

# City of Covington Single Employer Retiree Benefits Funding Trust Investment Policy

## Introduction

The intent of the Investment Policy of the City of Covington is to define the guidelines within which funds are to be managed and to set forth responsibilities for the effective management and investment of funds. The guidelines are intended to be broad enough to allow the investment officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

## Governing Authority

The investment program shall be operated in conformance with the provisions of Louisiana R.S. 33:5162.

## Scope

This policy applies to investment activities of the City of Covington Single Employer Retiree Benefits Funding Trust. The Mayor, Chief Administrative Officer, Finance Director and the city council Finance Committee serve as the Board of Trustees.

## General Objectives

The primary objectives, in priority order, of investment activities shall be:

### 1. *Safety*

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

### 2. *Liquidity*

The Trust investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

### 3. *Return*

The Trust 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 of safety and liquidity needs.

## 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.

The "prudent person" standard states that,

“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 activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

## **Delegation of Authority and Responsibilities**

### *Governing Body*

The Board of Trustees will retain ultimate fiduciary responsibility for the portfolios. The board will receive monthly reports, designate investment officers and periodically review the investment policy making any changes necessary by adoption.

### *Investment Officers*

Authority to manage the investment program is granted to the Chief Administrative Officer hereinafter referred to as investment officer as designated by the City charter.

Responsibility for the operation of the investment program is hereby delegated to the Finance Director who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. Officers will provide monthly investment reports and other special reports as may be deemed necessary.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.

### *Investment Committee*

The Board of Trustees may seek to establish an investment committee to provide guidance to investment officers.

### *Investment Adviser*

The Board of Trustees may engage the services of one or more external investment managers to assist in the management of the City of Covington's investment portfolio in a manner consistent with the Trust's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Any investment manager or adviser must be a Registered Investment Advisor under the Investment Act of 1940.

### **Suitable and Authorized Investments**

The Board of Trustees may invest trust funds in the following described investments, in accordance with the provisions of Louisiana Revised Statutes 33:5162A, as amended or hereafter amended:

- (a) Direct United States Treasury obligations, the principal and interest of which fully are guaranteed by the government of the United States.
- (b) Bonds, debentures, notes, or other evidence of indebtedness, any of which is issued or guaranteed by federal agencies and backed by the full faith and credit of the United States of America.
- (c) Bonds, debentures, notes, or other evidence of indebtedness, any of which is issued or guaranteed by a United States government-sponsored entity.
- (d) Direct security repurchase agreements of any federal book-entry only securities enumerated in Paragraphs (a), (b), and (c), above. Direct security repurchase agreement means an agreement under which the trust buys, holds for a specified time, and then sells back those securities and obligations enumerated in Paragraphs (a), (b), and (c), above.
- (e) Bonds, debentures, notes, or other evidence of indebtedness, any of which is issued by corporations of the United States which are rated investment grade as reflected by a rating by Moody's, Inc., of Baa or its equivalent or better or a rating by Fitch or Standard & Poor's Corporation of BBB, or its equivalent or better.
- (f) Bonds, debentures, notes, or other evidence of indebtedness, any of which is issued by and backed by the full faith and credit of sovereign nations, is denominated in United States dollars, and is rated investment grade as reflected by a rating by Moody's, Inc., of A or better or a rating by Fitch or Standard & Poor's Corporation of A or better.
- (g) Money market mutual funds as authorized by subparagraph (k), below, direct issue commercial paper except asset-backed commercial paper as prohibited by Paragraph 5.10 hereof, and other short-term money market securities as authorized by this Paragraph.
- (h) The Louisiana Asset Management Pool and any other intergovernmental pool formed by, or of, Louisiana governmental entities.
- (i)(1) Time certificates of deposit of any bank domiciled or having a branch office in the state of Louisiana, savings accounts or shares, as defined by La. R.S. 6:703, of savings and loan associations and savings banks, or share accounts and share certificate accounts of federally or state-chartered credit unions issuing time certificates of deposit. For those funds made available for investment in time certificates of deposit, the rate of interest paid by the bank shall be established by contract between the bank and the trust; however, the interest rate at the time of investment shall be a rate not less than fifty basis points below the

prevailing market interest rate on direct obligations of the United States Treasury with a similar length of maturity.

(2) Funds invested in accordance with the provisions of this Paragraph shall not exceed at any time the amount insured by the Federal Deposit Insurance Corporation in any one banking institution or in any one savings and loan association or National Credit Union Administration, unless the uninsured portion is collateralized by the pledge of securities in the manner provided in La. R.S. 39:1221.

(j) Stocks of any corporation listed on the New York Stock Exchange, the American Stock Exchange, or authorized for quotations display on the National Association of Securities Dealers Automated Quotations System, or any successor national exchanges.

(k) Mutual funds which are registered with the Securities and Exchange Commission under the Securities Act of 1933 and the Investment Company Act of 1940 and that are listed on the New York Stock Exchange, the American Stock Exchange, or authorized for quotations display on the National Association of Securities Dealers Automated Quotations System, or any successor national exchanges, and that have underlying investments consisting predominantly of securities permitted by this Paragraph. As used in this Paragraph, predominantly means ninety (90%) percent or greater.

(l) Exchange traded funds which are registered with the Securities and Exchange Commission under the Securities Act of 1933 and the Investment Company Act of 1940 and that are listed on the New York Stock Exchange, the American Stock Exchange, or authorized for quotations display on the National Association of Securities Dealers Automated Quotations System, or any successor national exchanges, and which have underlying investments consisting predominantly of securities permitted by this Paragraph.

### **Prohibited Investments**

The Board of Trustees shall not use funds, assets or property of the trust to invest in the following described investments, or to engage in the following activities in accordance with the provisions of Louisiana Revised Statutes 33:5162B, as amended or hereafter amended:

(a) The use of any leverage, either directly or through mutual funds or exchange traded funds that use leverage.

(b) Selling short any securities, either directly or through mutual funds or exchange traded funds that sell securities short.

(c) Investing in, or by, any of the following: asset-backed securities other than those issued directly by the entities described in subparagraphs (a), (b), and (c) of Paragraph 5.9, above; the purchase of stock warrants; any direct interest in oil, gas, or other mineral exploration program; private or direct placements of any kind; direct ownership of real estate or real estate investment trusts; collectibles such as coins, stamps, or art; direct loans or extensions of credit; the direct purchase of securities denominated in foreign currencies, purchased on foreign exchanges, or cleared through foreign clearing entities; the direct purchase of single

family or commercial mortgages; collateralized mortgage obligations that have been stripped into interest only or principal only obligations; inverse floaters; or structured notes. For the purposes of this Paragraph, "structured notes" means securities which have been restructured, modified, or reissued by private entities.

### **Investment Limitations**

In accordance with the provisions of Louisiana Revised Statutes 33:5162, as amended or hereafter amended, all investments of trust funds, assets and properties shall be subject to the following limitations and requirements:

(a)(1) Though the investment policy adopted by the Board of Trustees for the trust may provide for specific asset allocations for asset classes, in no circumstance, except as provided in this Paragraph, shall this trust have more than fifty-five (55%) percent, in value, of the total portfolio in equities.

(2) If the equity portion of the portfolio exceeds fifty-five (55%) percent of the total portfolio as measured at the end of a calendar quarter, the Board of Trustees shall take such actions as are prudent to reduce the equity portion of the portfolio to no more than fifty-five (55%) percent during the following calendar quarter.

(3) The underlying assets of mutual funds and exchange traded funds shall be used when making calculations as required by this subparagraph.

(b)(1) The trust shall not own more than five (5%) percent of the outstanding stock of any company or other business entity.

(2) In the event the trust shall come to own greater than five (5%) percent of the outstanding stock of a company or other business entity as measured at the end of a calendar quarter, the Board of Trustees shall take such actions as are prudent to reduce its ownership to below five (5%) percent during the following calendar quarter.

(c)(1) No more than ten (10%) percent of the funds designated for equity allocation shall be invested in the stock of any single company or other business entity.

(2) In the event that more than ten (10%) percent of the funds designated for equity allocation become invested in the stock of any single company or other business entity as measured at the end of a calendar quarter, the Board of Trustees shall take such actions as are prudent to reduce its ownership to below ten (10%) percent during the following calendar quarter.

(d)(1) The trust shall not allow more than fifteen (15%) percent of the trust funds designated for equity allocation to be concentrated in any single industry. "Industry" shall be defined by the Global Industry Classification System as promulgated by Standard & Poor's or its successors from time to time.

(2) In the event the trust shall come to own greater than fifteen (15%) percent of the funds designated for equity allocation in a single industry as measured at the end of a calendar quarter, the Board of Trustees shall take such actions as are prudent to reduce its ownership to below fifteen (15%) percent during the following calendar quarter.

(e) Fixed income securities shall be selected with consideration for the total anticipated return, taking into consideration both interest income and capital appreciation or loss.

(f) All fixed income investments appropriately shall be diversified by maturity, security, sector, and credit quality.

(g) If any fixed income investment security in the portfolio is downgraded below the applicable requirements in subparagraphs (e) or (f) of Paragraph 5.9 hereof, the Board of Trustees shall take such actions as are prudent to eliminate the exposure of the trust to that security by the end of the next full calendar quarter.

**Tax-exempt Securities.**

Subject to the provisions of the preceding paragraphs, the Board of Trustees, directly or through its investment manager or advisor, may invest trust property in securities whose interest, dividends or other proceeds are exempt wholly or partly from federal or state income taxation.