Investment Policy

Contents

1. **Purpose** 1
2. **Applicability** 1
3. **Policy** 1
4. **Policy Non-Compliance** 7
5. **Audit** 8
6. **Definitions** 8
7. **Approval and Revision History** 10

DRAFT

1. **Purpose**

Buncombe County is committed to proper fiduciary care of public funds and enhancing the quality of decision making. This policy establishes guidelines for managing investments made by Buncombe County and applies to all financial assets of Buncombe County except authorized petty cash accounts and trust funds administered by the Director in charge of Social Services, as well as all transactions involving the financial assets and related activity of all the various funds accounted for in the County's Annual Comprehensive Financial Report.

Proceeds of debt issuance shall be invested in accordance with the County's general investment philosophy as set forth in this policy; however, such proceeds are to be invested pursuant to the permitted investment provisions of their specific bond documents. The County pools the cash resources of its various funds into a single pool to maximize investment opportunities. These funds are accounted for in the County's Annual Comprehensive Financial Report. Each fund's portion of total cash and investments is summarized by fund type in the combined balance sheet as equity or deficit in pooled cash and investments.

2. **Applicability**

This policy applies to all Buncombe County departments and employees. Where there is conflict with any department-specific policy, this document will supersede.

3. **Policy**

3.1. Objectives

3.1.1. Safety, Liquidity, and Return on Investments

3.1.1.1. 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 in the overall portfolio. To attain this objective, the County will diversify its investments by issuer and maturity, as appropriate.

3.1.1.2. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that fixed maturity investments mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, cash-equivalent investments shall maintain reasonable minimum levels.

3.1.1.3. 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 and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments are limited to relatively low risk investments in anticipation of earning a fair return relative to the risk being assumed.

3.2. Standards of Care

3.2.1. Prudence

3.2.1.1. 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 issuer's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the disposal of the investments are carried out in accordance with the terms of this policy.

3.2.1.2. Investments shall be made with judgement 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.

3.2.2. Ethics and Conflicts of Interest

3.2.2.1. Employees and investment officials 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 and investment officials 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 and investment officials shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of their entity.

3.2.3. Delegation of Authority

3.2.3.1. Authority to manage the investment program is granted to the Finance Director by North Carolina General Statute 159-30(a). Responsibility for the operation of the investment program is delegated by the Finance Director to the Assistant Finance Director or any other personnel the Finance Director sees fit, who shall carry out established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

3.2.3.2. The County may engage the support services of advisors, consultants, and professionals regarding its investment program, so long as it can be clearly demonstrated that these services produce a net financial advantage or necessary financial protection of the County's financial resources. Investment Advisors shall be registered with the Securities Exchange Commission under the Investment Advisors

Act of 1940. Advisors shall be selected using the County's authorized purchasing procedures for selection of professional services, as directed by the Finance Director. Advisors shall be subject to the provisions of this Policy, act on a non-discretionary basis, and shall not, under any circumstances, take custody of any County funds or securities.

3.2.4. Safekeeping and Custody

3.2.4.1. The Finance Director shall maintain a list of Authorized Broker/Dealer firms. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

3.2.4.2. Where possible, transactions with broker/dealers shall be selected on a competitive basis and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, best efforts will be made to document quotations for comparable or alternative securities.

3.2.4.3. The County may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as the paper meets the criteria outlined in section 3.3.

3.2.5. Internal Controls

3.2.5.1. The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgements by management.

3.2.5.2. Accordingly, the Finance Director shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Avoidance of collusion
- Separation of transaction authority from accounting and record keeping achieving a separation of duties
- Placing securities purchased from a dealer with an independent third party for custodial safekeeping
- Clear delegation of authority to subordinate staff members by ensuring a clear understanding of authority and responsibilities to avoid improper actions and to preserve the internal control structure that is contingent on various staff positions and their respective responsibilities
- Written confirmation of telephone transactions for investments and wire transfers via e-mail.
- Development of a wire transfer agreement with the lead bank or third-party custodian that outlines the various controls, security provisions, and delineates responsibilities of each party making and receiving wire transfers

3.2.6. Delivery versus Payment

3.2.6.1. All trades where applicable will be executed by DVP. This ensures that securities are deposited in the eligible financial institution prior to the release of funds.

This is a controlled document for internal use only. Any documents appearing in paper form are not controlled and should be verified with the electronic file version prior to use. For support related to this policy and any related procedures, contact the Finance Department.

Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

3.2.7. Collateral Policy

3.2.7.1. The County prefers collateralization for financial institution deposits through the "Pooled Method" collateralization program of the State Treasurer. If a depository utilizes the "Dedicated Method" collateralization approach, the market value of the required collateral level shall equal or exceed 110% of the principal and accrued interest of any non-federally insured deposit amount. The County reserves the right, in its sole discretion, to accept or reject any form of insurance or collateralization pledged towards deposits.

3.2.7.2. All financial institutions pledging securities as collateral shall be required to sign a security or collateralization agreement with the County. The agreement shall define the County's rights to the collateral in case of default, bankruptcy, or closing and shall establish a perfected security interest in compliance with Federal and State regulations, including:

- The agreement must be in writing
- The agreement must be executed by the financial institution and the County contemporaneously with the deposit;
- The agreement must be approved by the Board of Directors or designated committee of the financial institution and a copy of the meeting minutes must be delivered to the County; and
- The agreement must be part of the financial institution's "official record" continuously since its execution.

3.2.7.3. Collateral will be held by an independent third party with whom the County has an escrow agent or custodial agreement.

3.2.7.4. The County shall use State law, State guidance, and the GFOA's Recommended Practices on the Collateralization of Public Deposits as a guide on making adjustments to this collateralization policy for all financial institution accounts, including transaction accounts and certificates of deposit.

3.3. Suitable and Authorized Investments

3.3.1. Investment Types

3.3.1.1. Except as specifically defined in this Policy, all investments of the County shall be made in accordance with applicable laws contained in North Carolina General Statute 159-30(c). Any revisions or extensions of this section will be assumed to be part of this Investment Policy immediately upon the effective date thereof. Only the following investments will be permitted by this policy:

- Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States. There are no limits on the dollar amount or percentage that the County may invest in obligations fully guaranteed by the United States.
- Obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Fannie Mae, the Government National Mortgage Association, the

This is a controlled document for internal use only. Any documents appearing in paper form are not controlled and should be verified with the electronic file version prior to use. For support related to this policy and any related procedures, contact the Finance Department.

Federal Housing Administration, the Farmers Home Administration, the United States Postal Service. There are no limits on the dollar amount or percentage that the County may invest in the aforementioned federal agency and instrumentality securities. No more than 35% of the total portfolio may be invested in any single Agency/instrumentality issuer listed above.

- Obligations of the State of North Carolina where the securities are rated in a rating category of "A" or its equivalent or better by at least two nationally recognized statistical rating organizations ("NRSROs") at the time of purchase. The combined total investment in Obligations of the State of North Carolina and Obligations of any North Carolina local government or public authority may not exceed 30% of the total portfolio.
- Bonds and notes of any North Carolina local government or public authority, subject to such restrictions as the Secretary of the Local Government Commission may impose and that are rated in a rating category of "A" or its equivalent or better by at least two nationally recognized statistical rating organizations ("NRSROs") at the time of purchase. The combined total investment in Obligations of the State of North Carolina and Obligations of any North Carolina local government or public authority may not exceed 30% of the total portfolio. No more than 5% of the total portfolio may be invested in the securities of any single issuer.
- Deposits at interest or savings certificates of deposit with any bank, savings and loan association or trust company in North Carolina, provided such deposits or certificates of deposit are fully insured or collateralized.
- Prime quality commercial paper bearing the highest rating at the time of purchase of at least one nationally recognized rating service and not bearing a rating below the highest (A1, P1, F1) by any nationally recognized rating service which rates the particular obligation. The combined total investment in commercial paper and bankers' acceptances may not exceed 25% of the total portfolio. No more than 5% of the total portfolio may be invested in the securities of any single issuer.
- Participating shares in a mutual fund for local government investment pool which is: certified by the N.C. Local Government Commission; represents a commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3; or a commingled investment pool established by interlocal agreement by two or more units of local government pursuant to G.S. 160-A-460 through G.S. 160A-464, if the investment of the pool are limited to those qualifying for investment under G.S. 159-30(c). There are no limits on the dollar amount or percentage that the County may invest in funds or pools for local government investment as described in this section.
- Repurchase agreements with terms pursuant to G.S. 159-30(c), collateralized with direct obligations of the United States and maintained at a level of at least 102% of the market value of the Repurchase Agreement. There are no limits on the dollar amount or percentage that the Agency may invest, provided that securities used as collateral for Repurchase Agreements will be held by an acceptable third-party custodian, the Repurchase Agreements are subject to a Master Repurchase Agreement between the Agency and the provider of the repurchase agreement. The Master Repurchase Agreement will be substantially in the form developed by the Securities Industry and Financial Markets Association (SIFMA), and the maximum maturity does not exceed one (1) year.

This is a controlled document for internal use only. Any documents appearing in paper form are not controlled and should be verified with the electronic file version prior to use. For support related to this policy and any related procedures, contact the Finance Department.

3.4. Prohibited Investment Vehicles and Practices

3.4.1. State law notwithstanding, any investments not specifically authorized pursuant to this approved Policy are prohibited, including but not limited to:

- Futures and options
- Investment in inverse floaters, range notes, or mortgage derived interest-only strips
- Investment in any security that could result in a zero interest accrual if held to maturity
- Trading securities for the sole purpose of speculating on the future direction of interest rates
- Purchasing or selling securities on margin
- The purchase of foreign currency denominated securities
- Stocks and Cryptocurrencies

3.5. Maximum Maturities

3.5.1. To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities.

3.5.2. The County will not invest in securities maturing more than 5 years, unless the Board of County Commissioners has by resolution granted authority to make such an investment.

3.6. Risk Management and Diversification

3.6.1. Credit risk is the risk that an investment 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. The County will mitigate credit risk by adopting the following strategies:

- The diversification requirements included in the "Suitable and Authorized Investments" section of this policy are designed to mitigate credit risk in the portfolio.
- The County may elect to sell or redeem an investment prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the County's risk preferences.
- If securities owned by the County are downgraded by a nationally recognized statistical ratings organization (NRSRO) to a level below the quality required by this Investment Policy, it will be the County's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
- If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored.

3.7. Mitigating Market Risk in the Portfolio

3.7.1. 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 portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The County will 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.

3.7.2. 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

This is a controlled document for internal use only. Any documents appearing in paper form are not controlled and should be verified with the electronic file version prior to use. For support related to this policy and any related procedures, contact the Finance Department.

interest rate environments. The County, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

- The County shall maintain at least 20% of its total portfolio in instruments maturing in 90 days or less to provide sufficient liquidity for expected disbursements.
- The maximum percent of callable securities (does not include "make whole call" securities as defined in the Glossary) in the portfolio will be 20%.

3.8. Reporting

3.8.1. The Finance Director shall prepare an investment report regularly, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made since the last report. This management summary will be prepared in a manner which will disclose whether investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the County Manager and the Board of County Commissioners. The report will include the following at a minimum:

- A description of the funds, investments and programs managed by contracted parties (i.e. local government investment pools)
- Investment earnings for the reporting period and fiscal-year-to-date
- An asset listing showing par value, cost and independent third-party fair market value of each security as of the date of the report, the source of the valuation, type of investment, issuer, maturity date, and interest rate.
- Weighted Average Maturity of the portfolio
- Maturity distribution of the portfolio
- Percentage of the portfolio compared to the County's market benchmark returns for the same periods
- A statement of compliance with the Investment Policy, including a schedule of any transactions or holdings which do not comply with this Policy or with North Carolina General Statutes, including a justification for their presence in the portfolio and a timetable for resolution.

3.9. Exemption

3.9.1. Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

3.10. Amendment

3.10.1. The Finance Director will review this policy every two years. Any changes must be approved by the County Manager and the Board of County Commissioners as well as the individual(s) charged with maintaining internal controls.

4. **Policy Non-Compliance**

Employees willfully violating the terms and conditions of this policy may be subject to appropriate disciplinary action, up to and including dismissal.

This is a controlled document for internal use only. Any documents appearing in paper form are not controlled and should be verified with the electronic file version prior to use. For support related to this policy and any related procedures, contact the Finance Department.

5. **Audit**

All policies for Buncombe County may be subject to audit or review as outlined in the Internal Auditor's Statement.

6. **Definitions**

6.1. Agencies: Shorthand market terminology for any obligation issued by a government-sponsored entity (GSE), or a federally related institution. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government.

6.2. Bankers Acceptance: A money market instrument created to facilitate international trade transactions. The risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

6.3. Benchmark: A comparison security or portfolio, which is often used as a tool to assess the allocation, risk, and return of a portfolio.

6.4. Bid: The price at which a buyer offers to buy a security.

6.5. Broker: A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

6.6. Callable: A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since securities are issued, the issuer will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

6.7. Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Some CDs may be marketable and trade similar to securities (see Negotiable CD).

6.8. Certificate of Deposit Account Registry System (CDARS): A deposit spreading network that allows depositors to place more than $250,000 in a single financial institution that allocates partial balances to maintain FDIC insurance coverage for the total amount. IntraFi Network is currently the only entity providing this service. CDARS facilitates the sharing of deposits between institutions in amounts that are less than the $250,000 FDIC coverage.

6.9. Collateral: Securities or cash pledged by a borrower to secure repayment of an obligation. Also, securities pledged by a financial institution to secure deposits of public monies.

6.10. Collusion: A situation where two or more employees are working in conjunction to defraud their employer.

6.11. Commercial Paper: The short-term unsecured debt of corporations.

6.12. Cost Yield: The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

6.13. Coupon: The rate of return at which interest is paid on a bond.

6.14. Credit Risk: The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

6.15. Dealer: A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

6.16. Delivery Versus Payment (DVP): A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

6.17. Discount: The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and Agency Discount Notes, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

This is a controlled document for internal use only. Any documents appearing in paper form are not controlled and should be verified with the electronic file version prior to use. For support related to this policy and any related procedures, contact the Finance Department.

6.18. Diversification: Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.
6.19. Duration: The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See modified duration).
6.20. Liquidity: The speed and ease with which an asset can be converted to cash, or having cash and cash-equivalent balances available to fund outflow obligations.
6.21. Local Government Investment Pool: A commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3; or a commingled investment pool established by interlocal agreement by two or more units of local government. These pools are approved by the NC Local Government Commission, but may not be subject to the same SEC rules applicable to money market mutual funds.
6.22. Make Whole Call: A type of call provision on a debt obligation that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."
6.23. Margin: The difference between the market value of a security and the loan a broker makes using that security as collateral.
6.24. Market Risk: The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.
6.25. Market Value: The price at which a security can be traded.
6.26. Marking to Market: The process of adjusting a security's book value to reflect current market value.
6.27. Maturity: The final date upon which the principal of a security becomes due and payable.
6.28. Medium Term Notes: Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.
6.29. Modified Duration: Modified duration is a formula that expresses the measurable change in the value of a security in response to a change in interest rates. Modified duration follows the concept that interest rates and bond prices move in opposite directions. This formula is used to determine the effect that a 100-basis-point (1%) change in interest rates will have on the price of a bond.
6.30. Money Market: The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.
6.31. Mutual Fund: An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus.
6.32. Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.
6.33. Negotiable CD: A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market and are payable upon order to the bearer.

This is a controlled document for internal use only. Any documents appearing in paper form are not controlled and should be verified with the electronic file version prior to use. For support related to this policy and any related procedures, contact the Finance Department.

6.34. Par Value: The amount of money that bond issuers agree to repay to the purchaser at the bond's maturity.
6.35. Premium: The difference between the par value of a bond and the cost of the bond, when the cost is above par.
6.36. Prudent Person Rule: A legal principle that is used to restrict the choices of the financial manager of an account to the types of investments that a person seeking reasonable income and preservation of capital might buy for their own portfolio.
6.37. Realized Yield: The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.
6.38. Regional Dealer: A financial intermediary that buys and sells securities for the benefit of its customers and is not a primary dealer.
6.39. Repurchase Agreement: Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.
6.40. Safekeeping: A service to bank customers whereby securities are held by the bank in an account in the customer's name.
6.41. U.S. Treasury Obligations: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on other securities in the US. The Treasury issues both discounted securities and fixed coupon notes and bonds.
6.42. Volatility: The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

7. Approval and Revision History

Policy Origination Date:	May 19, 2020
Requires Board Approval:	☒Yes ☐No
Board Approval Date:	TBD
Revision History:	September 2024: - Added Collateralization Policy - Removed limits on certain investment types - Added stocks and cryptocurrencies as prohibited investment types - Removed Performance Standards section - Edited language throughout