



BOARD OF COMMISSIONERS

Agenda Item Summary

Agenda Category:	OTHER	Item No:
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Date: April 11, 2023

Originating Department: TREASURER

Issue: Approve Investment Policy Statement for Klamath County Treasurer’s Investment Pool – Vickie Noel, Treasurer

Background: The Board of Commissioners is required to annually adopt an investment policy statement setting forth the allowable investments and other aspects of the operations of the Treasurer’s Investment Pool. The changes from the 2022 Investment policy are listed below:

- Increase maximum single maturity from 3.25 to 5.25 years.
- Increase weighted average maturity from 1.5 to 2.0 years
- Remove old references to “Bank Investment Managers”

Recommended Motion: Motion to approve the investment policy statement for the Klamath County Treasurer’s investment pool. There is no fiscal impact.

DONE AND DATED this _____ day of _____, 20__.

 Chair
 Approved
 Denied

 Vice-Chair
 Approved
 Denied

 Commissioner
 Approved
 Denied

KLAMATH COUNTY

INVESTMENT POLICY



Table of Contents

Adoption Resolution 3

Purpose 4

Governing Authority 4

Scope..... 4

General Objectives..... 4

Standards of Care..... 5

Transaction Counterparties, Investment Advisors and Depositories 6

Administration and Operations 9

Suitable and Authorized Investments..... 11

Investment Parameters 13

Investment of Proceeds from Debt Issuance..... 15

Investment of Reserve or Capital Improvement Funds..... 16

Guideline Measurement and Adherence..... 16

Reporting and Disclosure 16

Policy Maintenance and Considerations..... 17

Appendix A - Oregon Short Term Fund Board Investment Policy Comments 17

Appendix B - Definitions 21

Adoption Resolution

THEREFORE, BE IT RESOLVED, THAT THE KLAMATH COUNTY BOARD OF COMMISSIONERS HEREBY ADOPTS THE KLAMATH COUNTY INVESTMENT POLICY REVISED April____, 2023

DONE AND DATED this _____ day of _____, 2023

Approved

Denied

Chair

Approved

Denied

Commissioner

Approved

Denied

Commissioner

Purpose

This Investment Policy defines the parameters within which funds held by the Klamath County Investment Officer are to be invested. This policy formalizes the framework, pursuant to ORS 294.135, for Klamath 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

Klamath 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; 294.046; 294.047; 294.052; 294.080; 294.125; 294.135; 294.145; 294.155; and 294.810. All funds within the scope of this policy are subject to regulations 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 all activities of Klamath County with regard to investing financial assets, except those specifically excluded. Investments of employees' retirement funds, deferred compensation plans, and other similar 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 \$100 million and \$200 million.

General Objectives

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

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.

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 or any other commingled investment pool established by the State Investment Officer for the investment of funds by local governments, which offers next-day liquidity. Where possible and prudent, the portfolio should be structured so that investments mature concurrent with anticipated demands.

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

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:

"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."

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 Klamath 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.

Delegation of Authority and Responsibilities

Governing Body

The Klamath County Board of 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.

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 Publicly Elected County Treasurer, 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. In the event of a vacancy at the County Investment Officer position, the Finance Director is authorized to act with all authority of the Investment Officer.

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.

Investment Committee

The Investment Officer may seek to establish an investment committee to provide guidance to the Investment Officer and monitor investment policy compliance.

Investment Advisor

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

Prohibited Conduct

In making investments, the Investment Officer or the Investment Advisor may not enter into any agreement to invest funds or sell securities for future delivery for a fee other than interest.

Transaction Counterparties, Investment Advisors and Depositories

Broker/Dealers

The Investment Officer in conjunction with the Investment Advisor 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.

- i. Broker/Dealer firms must meet the following minimum criteria:
 - a. Be registered with the Securities and Exchange Commission (SEC);
 - b. Be registered with the Financial Industry Regulatory Authority (FINRA).
 - c. Provide most recent audited financials.
 - d. Provide FINRA Focus Report filings.
- ii. Approved broker/dealer employees who execute transactions with Klamath County must meet the following minimum criteria:
 - a. Be a registered representative with FINRA;
 - b. Be licensed by the state of Oregon;
 - c. Provide certification (in writing) of having read; understood; and agreed to comply with the most current version of this investment policy.

- iii. The Investment Officer may establish a policy for engaging broker/dealer firms, national banking associations and registered representatives that are more restrictive than stated in this policy. Additional requisites or due diligence items may include:
 - a. Positive references from at least three other local government clients.
 - b. As part of the periodic due diligence review, inquiries with other local government clients with regard to their recent experiences with broker/dealer firms or registered representatives and any change in relationship status.
 - c. Requirement that approved registered representatives provide notification within 30 days of any formal investigations or disciplinary actions initiated by federal or state regulators.
 - d. Requirement that prospective registered representatives have an established history of advising local governments with similar amounts of assets under management.
- iv. 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:
 - a. Pending investigations by securities regulators
 - b. Significant changes in net capital.
 - c. Pending customer arbitration cases.
 - d. Regulatory enforcement actions. ORS
- v. The Investment Officer shall maintain and review annually a list of all authorized financial institutions and broker/dealers that are approved to transact with the County for investment purposes.

The Investment Officer or designee may utilize the investment advisor's approved broker/dealer list in lieu of the County's own approved list. The advisor must submit the approved list to the County annually and provide updates throughout the year as they occur. The advisor must maintain documentation of appropriate license and professional credentials of broker/dealers on the list. The annual investment advisor broker/dealer review procedures include:

- a. FINRA Certification check:
 - i. Firm Profile
 - ii. Firm History
 - iii. Firm Operations
 - iv. Disclosures of arbitration awards, disciplinary and regulatory events
 - v. State Registration Verification
- b. Financial review of acceptable FINRA capital or letter of credit for clearing settlements.

The advisor may be authorized through the contracted agreement to open accounts on behalf of the County with the broker/dealers on the approved broker dealer list. The County will receive documentation directly from the brokers for account verification and regulatory requirements.

Investment Advisors

A list will be maintained of approved Advisors selected by conducting a process of due diligence.

- i. The following items are required for all approved Investment Advisors:

- a. The investment advisor firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon (Note: Investment advisor firms with assets under management > \$100 million must be registered with the SEC, otherwise the firm must be licensed by the state of Oregon).
 - b. All investment advisor firm representatives conducting investment transactions on behalf of The County must be registered representatives with FINRA.
 - c. All investment advisor firm representatives conducting investment transactions on behalf of The County must be licensed by the state of Oregon.
 - d. Certification, by all of the advisor representatives conducting investment transactions on behalf of this entity, of having read, understood and agreed to comply with this investment policy.
- ii. A periodic (at least annual) review of all authorized Investment Advisors under contract will be conducted by the Investment Officer to determine their continued eligibility within the portfolio guidelines. The investment Advisor must notify The County immediately if any of the following issues arise while serving under a The County contract:
 - a. Pending investigations by securities or banking regulators.
 - b. Significant changes in net capital.
 - c. Pending customer arbitration cases.
 - d. Regulatory enforcement actions.
 - iii. The Investment Officer may establish guidelines or policy for engaging Investment Advisor services that are more restrictive than stated in this policy. Additional requisites or due diligence items may include:
 - a. Positive references from at least three other local government clients of a prospective Investment Advisor firm.
 - b. As part of the periodic due diligence review, inquiries with other local government clients of approved Investment Advisors with regard to their recent experiences with the advisor and any change in the relationship status.
 - c. Requirement that approved Investment Advisors provide notification within 30 days of a relationship termination by an Oregon based local government.
 - d. Requirement that approved Investment Advisor provide notification within 30 days of any formal investigations or disciplinary actions initiated by federal or state regulators.
 - e. Requirement that prospective Investment Advisors have an established history of advising local governments with similar amounts of assets under management.

Depositories

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

Competitive Transactions

The Investment Officer shall ensure a competitive selection of investment purchases.

- i. 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.

- ii. In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities.
- iii. 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. However, the Investment Officer is encouraged to document quotations on comparable securities.
- iv. If an Investment Advisor provides investment management services, the advisor must retain documentation of competitive pricing execution on each transaction and provide upon request.

Administration and Operations

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 Klamath County's safekeeping institution prior to the release of funds. The County will have online access through the safekeeping bank for verification of the account holdings and transactions.

- i. The Investment Officer shall not pay for any security purchased until sufficient evidence of title to the securities has been received. Evidence of title must be consistent with modern investment, banking and commercial practices and may include physical possession, book entry and automated recordation of such title. However, the Investment Officer or Investment Advisor may instruct one or more custodial agents or banks to accept or release securities as that Investment Officer or Investment Advisor considers advisable to be held in safekeeping for collection of principal and interest or other income; or
- ii. The Investment Officer shall not deliver securities to the purchaser of the securities upon sale prior to receiving payment in full for the securities. However, the Investment Officer or Investment Advisor may deliver the securities to any custodial agent or bank upon instructions to hold the securities pending receipt by the custodial agent or bank of full payment for the securities.

Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by Klamath County. All securities will be evidenced by safekeeping/custody receipts in Klamath County's name. Upon request, the safekeeping institution shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16. The County will have online access through the safekeeping bank for verification of the account holdings and transactions. The County may hold bank deposits or certificates of deposits at banks qualified under ORS 295.

Internal Controls

The Investment Officer and Board of Commissioners are 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:

- i. Compliance with Investment Policy
- ii. Control of collusion.
- iii. Separation of transaction authority from accounting and record keeping.
- iv. Custodial safekeeping.
- v. Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary.
- vi. Clear delegation of authority to subordinate staff members.
- vii. Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form.
- viii. Dual authorizations of wire and automated clearing house (ACH) transfers
- ix. Staff training
- x. Review, maintenance and monitoring of security procedures both manual and automated.

External Auditor

An external auditor shall provide an annual independent audit to assure compliance with Oregon state law and Klamath County policies and procedures.

Accounting Method

Klamath County shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles contemplated are those contained in the pronouncements of authoritative bodies including, but not necessarily limited to, the Governmental Accounting Standards Board (GASB).

Investments will be carried at fair value. Investment returns are calculated as total return, including interest earned, premiums, discounts and changes in fair value. The yield is calculated on a 365-day basis.

Investment Income

Investment income includes: interest, dividends, realized gains and losses and changes in fair value. Interest and dividends will be accrued monthly and be credited to investment income. Premiums and discounts on securities shall be amortized/accreted over the life of the securities, and be credited to or charged to investment income. Realized gains and losses will be recognized at the time of sale or callable securities called will be credited to or charged to investment income at the time of sale or call. Changes in fair value will be recognized monthly and be credited to or charged to investment income.

Transaction Costs

Transaction costs include: investment management fees, bank charges, wire transfer fees, audit and financial reporting costs, etc. Investment management fees in addition to the fees charged by various financial institutions shall also include an investment management fee for services provided by the Investment Officer. The investment management fee charged by the Investment Officer shall be determined annually as part of the budgeting process for Klamath County. The management fee shall be allocated on a monthly basis (1/12th of the authorized amount) and shall be credited to Klamath County's general fund each month.

Allowance Retention for Potential Periodic Fair Value Declines

Investment income includes changes in fair value, which may be negative in periods of rising interest rates. Therefore, the County may set aside an allowance for negative fair value periods that will be used to allocate to a zero net earnings in periods of negative total return. The retention fund will not exceed more than the interest rate

risk exposure in the portfolio based on a 2% interest rate rise. Any distributions from the retention allowance fund will be based on a pro-rata share of fund balance in that period.

Net Investment Income

Net investment income shall include investment income less transaction costs and net investment income shall be allocated each month to each fund from which the investment was made based on the average daily balance in the fund. If net income is negative in a period, balances from the allowance retention fund may be used to net zero. In the next period of positive net income the allowance will be adjusted back to the retention fund.

Interfund Borrowing

If the average daily balance in the fund is negative and the fund has received investment income during the fiscal year, the fund will be debited investment income for the period or periods the average cash balance is negative. If investment income has been exhausted and the fund remains in a negative average daily balance position, the fund shall be charged interest expense for any future interest allocations. If the average daily balance in the fund is negative and the fund has not received investment income during the fiscal year, the fund will be charged interest expense for the period or periods the average cash balance is negative. If investment income generates a negative return for the fiscal year, funds in a negative cash position shall not be due an allocation of investment earnings but instead shall pay a rate of interest as determined by the Board of County Commissioners.

Investment of Funds for Other Entities

Subject to ORS 294.040 and 294.135 to 294.155, the Investment Officer may, after having obtained a written order from the governing body (the Board of Commissioners), invest the surplus funds (as defined in ORS 294.004(6)) belonging to any other political subdivision on a pooled basis in the investments of Klamath County.

Suitable and Authorized Investments

Permitted Investments

The Oregon State Investment Officer maintains a list of agencies and instrumentalities of the United States with available obligations that any political subdivision of the State of Oregon may invest in under ORS 294.035(3)(a) and 294.040. Investments shall be in compliance with this list. Minimum credit ratings and percentage limitations apply to the time of purchase.

The following investments are permitted pursuant to ORS 294.035, 294.040, and ORS 294.810.

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. [ORS Section 294.035(3)(a)]

US Agency Obligations: Federal agency and instrumentalities of the United States or enterprises sponsored by the United States Government (GSE) and whose payment is guaranteed by the United States, the agencies and instrumentalities of the United States or enterprises sponsored by the United States Government. [ORS Section 294.035(3)(a)]

Municipal Debt: Lawfully issued debt obligations of the States of Oregon, California, Idaho and Washington and political subdivisions of those states if the obligations have a long-term rating on the settlement date of Aa3 or

better by Moody's Investors Service or AA- or better by S&P or equivalent rating by any nationally recognized statistical rating organization [ORS 294.035(3)(b)] [ORS 294.035(3)(c)].

Corporate Indebtedness: Corporate indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)3 of the Securities Act of 1933, as amended. Corporate indebtedness must be rated on the settlement date Aa3 or better by Moody's Investors Service or AA- or better by S&P or equivalent rating by any nationally recognized statistical rating organization [ORS 294.035(3)(i)].

Commercial Paper: Corporate indebtedness subject to a valid registration statement on file with the Securities and Exchange Commission or issued under the authority of section 3(a)(2) or 3(a)3 of the Securities Act of 1933, as amended. Commercial Paper must be rated A1 by Standard and Poor's or P1 by Moody's or equivalent rating by any nationally recognized statistical rating organization [ORS 294.035(3)(i)]. Issuer constraints for commercial paper combined with corporate notes will be limited by statute to 5% of market value per issuer.

Bank Time Deposits/Savings Accounts: Bank Time Deposits and savings accounts in insured institutions as defined in ORS Section 706.008, in credit unions as defined in ORS Section 723.006, or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state [ORS Section 294.035(3)(d)].

Certificates of Deposit: Certificates of deposit in insured institutions as defined in ORS Section 706.008, in credit unions as defined in ORS Section 723.006, or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state [ORS Section 294.035(3)(d)]. Certificates of deposit into financial institutions outside of Oregon are allowed if the Investment Officer deposits the funds into a depository in Oregon and the Oregon depository participates in a program pursuant to ORS Section 295.004

Banker's Acceptance A short-term credit investment created by a non-financial firm and guaranteed by a qualified financial institution whose short-term letter of credit rating is rated in the highest category without any refinement or gradation by one or more nationally recognized statistical rating organizations. For the purposes of this paragraph, "qualified financial institution" means: (i) A financial institution that is located and licensed to do banking business in the State of Oregon; or (ii) S financial institution that is wholly owned by a financial holding company or a bank holding company that owns a financial institution that is located and licensed to do banking business in the State of Oregon. [ORS 294.035(3)(h)(A)]

Oregon Short Term Fund or any other commingled investment pool established by the State Treasurer for the investment of funds by local governments.

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 Klamath County.

Prohibited Investments

The following investments are prohibited:

Private Placement or "144A" Securities Private placement or "144A" securities are not allowed. "144A" securities include commercial paper issued under section 4(2)144A (also known as "4(2)A") of the Securities Act of 1933.

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

14 Day Settlement: Klamath County shall not purchase securities with a delayed settlement in excess of 14 business days per ORS statute.

Mortgage Backed Securities The County shall not purchase mortgage backed securities.

Default History The County will not purchase, per ORS 294.040, any bonds of issuers listed in ORS 294.035(3)(a) to (c) that have a prior default history.

Collateralization of Bank Demand Deposits and Time Deposits and Certificates of Deposit

All bank demand deposits, time deposits and Certificates of Deposits shall be held in qualified Oregon depositories in accordance with ORS Chapter 295.

Bank 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

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:

- i. **Diversification** It is the policy of Klamath 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.
- ii. **Investment Credit Ratings** Investments must have a rating from at least one of the following nationally recognized statistical rating organizations (NRSRO): Moody's Investors Service, Standard & Poor's, or Fitch Ratings Service as detailed in the table below. Ratings used to apply the guidelines below should be investment level ratings and not issuer level ratings.
- iii. **Diversification and Credit Exposure Constraints** The following table limits exposures among investments permitted by this policy.

Total Portfolio Diversification Table

Issue Type	Maximum % Holdings	Maximum % per Issuer	Ratings S&P, Moody's, or Equivalent NRSRO	Maximum Maturity
US Treasury Obligations	100%	None	N/A	5.25 years
US Agency Obligations	100%	35%	N/A	5.25 years
Municipal Bonds (OR, CA, ID, WA)	25%	5%	AA- / Aa3 Short Term*	5.25 years
Corporate Notes	35%**	5%***	AA- / Aa3	5.25 years
Commercial Paper			A1 / P1	270 days
Bank Time Deposits/Savings	25%	25%	Oregon Public Depository	N/A
Certificates of Deposit	20%	10%	Oregon Public Depository	5.25 years
Banker's Acceptance	10%	5%	A1 / P1	180 days
Oregon Short Term Fund	Maximum allowed per ORS 294.810	None	N/A	N/A

**Short Term Ratings: Moody's - P1/MIG1/VMIG1. S&P - A-1/SP-1, Fitch F1

**35% maximum combined corporate and commercial paper per ORS.

***Issuer constraints apply to the combined issues in corporate and commercial paper holdings.

- iv. **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.
- v. **Portfolio Credit Rating** The minimum weighted average credit rating of the portfolio's rated investments shall be AA-/Aa3 by Standard & Poor's and Moody's Investors Service respectively.

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:

- i. The value of at least 10% of funds available for investing 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.
- ii. Funds in excess of liquidity requirements are allowed for investments maturing at a maximum of 5.25 years. 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%
Under 1 year	35%
Under 5.25 years	100%
Maturity Constraints	Maximum of Total Portfolio in Years
Weighted Average Maturity	2.0 years
Security Structure Constraint	Maximum % of Total Portfolio
Callable Agency Securities	25%

- iii. Reserve or Capital Improvement Project monies 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. These funds will be held in dedicated managed accounts.

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:

- i. Where feasible and prudent, investment maturities should be matched with expected cash outflows to mitigate market risk.
- ii. 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.
- iii. The maximum percent of callable agency securities in the portfolio shall be 25%;
- iv. The maximum stated final maturity of individual securities in the portfolio shall be 5.25 years, except as otherwise stated in this policy.
- v. The maximum portfolio average maturity (measured with stated final maturity) shall be 2.0 years.

Investment of Proceeds from Debt Issuance

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.

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.

Investment of Reserve or Capital Improvement Funds

Pursuant to ORS 294.135(1)(b), reserve or capital improvement project monies may be invested in securities exceeding 5.25 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, municipality, school district or other political subdivision, 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

Guideline Measurement

Guideline measurements will use par value of investments. The yield of the total investment fund will be measured against the yield of the Oregon Local Government Investment Pool, using the monthly net yield of both portfolios. The fair market performance of the long term investment component will be measured to the 0-3 year or 0-5 year all treasury market benchmark on a total return basis.

Guideline Compliance

Guideline compliance shall consist of the following policies:

- i. 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.
- ii. 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 Commissioners.
- iii. 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

Compliance

The Investment Officer shall prepare a report at least monthly that allows the Board of Commissioners to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment oversight body. The report will include, at a minimum, the following:

- i. 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).
- ii. Average maturity of the portfolio at period-end.
- iii. Maturity distribution of the portfolio at period-end.
- iv. Average portfolio credit quality of the portfolio at period-end.
- v. Average weighted yield to maturity (yield to worst if callable investments are allowed) of the portfolio.
- vi. Distribution by type of investment.
- vii. Transactions since last report.
- viii. Transactions report on quarterly basis identifying transacting broker/dealer firm.
- ix. 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.

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 investment portion of the portfolio shall be compared to the performance of alternative investments with a similar risk profile (e.g. market indices such as the 0-3 year Treasury index or 0-5 year Treasury index).

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.

The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be issued at least monthly.

External Reporting

Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls and laws surrounding the investment of public funds. Such audit will include tests deemed appropriate by the auditor.

In compliance with ORS 294.155, the Investment Officer that holds and invests funds on behalf of another governmental unit shall at least once a year submit an audited report to that government unit or units within 30 days after receipt of the audit report by the Investment Officer's governing body.

The Investment Officer shall prepare a report not less than monthly to each political subdivision the segregated funds of which the Investment Officer is then investing, as to changes made in the investments of the funds of that body during the preceding month. If requested by that body, the Investment Officer shall furnish to it details on the investment transactions for its fund. The Investment Officer shall also provide copies of any investment policy which has been adopted to the custodial officer's governing body upon request.

Policy Maintenance and Considerations

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.

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.

Policy Adoption and Amendments

This investment policy and any modifications to this policy must be formally approved in writing by the Board of Commissioners of Klamath County.

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

- i. 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 Commissioners, the maximum maturity date matches the anticipated use of the funds (ORS 294.135(1)(b) and 294.135(3)).

And either:

- a. This policy has never been submitted to the OSTF Board for comment;
- Or
- b. 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 Commissioners for approval. If comments by the Short-Term Fund Board are not incorporated into the policy, the reasons should be compelling.

**Appendix A - Oregon Short Term Fund Board Investment Policy
Comments**

Appendix B - Definitions

Below is the rationale for the various elements of this investment policy. Every effort should be made by the users and beneficiaries of this policy to understand the philosophy and reasons behind each element of the policy.

Policy

The overall policy statement summarizes into a condensed format the entire investment policy.

Scope

The scope section explains what funds this policy applies to. It also explains what funds are excluded, and provides an explanation of guidance for investment of those funds.

Prudence

To burden a conscientious professional with personal responsibility for default on a single item within a diversified portfolio seems unduly severe. Accordingly, public entities with portfolios of sufficient size are urged to apply the prudence concept to the overall portfolio.

Objective

Every investment policy must contain a concise and clear statement of objectives regarding safety of capital, liquidity and return on investment. The effectiveness of the investment program is set by the caliber of the staff, the procedures used, the working environment and the policy guidance provided by governing officials. Through its statement of objectives, the governing body sets the tone and direction of the policy and the investment program.

Delegation of Authority

After the investment objectives have been identified, the next element of an investment policy is an explicit delegation of authority to specific investment officials responsible for conducting transactions and managing the entity's investment program.

Ethics and Conflicts of Interest

Some governments have adopted conflict of interest legislation that regulates the activities of certain officers and employees. In the investment area, some conflicts may be governed by general code provisions, making separate policies redundant. Some jurisdictions, however, may seek to adopt policies regarding ethical behavior and conflicts of interest.

Authorized Financial Dealers and Institutions

The investment policy requires that a set formal process be used to select depositories and brokers/dealers. Because the policy is intended to endure, it does not mention specific firms or depositories. Rather, it provides for a process that will screen out institutions that lack economic viability or whose past practices suggests that the safety of public capital would be impaired if transactions were directed to or through such firms.

Authorized and Suitable Investments

The selection of investment instruments to be allowed for investment purposes is a significant policy issue for many governments. Although day-to-day selection of specific instruments should be treated as a management function, the policy should define the general universe. Direction should be specifically given to funds that receive bond proceeds subject to arbitrage considerations.

From the approving authority’s perspective, special care must be taken to ensure that the list of instruments includes only those allowed by law and those that local investment managers are trained and competent to handle. Citing of the appropriate statutes for the particular entity as attachments may be appropriate.

In selecting authorized investments, consideration should be given to credit ratings on bankers’ acceptances and collateralization of applicable instruments.

If repurchase agreements are authorized, a Master Repurchase Agreement must be signed with the bank or dealer.

Ratings Table – Long-Term

Three Highest Rating Categories	S&P	Moody’s	Fitch	Definition
	AAA	Aaa	AAA	Highest credit quality
	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-	Very high credit quality
	A+, A, A-	A1, A2, A3	A+, A, A-	High credit quality
	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	Good credit quality
	BB+, BB, BB-	Ba1, Ba2, Ba3	BB+, BB, BB-	Non-investment grade

Ratings Table – Short-Term

Highest Rating Category	S&P	Moody’s	Fitch	Definition
	A1+, A1	P1+, P1	F1+, F1	Highest credit quality
	Municipal Commercial Paper			
	A-1, A-1+, SP-1+, SP-1	P1, MIG1, VMIG1	F1+, F1	Highest credit quality

Collateralization

Collateralization must be required on any repurchase agreement. This policy addresses such points as market valuation responsibility and timing, safekeeping by an independent third party and evidence of ownership.

Safekeeping and Custody

Like private investors, governing officials feel more secure about their entity's investments if they know that the securities are physically safe. The investment policy includes a clause regarding third-party safekeeping and custody of securities and collateral. The policy also addresses the delivery of securities, where Delivery Versus Payment (DVP) is a requirement (i.e. Delivery of securities with a subsequent exchange of money for the securities).

Diversification

The Investment Policy states the purpose of diversification --to reduce overall portfolio risks while attaining market average rates of return. Diversification is conceptualized in terms of maturity as well as instrument type and issuer. Thus, the diversification concept in a cash management fund includes prohibition against over concentration in a specific maturity sector, as well as constraining the reliance on specific risky instruments and issuers.

Maximum Maturities

To protect public funds from market price losses resulting from rising interest rates, the policy limits the maximum term to maturity on current operating funds' investment to 12 months - the operating budget cycle. While the maximum term to maturity for funds not anticipated to be needed for current operations have a longer term.

Internal Controls

The development of internal controls remains a management function. The specific internal control measures are beyond the scope of the investment policy and will be subject to the normal operating procedures of the Investment Officer. The investment policy merely requires that a system of internal controls be established. The policy does provide for the timing of periodic reviews and monitoring of controls. The review of internal controls is not left up to the periodic examination by the External Auditors but review of controls is an ongoing responsibility of the entity.

Performance Standards

Much of the investment policy focus is directed toward controls. Yield objectives are also quite important. The long-run interests of Klamath County go beyond simple prudence and safety of funds. The investment policy provides a formal evaluation of performance and operational audits. Market Yield (Benchmark): Klamath County's investment strategy is passive. The policy defines the basis used by the Investment Officer to determine whether average yields are being achieved by comparison to a benchmark.

Reporting

Investment reports provide a mechanism for monitoring by the governing body. Periodic flows of information are needed to consider the impact of economic conditions, portfolio changes and the results of investment operations. Reporting also provides written communication regarding investment performance, compliance, and a clear representation of the investment portfolio.

Investment Advisors

Klamath County has chosen to utilize an investment advisor for assistance in managing its investment practices and portfolio management. Policies surrounding the investment advisor are included in the policy.

Accounting Method

A public entity must comply with Generally Accepted Accounting Principles.

Investment Policy Adoption

The policy is annually adopted by the Board of Commissioners. In addition, the policy is reviewed by the Oregon Short Term Fund Board.