

# **Investment Policy for Ohio Water Development Authority**

**Adopted on December 14, 2000**

**Revised on March 27, 2003 and December 15, 2004**

The objective of the Ohio Water Development Authority (OWDA) is to invest public funds in a manner that will provide the highest investment return with the maximum security, safety and liquidity to meet all necessary cash flows. The Chief Operating Officer (COO) is the investment officer charged with the responsibility for the purchase and sale of investments and the execution of this Investment Policy.

## **I. Scope**

This Investment Policy applies to all financial assets of OWDA. The COO shall routinely monitor the contents of the investment portfolio, the available markets and the relative value of competing investments and will adjust the portfolio accordingly.

Except for cash in certain restricted and special funds, the OWDA will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

## **II. General Objectives**

The primary objectives, in priority order, of investment activities shall be safety, liquidity and yield:

### **1. Safety**

Safety of principal is the foremost objective of the investment activity. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

### **2. 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 or by investing in securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market mutual funds or local government investment pools that offer same-day liquidity for short-term funds.

### **3. Yield**

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Securities shall be purchased with the expectation that they may be held until maturity. However, securities may be sold prior to maturity:

- To minimize loss of principal
- To improve the quality, yield, or target duration of the portfolio
- To meet liquidity needs

### **III. Standards of Care**

#### **1. Prudence**

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. 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.

#### **2. Ethics and Conflicts of Interest**

Officers and 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. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the OWDA.

#### **3. Delegation of Authority**

Authority to manage the investment program is granted to the COO, hereinafter referred to as investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer.

### **IV. Suitable and Authorized Investments**

The following investments will be permitted by this policy:

1. United States Treasury bills, notes, bonds, or any other obligations or securities issued by the United States Treasury or any other obligations guaranteed as to principal and interest by the United States (excluding investment in stripped principal or interest obligations of such eligible obligations).
2. Bonds, note, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to,
  - Federal National Mortgage Association
  - Federal Home Loan Bank
  - Federal Farm Credit Bank
  - Federal Home Loan Mortgage Association
  - Government National Mortgage AssociationAll federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Interim deposits in authorized depositories, provided those deposits are properly insured or collateralized.
4. Bonds and other obligations of this state

5. Direct and general obligations of any State of the United States, to the payment of which the full faith and credit of such State are pledged and that are rated in one of the two highest rating categories for short-term obligations and one of the three highest rating categories for long-term obligations.
6. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities are made only through eligible financial institutions.
7. Investment agreements that allow for total flexibility of draws at par without a breakage fee and deposits at the original rate provided that the collateral subject to such agreements are marked to market daily and are collateralized by government obligations or government certificates (see definitions below), or obligations issued, guaranteed or collateralized by GNMA, FNMA, or FHLMC. Collateral substitution is allowed provided that required margin levels are met. Margin levels are determined by collateral type and approved by the OWDA. Providers of investment agreements must be insurance companies, commercial banks, broker/dealers or other financial institutions whose obligations are rated in the highest short-term categories or one of the top three long-term categories by Moody's and/or Standard & Poor's. The maximum maturity of any investment agreement shall be ten years.

“Government Obligations” refers to direct and general obligations of, or obligations in which the timely payment of principal and interest are unconditionally guaranteed by, the United States of America.

“Government Certificates” refers to (in the case of Government Obligations) evidences of ownership of proportionate interest in future interest or principal payments of Government Obligations, including depository receipts thereof. Investments in such proportionate interest must be limited to circumstances wherein (i) a bank or trust company acts as custodian and holds the underlying Government Obligations; (ii) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on the underlying Government Obligations, and (iii) the underlying Government Obligations are held in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated.

8. The Ohio subdivision's fund, STAROhio
9. Up to 25% of interim moneys available for investment in either of the following:
  - A. Commercial paper notes issued by an entity that has assets exceeding \$500 million and:
    - 1) are rated at the time of purchase in the highest two classifications established by at least two nationally recognized standard rating services.
    - 2) the aggregate value of the notes does not exceed 10% of the aggregate value of the outstanding commercial paper of the issuing corporation.
    - 3) the notes mature not later than 180 days after purchase.
  - B. Bankers acceptances of banks that are insured by the Federal Deposit Insurance Corporation and:
    - 1) the obligations are eligible for purchase by the Federal Reserve System.
    - 2) the obligations mature not later than 180 days after purchase.
10. Repurchase agreements, (i) the maturities of which are 30 days or less or (ii) the maturities of which are longer than 30 days and not longer than one year, provided the collateral subject to such agreements are marked to market daily, and in either case are entered into with financial institutions such as banks or trust companies organized under

State law or national banking associations, insurance companies, or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of the Security Investors Protection Corporation with debt rated "A" or commercial paper rated "A-1" by Standard & Poor's or "A" or "Prime-1" by Moody's. Notwithstanding anything herein to the contrary, a repurchase agreement may have a maturity longer than one year if such agreement permits the Authority to withdraw all or any portion of the principal amount covered by such agreement on demand at par and without substantial penalty or premium. The repurchase agreement shall be collateralized by government obligations or government certificates (see definitions below), or obligations issued, guaranteed or collateralized by GNMA, FNMA, or FHLMC. The repurchase agreement securities and, to the extent necessary, Government Obligations and Government Certificates or obligations described in paragraph (IV)(7), exclusive of accrued interest, shall be maintained at a required margin level. Margin levels are determined by collateral type and approved by the OWDA. In addition, the provisions of the repurchase agreement shall meet the following additional criteria:

- A. the third party (who shall not be the provider of the collateral) has possession of the repurchase agreement securities and the Government Obligations and Government Certificates as agent for the Trustee or the Authority;
- B. failure to maintain the requisite collateral levels will require the third party having possession of the securities to liquidate the securities immediately; and
- C. the third party having possession of the securities has a perfected, first priority security interest in the securities.

Nothing in this paragraph shall be construed as authorizing the Authority to enter into reverse repurchase transactions involving moneys or investments on deposit in any Special Funds.

For the purposes of financial reporting, all of the investments listed above, except for StarOhio (8) and money market funds (6), are to be classified as investments, and not cash or cash equivalents. Cash and cash equivalents shall consist of Cash, StarOhio, and Money Market Funds.

#### **V. Maximum Maturity**

With the exception of securities held as collateral for a written repurchase agreement, any investment must mature within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the OWDA.

#### **VI. Safekeeping and Custody**

All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodian designated by the COO and evidenced by safekeeping receipts.

#### **VII. Internal Controls**

The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the OWDA 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 (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures.

### **VIII. Reporting**

The investment officer shall prepare an investment report at least quarterly that provides an analysis of the current investment portfolio. This management summary will be prepared in a manner, which will allow the OWDA to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment officer and all other designated parties.

The market value of the portfolio shall be calculated regularly in compliance with all governing statutes and accounting procedures. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with current mark-to-market practices.

### **IX. Authorized Investment Advisors/Brokers**

The COO and the OWDA may elect to use a broker and/or investment advisor to implement this investment policy. All brokers, advisors, and financial institutions initiating transactions with the OWDA must acknowledge their agreement to abide by the content of this investment policy.

### **Approval of the Investing Authority**

The investment policy dated December 15, 2004 is, hereby, approved by the Investing Authority:

\_\_\_\_\_  
Scott Campbell, COO

\_\_\_\_\_  
Date

**Agreement**

By signing this agreement, the institution below submits that it has read this policy and agrees to abide by its content.

\_\_\_\_\_  
Name of Financial Institution, Advisor or Broker

\_\_\_\_\_  
Signature of Authorized Officer

\_\_\_\_\_  
Printed Name and Title

\_\_\_\_\_  
Date