Deschutes County Administrative Policy No. F-10
Effective Date: January 7, 2008
Revised Date: June 24, 2009
Revised Date: September 20, 2012
Revised Date: December 11, 2013
Revised Date: December 15, 2014
Revised Date: December 17, 2015
Revised Date: December 27, 2017
Revised Date: March 20, 2019

INVESTMENT POLICY GUIDELINES

PURPOSE

This Investment Policy defines the parameters within which funds are to be invested by Deschutes County. Deschutes County's purpose is to provide County Level Services for a large portion of Central Oregon. This policy also formalizes the framework, pursuant to ORS 294.135, for Deschutes County's investment activities to ensure effective and judicious management of funds within the scope of this policy.

These guidelines are intended to be broad enough to allow designated investment staff to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

GOVERNING AUTHORITY

Deschutes County's investment program shall be operated in conformance with Oregon Revised Statutes and applicable Federal Law. Specifically, this investment policy is written in conformance with ORS 294.035; 294.040; 294.052; 294.135; 294.145; and 294.810. All funds within the scope of this policy are subject to Laws established by the State of Oregon. Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.

SCOPE

This policy applies to activities of Deschutes County with regard to investing the financial assets of all County funds including County Service Districts and Trust Funds. Investments of employees' retirement funds, deferred compensation plans, and other funds are not covered by this policy. The amount of funds falling within the scope of this policy over the next three years is expected to range between $160 million and $230 million.

GENERAL OBJECTIVES

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

1. **Preservation of Invested Capital.** Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The goal is to mitigate credit risk and interest rate risk.

2. **Liquidity**. The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements. Furthermore, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in the Oregon

Short Term Fund which offers next-day liquidity. Where possible and prudent, the portfolio should be structured so that investments mature concurrent with anticipated demands.

3. **Return.** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into consideration the safety and liquidity needs of the portfolio. Although return consists of both principal return (gains and losses due to market value fluctuations) and income return (yield), this policy discourages active trading and turnover of investments. Investments should generally be held to maturity.

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. Investment officers acting in accordance with written procedures and this investment policy, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported and appropriate action is taken to control adverse developments within a timely fashion as defined in this policy.

   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 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. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the County. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244.

3. **Delegation of Authority and Responsibilities**

   a. Governing Body. The Board of County Commissioners will retain ultimate fiduciary responsibility for invested funds. The governing body will receive reports, pursuant to, and with sufficient detail to comply with ORS 294.085 and 294.155.

   b. Delegation of Authority. Authority to manage investments within the scope of this policy and operate the investment program in accordance with established written procedures and internal controls is granted to the Treasurer and/or Chief Financial Officer, hereinafter referred to as Investment Officer, and derived from the following: ORS 294.035 to 294.053, 294.125 to 294.145, and 294.810.

      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. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

      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.

c. Investment Committee. The Deschutes County Board of County Commissioners established an investment advisory committee on April 19, 1995 by resolution 95-12520 to provide guidance to the Investment Officer and monitor investment policy compliance.

d. Investment Adviser. The Investment Officer may engage the services of one or more external investment managers to assist in the management of the County's investment portfolio in a manner consistent with this investment policy. Investment advisers may be hired on a non-discretionary basis. All investment transactions by approved investment advisers must be pre-approved in writing by the Investment Officer and compliant with this Investment Policy. If the Investment Officer hires an investment adviser to provide investment management services, the adviser is authorized to transact with its direct dealer relationships on behalf of Deschutes County.

TRANSACTION COUNTERPARTIES, INVESTMENT ADVISERS AND DEPOSITORIES

1. **Broker/Dealers.** The Investment Officer shall determine which broker/dealer firms and registered representatives are authorized for the purposes of investing funds within the scope of this investment policy. A list will be maintained of approved broker/dealer firms and affiliated registered representatives.

   The following minimum criteria must be met prior to authorizing investment transactions. The Investment Officer may impose more stringent criteria.

   a. Broker/Dealer firms must meet the following minimum criteria:
      i. Be registered with the Securities and Exchange Commission (SEC);
      ii. Be registered with the Financial Industry Regulatory Authority (FINRA).
      iii. Provide most recent audited financials.
      iv. Provide FINRA Focus Report filings.

   b. Approved broker/dealer employees who execute transactions with Deschutes County must meet the following minimum criteria:
      i. Be a registered representative with the Financial Industry Regulatory Authority (FINRA);
      ii. Be licensed by the state of Oregon;
      iii. Provide certification (in writing) of having read; understood; and agreed to comply with the most current version of this investment policy.

   c. Periodic (at least annual) review of all authorized broker/dealers and their respective authorized registered representatives will be conducted by the Investment Officer. Factors to consider would be:
      i. Pending investigations by securities regulators.
      ii. Significant changes in net capital.
      iii. Pending customer arbitration cases.
      iv. Regulatory enforcement actions.

2. **Investment Advisers.** A list will be maintained of approved advisers selected by conducting a process of due diligence.

   a. The following items are required for all approved Investment Advisers:

i. The investment adviser firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon; (Note: Investment adviser firms with assets under management > $100 million must be registered with the SEC, otherwise the firm must be licensed by the state of Oregon)
ii. All investment adviser firm representatives conducting investment transactions on behalf of Deschutes County must be registered representatives with FINRA;
iii. All investment adviser firm representatives conducting investment transactions on behalf of Deschutes County must be licensed by the state of Oregon;
iv. Certification, by all of the adviser representatives conducting investment transactions on behalf of Deschutes County, of having read, understood and agreed to comply with this investment policy.

b. A periodic (at least annual) review of all authorized investment advisers will be conducted by the Investment Officer to determine their continued eligibility within the portfolio guidelines. Factors to consider would be:
   i. Pending investigations by securities regulators.
   ii. Significant changes in net capital.
   iii. Pending customer arbitration cases.
   iv. Regulatory enforcement actions.

3. **Depositories.** All financial institutions who desire to become depositories must be qualified Oregon Depositories pursuant to ORS Chapter 295.

4. **Competitive Transactions**

   a. The Investment Officer shall obtain and document competitive bid information on all investments purchased or sold in the secondary market. Competitive bids or offers should be obtained, when possible, from at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.

   b. In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, the Investment Officer shall document quotations for comparable or alternative securities.

   c. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities at the same original issue price. However, the Investment Officer is encouraged to document quotations on comparable securities.

   d. If an investment adviser provides investment management services, the adviser must retain documentation of competitive pricing execution on each transaction and provide upon request.

ADMINISTRATION AND OPERATIONS

1. **Delivery vs. Payment.** All trades of marketable securities will be executed (cleared and settled) by delivery vs. payment (DVP) to ensure that securities are deposited in the County's safekeeping institution prior to the release of funds.

2. **Third-Party Safekeeping.** Securities will be held by an independent third-party safekeeping institution selected by the County. All securities will be evidenced by safekeeping receipts in the County's name. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16.

3. **Internal Controls.** The investment officer is responsible for establishing and maintaining an adequate internal control structure designed to reasonably assure that invested funds are invested within the parameters of this Investment policy and, protected from loss, theft or misuse. Specifics for the internal controls shall be documented in writing. The established control structure shall be reviewed and updated periodically by the Investment Officer.

   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. Compliance with Investment Policy.

   b. Control of collusion.

   c. Separation of transaction authority from accounting and record keeping.

   d. Custodial safekeeping.

   e. Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary.

   f. Clear delegation of authority to subordinate staff members.

   g. Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form.

   h. Dual authorizations of wire and automated clearing house (ACH) transfers.

   i. Staff training.

   j. Review, maintenance and monitoring of security procedures both manual and automated.

4. An external auditor in conjunction with the annual County audit shall review compliance with Oregon state law and Deschutes County policies and procedures.

SUITABLE AND AUTHORIZED INVESTMENTS

1. **Permitted Investments.** The following investments are permitted pursuant to ORS 294.035, 294.040, and ORS 294.810. (Note: Permitted investments may be more restrictive than ORS 294.035 and 294.810).

   a. US Treasury Obligations. U.S. Treasury and other government obligations that carry the full faith and credit guarantee of the United States for the timely payment of principal and interest.

   b. US Agency Obligations. Senior debenture obligations of US federal agencies and instrumentalities or U.S. government sponsored enterprises (GSE).

   c. Oregon Short Term Fund.

d. Corporate Indebtedness.

e. Commercial Paper issued under the authority of section 3(a)2 or 3(a)3 of the Securities Act of 1933.

f. Corporate Bonds.

g. Municipal Debt.

h. Bankers Acceptances.

i. Qualified Institution Time Deposits/Savings Accounts/Certificates of Deposit.

2. **Approval of Permitted Investments.** If additional types of securities are considered for investment, per Oregon state statute they will not be eligible for investment until this Policy has been amended and the amended version adopted by Deschutes County.

3. **Prohibited Investments**

   a. Private Placement or "144A" Securities. Private placement or "144A" securities are not allowed. For purposes of the policy, SEC Rule 144A securities are defined to include commercial paper privately placed under section 4(a)(2) of the Securities Act of 1933.

   b. US Agency Mortgage-backed Securities. US agency mortgage-backed securities such as those securities issued by FNMA and FHLMC are not allowed.

   c. Securities Lending. The County shall not lend securities nor directly participate in a securities lending program.

4. **Demand Deposits and Time Deposits**

   a. All demand deposits and time deposits (Examples of time deposits are: certificates of deposit and savings accounts) shall be held in qualified Oregon depositories in accordance with ORS Chapter 295.

   b. Demand deposits in qualified depository institutions are considered cash vehicles and not investments and are therefore outside the scope and restrictions of this policy. Pursuant to ORS 294.035(3)(d), time deposits, certificates of deposit and savings accounts are considered investments and within the scope of this policy.

INVESTMENT PARAMETERS

1. **Credit Risk.** 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. Credit risk will be mitigated by the following guidelines:

   a. Diversification. It is the policy of Deschutes County to diversify its investments. Where appropriate, exposures will be limited by security type; maturity; issuance, issuer, and security type, Allowed security types and Investment exposure limitations are detailed in the table below.

   b. Recognized Credit Ratings. Investments must have a rating from at least one of the following nationally recognized statistical ratings organizations (NRSRO): Moody's Investors Service;

Standard & Poor's; and Fitch Ratings Service as detailed in the table below. At least one such rating must meet the minimum rating requirements shown in the table below. Ratings used to apply the guidelines below should be investment level ratings and not issuer level ratings.

c. Portfolio Average Credit Rating. The minimum weighted average credit rating of the portfolio's rated investments shall be Aa2/AA/AA by Moody's Investors Service; Standard & Poor's; and Fitch Ratings Service respectively. For purposes of evaluating the average credit rating for the portfolio, the County will use the single rating for those securities that only have one rating, the lower of two ratings for those securities that have two ratings and the middle rating for those securities that have three ratings.

d. Exposure Constraints and Minimum Investment Credit Ratings. The following table limits exposures among investments permitted by this policy.

Issue Type	Maximum % Holdings	Minimum Ratings Moody's/S&P/Fitch	Oregon Revised Statue Reference
US Treasury Obligations	100%	N/A	
US Agency Securities	100%		
Per Agency (Senior Obligations Only)	33%		
Oregon Short Term Fund	Maximum allowed per ORS 294.810		
Bankers' Acceptances	25%	A1+/P1/F1+	25% maximum holding per ORS 294.035(3)(h)(C).
Time Deposits, Savings Accounts, Certificates of Deposit	50%		Authorized by ORS 294.035(3)(d).
Per Institution	25%		
Corporate Debt (Total)	25%		35% maximum holding per ORS 294.035(3)(h)(D).
Corporate Commercial Paper per Issuer	5%	A1/P1/F1	5% maximum holding per ORS 294.035(3)(h)(D).
Corporate Bonds			
Per Oregon Issuer	5%	A2/A/A	5% max holding per ORS 294.035(3)(h)(D), A- min rating per ORS 294.035(3)(b).
All Other Issuers	5%	Aa3/AA-/AA-	5% max holding per ORS 294.035(3)(h)(D), AA- min rating for CA, WA & ID per ORS 294.035(3)(b).
Municipal Debt	25%		
Municipal Bonds		Aa3/AA-/AA-	

e. Restriction on Issuers with Prior Default History. Per ORS 294.040, the bonds of issuers listed in ORS 294.035 (3)(a) to (c) may be purchased only if there has been no default in payment of either the principal of or the interest on the obligations of the issuing county, port, school district or city, for a period of five years next preceding the date of the investment.

2. **Liquidity Risk.** Liquidity risk is the risk that an investment may not be easily marketable or redeemable. The following strategies will be employed to mitigate liquidity risks:

a. The value of at least 10% of funds available for investing or three months of budgeted operating expenditures will be invested in the Oregon Short Term Fund, with a qualified depository institution, or investments maturing in less than 30 days to provide sufficient liquidity for expected disbursements.

b. Funds in excess of liquidity requirements are allowed for investments maturing in greater than one year. However, longer-term investments tend to be less liquid than shorter term investments.

Portfolio investment maturities will be limited as follows:

Total Portfolio Maturity Constraints:

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10% or three months est. operating expenditures
Under 1 year	25%
Under 5 years	100%
Weighted Average Maturity of Portfolio	2.0 years

c. Reserve or Capital Improvement Project funds may be invested in securities exceeding the maximum term if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

d. Larger issuance sizes enhance liquidity as there are likely to be a greater number of investors. Issuance sizes above a minimum amount qualify a corporate or municipal debt bond issuance for index eligibility. Index eligible bonds have a significantly larger investor base which improves liquidity.

e. Limiting investment in a specific debt issuance improves secondary market liquidity by assuring there are other owners of the issuance.

Issue Type	Maximum % of Issuance (Par)
US Agency Securities	50%
Corporate Debt	
Corporate Commercial Paper	25%
Corporate Bonds	25%
Municipal Bonds	25%

3. **Interest Rate Risk.** Longer-term investments have the potential to achieve higher returns but are also likely to exhibit higher market value volatility due to the changes in the general level of interest rates over the life of the investment(s). Interest rate risk will be mitigated 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. Certain types of securities, including variable rate securities, securities with principal pay-downs prior to maturity, and securities with embedded options, will affect the interest rate risk profile of the portfolio differently in different interest rate environments. The following strategies will be employed to control and mitigate adverse changes in the market value of the portfolio due to changes in interest rates:

a. Where feasible and prudent, investment maturities should be matched with expected cash outflows to mitigate market risk.

b. To the extent feasible, investment maturities not matched with cash outflows, including liquidity investments under one year, should be staggered to mitigate re-investment risk.

c. No commitments to buy or sell securities may be made more than 14 days prior to the anticipated settlement date, or receive a fee other than interest for future deliveries.

d. The maximum percent of callable securities in the portfolio shall be 25%;

e. The maximum stated final maturity of individual securities in the portfolio shall be five years, except as otherwise stated in this policy.

f. The maximum portfolio average maturity (measured with stated final maturity) shall be 2.0 years.

INVESTMENT OF PROCEEDS FROM DEBT ISSUANCE

1. Investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. Bond proceeds shall be invested in accordance with the parameters of this policy and the applicable bond covenants and tax laws.

2. Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and are maturity matched with outflows. Consequently, surplus funds within the scope of ORS 294.052 are not subject to this policy's liquidity risk constraints within section IX (2).

INVESTMENT OF RESERVE OR CAPITAL IMPROVEMENT FUNDS

Pursuant to ORS 294.135(1)(b), reserve or capital Improvement project funds may be invested in securities exceeding three years when the funds in question are being accumulated for an anticipated use that will occur more than 18 months after the funds are invested, then, upon the approval of the governing body of the county, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used.

GUIDELINE MEASUREMENT AND ADHERENCE

1. **Guideline Measurement.** Guideline measurements will use par value of investments.

2. **Guideline Compliance.**

   a. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.

   b. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance and; reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the Board of County Commissioners.

   c. Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.

REPORTING AND DISCLOSURE

1. **Compliance.** The Investment Officer shall prepare a report at least monthly that allows the Board of County Commissioners to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will also be provided to the investment advisory committee. The report will include, at a minimum, the following:

a. A listing of all investments held during the reporting period showing: par/face value; accounting book value; market value; type of investment; issuer; credit ratings; and yield to maturity (yield to worst if callable).

b. Average maturity of the portfolio at period-end.

c. Maturity distribution of the portfolio at period-end.

d. Average portfolio credit quality of the portfolio at period-end.

e. Average weighted yield to maturity (yield to worst if callable investments are allowed) of the portfolio.

f. Distribution by type of investment.

g. Transactions since last report.

h. Distribution of transactions among financial counterparties such as broker/dealers.

i. Violations of portfolio guidelines or non-compliance issues that occurred during the prior period or that are outstanding. This report should also note actions (taken or planned) to bring the portfolio back into compliance.

2. **Performance Standards/ Evaluation.** At least annually, the Investment Officer shall report comparisons of investment returns to relevant alternative investments and comparative Bond Indexes. The performance of the portfolio should be compared to the performance of alternative investments such as available certificates of deposit; the Oregon Short Term Fund; US Treasury rates; or against one or more bond indices with a similar risk profile (e.g., Bond indexes comprised of high grade investments and maximum maturities of three years).

   When comparing performance, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.

3. **Marking to Market.** The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be included in the monthly report.

4. **Audits.** Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls. Such audit will include tests deemed appropriate by the auditor.

POLICY MAINTENANCE AND CONSIDERATIONS

1. **Review.** The investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

   The annual report should also serve as a venue to suggest policies and improvements to the investment program, and shall include an investment plan for the coming year.

2. **Exemptions.** Any investment held prior to the adoption of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested as provided

by this policy.

3. **Policy Adoption and Amendments.** This investment policy and any modifications to this policy must be formally approved in writing by the Board of County Commissioners.

   This policy must be submitted to the Oregon Short Term Fund (OSTF) Board for review if:

   a. This policy allows maturities beyond 18 months unless the funds are being accumulated for a specific purpose, including future construction projects, and upon approval of the Board of County Commissioners, the maximum maturity date matches the anticipated use of the funds (ORS 294.135(1)(b) and 294.135(3)).

   b. And either:
      i. This policy has never been submitted to the OSTF Board for comment; or
      ii. Material changes have been made since the last review by the OSTF Board.

Regardless of whether this policy is submitted to the OSTF Board for comment, this policy shall be re-submitted not less than annually to the Board of County Commissioners for approval.

Approved by the Board of Commissioners March 11 2020.

Tom Anderson
County Administrator