

THE TOWN OF FAIRFIELD, CONNECTICUT
CHIEF FINANCIAL OFFICER'S INVESTMENT POLICY FOR SHORT-TERM INVESTMENTS
ACCORDING TO CONNECTICUT GENERAL STATUTES CHAPTER 112 SEC 7-400,7-403a

I. INTRODUCTION

The intent of the Investment Policy of Town of Fairfield, Connecticut is to define the parameters within which the General funds are to be managed. In methods, procedures and practices, the policy formalizes the framework for the Town of Fairfield's investment activities that must be exercised to ensure effective and judicious investment management of the Town of Fairfield's funds. The guidelines are intended to be broad enough to allow the investment officer to function properly with the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

II. GOVERNING AUTHORITY

This investment policy shall be operated in conformance with federal, state and other legal requirements. Specifically the Chief Financial Officer of Town of Fairfield is responsible for managing short-term investments as mandated under *CGS Chapter 112 Sec.7-400,7-403a* which outlines the types of permissible investments. (See *Appendix 1*)

III. SCOPE

This investment policy applies to the investment activities of the Town of Fairfield, *except* for the employees' retirement funds, other pension employee benefits, the proceeds of certain debt issues and the assets of trust funds and endowments.

IV. GENERAL OBJECTIVES

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

- A. *Safety* - Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. These risks shall be mitigated by the diversification and prudent selection of investment instruments and choice of depository. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.
- B. *Liquidity* - The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the treasurer shall carry out investment activities in a manner that provides

for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.

- C. *Return* - 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 of safety and liquidity needs.
- D. *Account Objective for a Brokerage Firm or Financial Institution*
 - a. General fund's stated investment objective should be clearly documented as Income/Conservative
 - b. Internal service fund's stated investment objective should be clearly documented as Income/Moderate

V. STANDARDS OF CARE

- A. *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. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. 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 probably safety of their capital as well as the probable income to be derived."
- B. *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 interest 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. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the Town of Fairfield.
- C. *Delegation of Authority* – Authority to manage the investment program is granted to the Chief Financial Officer of the Town of Fairfield by provisions of *CGS Chapter 112, Sec. 7-400*. The Chief Financial Officer shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with the Town's investment policy. Procedures should include references to: safekeeping,

investment accounting, wire transfer agreements, collateral/depositor agreements and other applicable actions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures. The Chief Financial Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. In the event of an absence, the Chief Financial Officer may expressly transfer specific powers and responsibilities to an appropriate person in the Finance Office. The transfer must be made in writing (or electronically) and state specifically the time and duration of the transfer powers.

VI. AUTHORIZED QUALIFIED PUBLIC DEPOSITORIES/BANKS

- A. Must be Qualified Public Depositories - Banks which must have its principal office in Connecticut, except in the case of an out of state bank that maintains a branch within Connecticut as defined in *CGS Chapter 665, sec 36a-410*
- B. *Rating Requirements*
 - a. Nationally or state-chartered banks with IDC ranking 200 or higher for all institutions for which deposits exceed FDIC insurance and a Kroll rating of B- or higher
 - b. If IDC ranking falls below 200, banking institution(s) must notify Town of Fairfield Chief Financial Officer. Further, the institution(s) must provide a full explanation in writing of the change in ranking and expected time table for rank improvement.
 - c. If Kroll ranking falls below B-, banking institution(s) must notify Town of Fairfield Chief Financial Officer. Further, the institution(s) must provide a full explanation in writing of the change in ranking and expected time table for rank improvement.
 - d. If, after the following quarter, the ranking and rating has not improved, the Town CFO should remove all funds that are not collateralized, or carries some sort of depositor's insurance

VII. AUTHORIZED BROKER/DEALERS and INVESTMENT ADVISORS

- A. Must be fully licensed and members in good standing of principal exchanges and governing authority such as FINRA, NYSE, NASD et al as appropriate
- B. Be in Business at least 5 years
- C. Have net capital ratio at least 3x in excess of SEC capital requirements
- D. Be a member in good standing of SIPC (Securities Investor Protection Corporation)
- E. Must provide the following:
 - 1. Recent audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
 - 2. FINRA registration for broker *and* dealer
 - 3. Proof of state registration for investment firm
 - 4. Form ADV for investment advisors
 - 5. Excess SIPC insurance

6. Evidence of compliance with SEC Rule 15c-3 (Customer Protection Rule)
7. Description of business disaster plan
8. Notarized certification that broker has read, understood and agreed to comply with the Town of Fairfield's investment policy

VIII. PERMITTED INVESTMENTS AND STATUTE CRITERIA FOR GENERAL FUND AND INTERNAL SERVICE FUND

- A. *General Fund* – Congruent with *CGS Chapter 112 Sec. 7-400*, the following investments are permissible: (See *Appendix 1*)
- a. U.S. Treasury and other U.S. Government obligations
 - b. Joint and several obligations of the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), the Government National Mortgage Association (Ginnie Mae)
 - c. Federal Savings and Loan Insurance Corporation
 - d. All the federal home loan banks
 - e. All the federal intermediate credit banks
 - f. The Central Bank for Cooperatives
 - g. The Tennessee Valley Authority
 - h. Any other agency of the United States government
 - i. Shares or other interests in any custodial arrangement, pool or no-load, open-end management-type investment company or investment trust registered or exempt under the Investment Company Act of 1940
 - i. The portfolio of such custodial arrangement, pool, investment company or investment trust is limited to obligations described in obligations
 - ii. Such custodial arrangement or pool is managed to maintain its shares at a constant net asset value or such investment company or investment trust is rated within one of the top two credit rating categories and, for any investment company or investment trust not managed to maintain its shares at a constant net asset value, within one of the top two risk rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner
 - j. In the obligations of any state of the United States or of any political subdivision, authority or agency thereof, provided that at the time of investment such obligations are rated within one of the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner
 - k. In the obligations of the state of Connecticut, or any regional school district, town, city, borough or metropolitan district in the state of Connecticut, provided that at the time of investment the obligations of such government entity are rated within one of the top three rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner

- I. Certificates of Deposit
 - i. Issuing banks of certificates of deposits must have IDC rankings 200 or higher; and,
 - ii. Issuing banks of certificates of deposits must have Kroll rating B- or greater

- B. *Internal Service Fund* – (Loss and Retiree Benefits Reserve Fund) Congruent with investment guidelines of *CGS Chapter 112, Sec 7-403a*, the following investments are permissible:
 - a. Not more than forty percent of the total amount of the reserve fund shall be invested in equity securities
 - b. Any portion of such reserve fund not so invested may be invested in
 - i. Bonds or obligations of or guaranteed by, the state or the United States, or agencies or instrumentalities of the United States,
 - ii. Certificates of Deposit, commercial paper, savings accounts and bank acceptances
 - iii. The obligations of any state of the United States or any political subdivision thereof, provided at the time of investment such obligations are rated within the top rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner, and applicable to such obligations,
 - iv. The obligations of any regional school district in this state, of any municipality in this state or any metropolitan district in this state, provided at the time of investment such obligations of such government entity are rated within one of the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner, and applicable to such obligations,
 - v. In any fund in which a trustee may invest pursuant to *CGS Chapter 665b, Sec. 36a-353*
 - vi. In an investment agreement with financial institutions whose long-term obligations are rated within the top two rating categories of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner or whose short-term obligations are rated within the top rating category of any nationally recognized rating service or of any rating service recognized by the Banking Commissioner, or
 - vii. Investment agreements fully secured by obligations of, or guaranteed by, the United States or agencies or instrumentalities of the United States

IX. INVESTMENT GUIDELINES

- A. *General Fund*
 - a. Concentration Risk

- i. Limit investments to avoid over concentration from a specific issuer or sector (excluding US Treasury securities and the State of Connecticut Short-Term Investment Fund also known as “STIF”) as outlined in “d. Asset Allocation” below.
 - ii. Invest in securities with varying maturities (the exception being keeping the portfolio in daily funds which are completely liquid) as outlined in “c. Interest Rate Risk” below. Additionally, there will be no more than 25% of any one maturity
 - iii. Be certain that at least a portion of funds is liquid enough to meet ongoing obligations of Town of Fairfield
 - b. Credit Risk
 - i. Limit investments to the safest types of securities as covered by *CGS Chapter 112 Sec. 7-400, 7-403*
 - ii. Target average credit rating of fixed income portfolio should be Aa2/AA (Moody’s/S&P)
 - iii. MBS/CMOs must carry an explicit or implied Aaa/AA+ rating
 - iv. State of Connecticut municipal bonds should have, at time of purchase, a stand-alone credit rating within the top two rating categories of any nationally recognized rating service
 - v. All securities that are not State of Connecticut municipal bonds should have, at time of purchase, a stand-alone credit rating within the top two rating categories of any nationally recognized rating service
 - vi. Certificates of Deposit
 - 1. Issuing banks of certificates of deposit should have IDC rankings 200 or higher
 - 2. Issuing banks of certificates of deposit should have Kroll Rating of B- or higher
 - c. Interest Rate Risk
 - i. Target effective duration should be 3.5 years reflecting a low to moderate level of interest rate risk
 - 1. Bond duration should be 5.5 years or lower at time of purchase
 - 2. Mortgage backed securities (MBS) should be predicated on “base case”, i.e. unchanged interest rate prepayments
 - 3. Certificates of Deposit should not exceed one year maturity
 - d. Asset Allocation
 - i. Treasuries, no maximum
 - ii. Agencies, no maximum (includes Fannie Mae, Freddie Mac, Ginnie Mae, Federal Home Loan Bank, Federal Farm Credit Bank and other similar government-sponsored enterprises. Does NOT include mortgage backed securities (MBS) or Collateralized mortgage obligations (CMO’s) issued by Fannie Mae, Freddie Mac or Ginnie Mae)
 - iii. Agency MBS, maximum 25 percent

- iv. Agency CMOs which are limited to Front Sequentials, Planned Amortization Class (PACs) and/or Floating Rate CMOs, maximum 30 percent
 - v. Taxable municipal bonds, maximum 50 percent
 - vi. Certificates of Deposit, maximum 30 percent
 - vii. Town shall maintain adequate cash/cash substitutes to meet all operating requirements that may be reasonably anticipated
- e. *Internal Service Fund* –CGS Chapter 112 Sec 7-403a permits equity purchases for these funds. These Investment Policy Guidelines do not allow for such investments. Any change to this policy requires a written request from both the CFO and First Selectman to the Board of Finance, and majority approval by the Board of Finance.

X. SAFEKEEPING AND CUSTODY

- a. All trades of marketable securities will be held in a qualified institution (See Sec. VI) in the Town of Fairfield's name
- b. Custodian must provide the following account protections:
 - i. SIPC (Securities Investor Protection Corporation) membership
 - ii. Provide excess SIPC insurance
 - iii. Be in compliance with SEC Rule 15c3-3 (customer protection rule)

XI. REPORTING

- a. Transaction confirmations will be sent for all marketable securities
- b. Commissions will be clearly disclosed
- c. Statement of Activity will be sent monthly or as requested. This report will include a detailed portfolio listing of all securities and money market balances including cost, market valuations, cusip numbers and maturities where appropriate
- d. On-line account access is available and secure
- e. Provide a summary of the account balances as of June 30 of each year or other reporting as requested

XII. INTERNAL CONTROLS

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town of Fairfield are protected from loss, theft, or misuse. Specifics for the internal controls shall be documented in an Investment Procedures manual that shall be reviewed and updated periodically by the investment officers. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires

estimates and judgments by management. The internal controls shall address the following points at a minimum:

- a. Control of collusion
- b. Custodial safekeeping
- c. Avoidance of physical delivery of securities
- d. Clear delegation of authority to subordinate staff members
- e. Written confirmation of transactions for investments and wire transfers
- f. Dual authorizations of wire transfers
- g. Staff training and awareness of internal compliance
- h. Review, maintenance and monitoring of security procedures both manual and automated. The external auditor shall provide an annual independent review to assure compliance with state law policies and procedures
- i. Investment officer will conduct a periodic review of the financial condition and registration of all qualified financial institutions and broker/dealers

XIII. ADOPTION

This policy shall be formally approved by the First Selectman, Chief Financial Officer and Comptroller and reviewed at least annually

Reviewed and adopted this _____ day of _____, 20 ____ by:

First Selectman _____
Print Name Signature

Chief Financial Officer _____
Print Name Signature

Comptroller _____
Print Name Signature