or in any manner involved with, the safekeeping and custody process of the City of Cleveland shall be bonded in such a fashion as to protect the City from losses from malfeasance and misfeasance.

### ***Performance Standards***

The investment portfolios shall be designed and managed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flows needs of the City.

### ***Reporting***

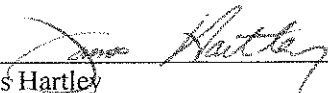
The City Treasury shall maintain accurate, complete, and timely records of all investment activities. Each business day, the Treasurer shall provide the Commissioner of Accounts and the City Controller a sworn statement (Daily Treasurer's Report) showing the total amount deposited in and withdrawn from each depository from the preceding business day. Within fifteen (15) business days of the end of the month, the City Treasurer shall submit an investment report to the Director of Finance. This report shall include: (i.) a listing of the existing portfolios in terms of investment securities, book value, maturity date, return, market value, and other features deemed relevant, (ii.) a listing of all transactions executed during the month. The City Treasurer will also prepare annual reports in sufficient detail to provide full disclosure of all investment activities to the Director of Finance.

### ***Conflict of Law***

In the event that any portion of this policy is in conflict with any City, State, or Federal law, that law will prevail.

### ***Investment Policy Effective Date***

This policy is adopted this 27th day of March 2015 and shall remain in effect until rescinded or amended by the Director of Finance.

  
\_\_\_\_\_  
James Hartley  
Acting Director of Finance