INV 161: Effective Investment Policies and Investment Statement Analysis
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Investment Policy

- Investment Policy
  - Important element in investing public funds
  - Describes prudent primary objectives
  - Identifies eligible investments
  - Improves quality of decision making
  - Signals to public the entity is well managed and taking steps to safeguard funds
Elements of Investment Policies

- Clearly describe what funds are covered by which policy
  - Different funds may have different policies (i.e. general, debt proceeds or reserve funds)
- Have clear, concise statement of objectives
  - State objectives: Safety, liquidity and yield
  - Then state how you will achieve objectives
Elements of Investment Policies

- Standards of Care
  - Who is responsible for program?
  - Refer to prudent investor rule

- Allowable investments
  - Simply follow state law
  - Could be more restrictive
  - Cities could have different language
Elements of Investment Policies

- **Investment language**
  - Simply follow state code
  - Itemizing allowable investments leaves little room for misinterpretation, *but* policy may get stale as code changes (and therefore require an update)

- **Diversification percentages**
  - Entities already limited on investing
  - Arbitrary diversification could limit flexibility in changing markets
Elements of Investment Policies

- Include collateralization requirements
  - Specify ratios
- Require third-party custody for securities
  - Protects from the bank’s credit risk
- Require formal process for selecting financial institutions and brokers
  - How will you choose the investment professionals?
Elements of Investment Policies

- Address investment reporting
  - How frequently?
  - Who will receive?
  - What do reports contain?

- Should a benchmark be assigned?
  - Be careful here
  - Consider setting different benchmarks for various fund types
Elements of Investment Policies

- Adopt policy by resolution
  - File with Auditor of State’s office
- Authorized financial institutions
  - Must acknowledge policy in writing
  - Auditors will ask for copies
- Review annually
  - Modify as needed
Elements of Investment Policies

Sources:

- gfoa.org/creating-investment-policy
- aptusc.org/certifications/investment-policy-certification
- Investing Public Funds, by Girard Miller
Investment Procedures

- Document the daily investment process
  - Who will complete which duties?
  - Provides accountability

- Duties can include:
  - Receiving investment information
  - Accounting of transactions
  - Approval
  - Proper payment of investments
Effective Investment Reporting

- Every entity will be different
- Dual Role
  - Internal investment reports
    - Helps you make informed decisions and think in terms of overall portfolio management
  - Board investment reports
    - Condensed version for public
- Facilitates audit questions
- Compliance of investments
- GASB requirements
## Investment Reporting

### Internal investment reports

- **Suggestions:**

<table>
<thead>
<tr>
<th>CUSIP</th>
<th>Description of Security</th>
<th>Maturity Date</th>
<th>Purchase Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Call Date</td>
<td>Ratings</td>
<td>Bank/Broker Purchased From</td>
<td>Yield</td>
</tr>
<tr>
<td>Average Maturity/Days to Maturity</td>
<td>Income Payment Dates/Amounts</td>
<td>Cost Basis</td>
<td>Market Value</td>
</tr>
</tbody>
</table>
### Investment Reporting

Investment reports to Governing Board/Public

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<table>
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<tr>
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<th>Purchase Date</th>
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</thead>
<tbody>
<tr>
<td>Yield</td>
<td>Average Maturity</td>
<td>Diversification of Assets</td>
<td>Comments on Recent Activity</td>
</tr>
<tr>
<td>Cost Basis</td>
<td>Market Value</td>
<td>Market Benchmark Rates</td>
<td>Maturity Distribution</td>
</tr>
</tbody>
</table>

Suggestions:
- Market Value
- Maturity Distribution
- Yield
- Average Maturity
- Diversification of Assets
- Comments on Recent Activity
Investment Reporting

- Investment reporting ideas
- Interactive examples