Investment Policy

For:

ROCKINGHAM COUNTY
VIRGINIA

Adopted:
October 26, 2011
Revised:
November 18, 2020

Investment Policy

Rockingham County, Virginia
November 2020

Section 1. Purpose and Scope

The purpose of this statement of investment policy is to establish guidelines for the safeguarding and efficient management of County funds and for the purchase and sale of investment instruments. The goal is to minimize risk and to ensure the availability of cash to meet the County's expenditures, while generating revenue from the use of funds, which might otherwise remain idle. This investment policy applies to all financial assets under the authority of the Treasurer.

Unless otherwise noted, all citations in this policy refer to the Code of Virginia Sections §2.2-4400 et seq., §2.2-4500 et seq., and §2.2-4700 et seq., as amended.

Section 2. Objectives

1. All investments shall be in compliance with the Code of Virginia Sections §2.2-4400 et seq. and §2.2-4500 et seq.

2. The cash management and investment activities of the County shall be conducted in a manner which is consistent with prevailing prudent business practices which may be applied by other public organizations of similar size and financial resources.

3. The primary objectives of the committee's investment activities, in priority order, are: safety, liquidity, and yield.

- **Safety of Principal**- Safety of principal is the foremost objective of the investment of public funds. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
- **Maintenance of Liquidity-** The investment portfolio will remain sufficiently liquid to enable the Committee to meet all operating requirements of the County, which might be reasonably anticipated.
- **Maximizing Return-** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles. This objective shall take into account constraints as to acceptable risk and the characteristics of the County's cash flow.

Section 3. General Guidelines

The County designates the County Administrator as its investment officer with sole authority for investment decisions. However, the County Administrator may select an Investment Manager(s) to manage the day-to-day operations of the investment portfolio and place actual purchase/sell orders with brokers. The Board of Supervisors establishes an Investment Committee to operate under the oversight of the Board of Supervisors' Finance Committee comprised of the County Administrator, the Treasurer, and the Director of Finance. The Committee shall provide recommendations to the Board on revisions to this policy, and shall meet regularly with the County's Investment Manager(s) to review performance.

The County Administrator may designate the Treasurer or Director of Finance, or both, to transmit and receive communications from an Investment Manager pertaining to authorized transactions within the portfolio.

Excluded from these guidelines are funds that by state statue or county ordinance require specific investments.

Section 4. Prudence Standards

The standard of prudence applied by Investment Managers in County transactions shall be the "Prudent Investor" rule; which states "investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion an intelligence exercised 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." The prudent investor rule shall be applied in the context of managing the overall portfolio.

Neither the County Administrator, Treasurer, nor the Director of Finance, acting in accordance with written procedures of the Code of Virginia, Sec. 2.2-4516, and exercising due diligence, shall be held personally responsible for a specific security's credit risk or market price changes provided that these deviations are reported immediately in writing to the Board of Supervisors, and that reasonable and prudent action is taken to control adverse developments. Furthermore, in accordance with Sec. 58.1-3163 of the Code of Virginia, neither the County Administrator, Treasurer, nor the Director of Finance shall be liable for loss of public money due to the default, failure or insolvency of a depository.

Section 5. Ethics and Conflicts of Interest

The Committee and employees involved in the investment process shall comply with the Code of Virginia Section §2.2-3100 et seq., the State and Local Government Conflict of Interests Act. 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 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 shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the County.

Section 6. Internal Controls

The Treasurer and Director of Finance are 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 internal control structure shall address the following points:

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

Section 7. Authorized Investments

County funds may be invested in the following securities in compliance with the Code of Virginia. The Board of Supervisors, upon recommendation of the Investment Committee may impose additional requirements and restrictions to ensure that the County's primary goals are met. Permitted Investments include:

1. **U.S. Treasury Obligations.** Bills, notes and any other obligation or security issued by or backed by the full faith and credit of the United States Treasury, as described by Code of Virginia §2.2-4501.
2. **Federal Agency Obligations.** Bonds, notes and other obligations of the United States, and securities issued by any federal government agency or instrumentality or government sponsored enterprise as described by Code of Virginia §2.2-4501.
3. **Municipal Obligations.** Bonds, notes and other general obligations of a state or municipal government and its agencies, authorities, and political subdivisions upon which there is no default and otherwise meets the requirements of Code of Virginia §2.2-4501.
4. **Commercial Paper.** "Prime quality" commercial paper issued by domestic corporations (corporations organized and operating under the laws of the United States or any state thereof) which meet the requirements of Code of Virginia §2.2-4502.
5. **Bankers Acceptance.** Issued by domestic banks or a federally chartered office of a foreign bank, which are eligible for purchase by the Federal Reserve System as described by Code of Virginia §2.2-4504.
6. **Corporate Notes.** Unsecured promissory notes issued by corporations, and otherwise meeting the requirements of Code of Virginia §2.2-4510.

7. **Negotiable Certificates of Deposit and Bank Deposit Notes**. Negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks and otherwise meeting the requirements of Code of Virginia §2.2-4509.

8. **Money Market Mutual Funds (Open-Ended Investment Funds).** Shares in open-end, no-load investment funds provided such funds are registered under the Federal Investment Company Act of 1940. The mutual fund must comply with the diversification, quality and maturity requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission, provided the investments by such funds are restricted to investments otherwise permitted by the Code of Virginia for political sub-divisions as described in Code of Virginia §2.2-4500 et seq.

9. **Pools**. Pooled investment programs provided that the underlying investments by such funds are restricted to investments otherwise permitted by the Code of Virginia for political sub-divisions, as described by Code of Virginia §2.2-4513.1, §2.2-4600 et seq., and §2.2-4700 et seq. The County can invest in two different types of Pools:

   a) **Principal Stability Pools** that operate in compliance with the Government Accounting Standards Board's Statement 79 ("GASB 79"), which maintain a weighted average maturity of less than 60 days and whose primary objective is to maintain a stable net asset value; and
   b) **Short-Term Bond Pools** that may have a longer average maturity than principal stability pools and a fluctuating net asset value. Bond Pools are designed to generate a higher rate of return than Principal Stability Pools.

10. **Repurchase Agreements.** In overnight, term and open repurchase agreements provided that the following conditions are met:

   a) the contract is fully secured by deliverable U.S. Treasury and Federal Agency obligations as described in paragraph 1 and 2 above without regard to final maturity, having a market value at all times of at least one hundred and two percent (102%) of the amount of the contract;
   b) a Master Repurchase Agreement or specific written Repurchase Agreement governs the transaction;
   c) the securities are free and clear of any lien and held by an independent third party custodian acting solely as agent for the County, provided such third party is not the seller under the repurchase agreement;
   d) a perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the County;
   e) for repurchase agreements with terms to maturity of greater than one (1) day, the County will value the collateral securities daily and require that if additional collateral is required then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);
   f) the counterparty is a:

(i) primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or
(ii) a bank, savings and loan association, or diversified securities broker-dealer having at least $5 billion in assets and $500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and

g) the counterparty meets the following criteria:
(i) a long-term credit rating of at least 'AA' or the equivalent from an NRSRO
(ii) has been in operation for at least 5 years, and
(iii) is reputable among market participants.

11. **U.S. Dollar Denominated Supranational Agency Bonds.** Bonds and other obligations issued, guaranteed or assumed by the International Bank for Reconstruction and Development, by the Asian Development Bank or by the African Development Bank, as described by Code of Virginia §2.2-4501.

12. **Bank Deposits and Non-Negotiable Certificates of Deposit.** Demand deposits, time deposits, and other deposits that comply with all aspects of the Security for Public Deposits Act and with Code of Virginia §2.2-4518.

Section 8. Investment Parameters

Mitigating Credit Risk in the Portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. It is the policy of the County to diversify its investment portfolios to minimize risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities.

Mitigating Market Risk in the Portfolio

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The County recognizes that, over time, longer-term/core portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The County shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The County further recognizes that certain types of securities, including variable rate securities, securities with principal pay downs prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments.

Maturity scheduling shall be timed according to anticipated need. Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures as well as considering sizable blocks of anticipated revenue.

Investment of capital project funds shall be timed to meet contractor's payments.

Maximum Maturity

Maintaining adequate liquidity to meet the County's cash flow needs is essential. Accordingly, to the extent possible, the Investment Portfolio shall be structured to ensure sufficient cash is available to meet anticipated liquidity needs. The selection of investment maturities shall be consistent with the cash requirements of the County to minimize the forced sale of securities prior to maturity. Investments are limited to a maximum maturity of five (5) years from the transaction settlement date (with the exception of Agency Mortgage-Backed Securities ("MBS") which must have a weighted average life ("WAL") of no more than five (5) years).

To manage the volatility of the Investment Portfolio, the County Administrator shall determine an appropriate duration or weighted average maturity ("WAM") target for each component of the Investment Portfolio. At no time shall the duration or WAM of any component of the Investment Portfolio exceed three (3) years.

The average duration of the investment portfolio will not deviate by more than +/- 25% of the average duration of the performance benchmark.

Debt service reserve funds associated with revenue bond issues may be invested in securities exceeding five (5) years, if the maturity of such investment is made to coincide as nearly as practical with the expected use of funds.

Diversification Parameters
The following diversification parameters have been established and will be reviewed periodically by the Investment Committee for all funds. The Committee may choose to implement limitations that are more restrictive than these parameters if it deems it prudent to do so. The diversification parameters will be applied across all of the County's investments governed by this policy, not at the individual fund level. The investment portfolios shall be diversified by security type and institution. The maximum percentage of the portfolio permitted in each eligible security is as follows:

Permitted Investment	**Sector Limit**	**Issuer Limit**	**Ratings Requirement**[1,2, 4]	**Max Maturity**[3]
U.S. Treasury Obligations	100%	100%	N/A	5 Years
Federal Agency Obligations	100%	35%	AA or equivalent by at least two NRSROs, one of which will be either Moody's or S&P	5 Years
Federal Agency Mortgage-Backed Securities	35%	35%	AA or equivalent by at least two NRSROs, one of which will be either Moody's or S&P	5 Years WAL
Municipal Obligations	20%	5%	AA (S&P) and/or Aa (Moody's)	5 Years
Commercial Paper	35%	5%	A-1 or equivalent by at least two NRSROs.	270 Days
Bankers' Acceptances	35%	5%	A-1 or equivalent by at least two NRSROs.	180 Days
Corporate Notes	35%	5%	At least two of the following ratings by a NRSRO: AA (S&P), Aa (Moody's) or AA (Fitch)	5 Years
Negotiable Certificates of Deposit and Bank Deposit	35%	5%	At least two of the following ratings by a NRSRO: A-1	5 Years

Notes			(S&P),P-1 (Moody's) or F1 (Fitch) if less than one year to maturity; at least two of the following ratings by a NRSRO: AA (S&P),Aa (Moody's), or AA (Fitch)if greater than one year to maturity	
Money Market Mutual Funds	100%	50%	AAAm or equivalent by at least two of the following: Moody's, S&P, Fitch, or Duff & Phelps	N/A
Principle Stability Pools	100%	100%	AAAm or equivalent by an NRSRO	N/A
Short-term Bond Pools	100%	100%	AAf or equivalent by an NRSRO	Maximum duration of 3 years
Repurchase Agreements	35%	35%	AA or the equivalent from an NRSRO	5 Years
Supranational Bonds	35%	10%	AA or equivalent by at least two NRSROs, one of which will be either Moody's or S&P	5 Years
Bank Deposits and Non-Negotiable Certificates of Deposit	100%	100%	Collateralized in accordance with the Security for Public Deposits Act	N/A

1. *Ratings by NRSROs as designated by the SEC*
2. *At time of purchase*
3. *From transaction settlement date*
4. *Ratings requirements are without regards to the rating modifiers*

When investing in a Pool, the County shall limit its investment to ten (10) percent of the total assets of the Pool.

Section 9. Security Downgrades

In the event that a security is downgraded below the minimum acceptable rating established in this policy, or the investment manager receives information regarding a security that changes the outlook leading to a potential subsequent downgrade, the manager shall notify the County's investment officer or his designee within 24 hours, with a recommendation as to the disposition of the securities.

Section 10. Purchase of Investments

Generally, investment offers must be compared to real-time market data. The Finance Director or Treasurer may use discretion in selecting the bidders, taking into consideration an institution's reputation, past success rate, timeliness in providing bids and any other factors which the Treasurer believes to have bearing. The Finance Director or Treasurer may purchase or sell investments at his or her discretion without competition provided that the securities involved meet all the criteria for allowed investments.

In general, the highest yielding instrument offered will be the investment selected. The Finance Director or Treasurer may reject an investment, even if it yields the highest rate, if he or she feels it carries an element of risk which may not be reflected in the published credit rating or if it is not in the County's interest to hold such an investment in its portfolio.

Banks and broker/dealers shall be instructed to mail trade confirmations or similar documentation to an individual designated by the Finance Director or Treasurer to be the Investment Monitor. The Investment Monitor shall not be authorized to engage in investment activity.

Investments shall be made with the judgment and care which persons of discretion, prudence and intelligence exercise in the management of their own affairs, not for speculation, but for investment for the protection of principal. Consideration for the safety of capital shall be paramount over the probable income to be derived. Individuals responsible for investing County funds shall in no way benefit personally as a result of investment decisions.

The County has established the following procedures:

1. The Finance Director or Treasurer shall seek to obtain competitive bid information on all purchases of investment instruments purchased on the secondary market. A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.

2. If the County is offered a security for which there is no readily available competitive offering on the same specific issue, then the Finance Director or Treasurer shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price.

Section 11. Investments on Bond Proceeds

The County intends to comply with all applicable sections of the Internal Revenue Code as it related to Arbitrage Rebate and the investment of bond proceeds. All investment records will be maintained to ensure compliance with all regulations. All bond proceeds will be invested in accordance with applicable bond resolutions.

Section 12. Collateralization of Bank Deposits

All bank deposits of the County should be considered Public Deposits as defined by Code of Virginia Security for Public Deposits Act (Section 2.2-4400 et seq.) and all deposits must be made with Qualified Public Depositories.

Section 13. Engagement of Investment Managers

The County Administrator may engage one or more qualified firms to provide investment management services for the County. All investment management firms who desire to provide investment services to the County will be provided with current copies of the Investment Policy. Before an organization can provide investment services to the County, it must confirm in writing that it has received and reviewed the Investment Policy.

Only firms meeting the following requirements will be eligible to serve as investment manager for the County:

1. Registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940;

2. Must provide to the County an annual updated copy of Form ADV, Part II;

3. Must be registered to conduct business in the Commonwealth of Virginia; and

4. Must have proven experience in providing investment management services under Code of Virginia §2.2-4500 et seq.

Any firm engaged by the County to provide investment services shall:

1. Maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the Commonwealth of Virginia;

2. Provide monthly reports of transactions and holdings to the Treasurer;

3. Provide quarterly performance reports that display investment performance in comparison to the County's investment benchmarks and which show that the manager has solicited at least three bids for any security purchased or sold on behalf of the County; and

4. Not collect any soft dollar fees from any broker/dealer or other financial firm in relation to services provided to the County.

Section 14. Selection of Broker/Dealers

The Finance Director or Treasurer will maintain a list of broker/dealers that are approved for investment purposes. All broker/dealers who desire to provide investment services to the County will be provided with current copies of the Investment Policy. Before an organization can provide investment services to the County, it must confirm in writing that it has received and reviewed the Investment Policy.

At the request of the Finance Director or Treasurer, broker/dealers will supply the County with information sufficient to adequately evaluate their financial capacity and creditworthiness. The following information will be provided:

1. Audited financial statements;

2. Regulatory reports on financial condition;

3. Proof of Financial Institution Regulatory Authority ("FINRA") certification and of state registration;

4. A sworn statement by an authorized representative of the broker/dealer pledging to adhere to "Capital Adequacy Standards" established by the Federal Reserve Bank and acknowledging the broker/dealer understands that the County has relied upon this pledge; and

5. Any additional information requested by the Treasurer in evaluating the creditworthiness of the institution.

Only firms meeting the following requirements will be eligible to serve as broker/dealers for the County:

1. "Primary" dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);

2. Capital of at least $10,000,000;

3. Registered as a dealer under the Securities Exchange Act of 1934;

4. Member of FINRA;

5. Registered to sell securities in the Commonwealth of Virginia; and

6. Engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

The County shall designate broker/dealers on an annual basis. If an external third-party Investment Manager is engaged, the County is not responsible for maintaining a list of approved broker/dealers.

Section 15. Safekeeping and Custody

All investment securities purchased by the County or held as collateral on deposits or investments shall be held by the County or by a third-party custodial agent that may not otherwise be counterparty to the investment transaction.

All securities in the Investment Portfolio will be held in the name of the County and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. The custodial agent shall issue a safekeeping receipt to the County listing the specific instrument, rate, maturity, and other pertinent information. On a monthly basis, the custodial agent will provide reports that list all securities held for the County, the book value of holdings, and the market value as of month-end.

The officials and representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of the County shall be bonded in such a manner as to protect the County from losses from malfeasance and misfeasance.

Original copies of non-negotiable certificates of deposit and confirming copies of all other investment transactions must be delivered to the County or its custodial agent.

Section 17. Reporting

The Investment Committee will review an investment report on at least a quarterly basis as provided by external and/or internal investment managers. This report will provide an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter. This report will allow the Treasurer to ascertain whether investment activities during the reporting period have conformed to the Investment Policy.

The report will include, at a minimum, the following:

1. An asset listing showing par value, cost and accurate and complete market value of each security, type of investment, issuer, and interest rate

2. Average maturity of the portfolio and effective duration of the portfolio

3. Maturity distribution of the portfolio

4. Average portfolio credit quality

5. Distribution by type of investment

6. Performance relative to established benchmarks

Financial statement presentation of investments, accrual of interest, and amortization of premiums and accretion of discounts shall be according to generally accepted accounting principles as applied to municipalities. Those principals shall be as determined by the Commonwealth of Virginia Auditor of Public Accounts, the American Institute of Certified Public Accountants and its designated units, the Financial Accounting Standards Board and the Governmental Accounting Standards Board.

Section 18. Performance Standards

The Investment Portfolio will be designed to obtain at least a market level rate of return, given budgetary and economic cycles, commensurate with the County's investment risk and cash flow needs. The County's portfolio management approach will be active, allowing periodic restructuring of the Investment Portfolio to take advantage of current and anticipated interest rate movements. The returns on the Portfolios will be compared on a quarterly basis to indices of U.S. Treasury securities having similar maturities or to other appropriate benchmarks. For funds having a weighted average maturity greater than 90 days, performance will be computed on a total return basis.