City of Philadelphia
Investment Policy adopted as of April 2001

Policy adopted by the Investment Committee consisting of the Director of Finance, the City Treasurer and the Deputy City Treasurer(s). Ex officio members consist of an agency representative from the Water Department, the Aviation Division of the Department of Commerce, the Philadelphia Gas Works and the Philadelphia Municipal Authority.

I PURPOSE

This comprehensive investment policy establishes guidelines for the overall administration and effective management of all monetary funds (other than the Municipal Pension Fund and PGW Retirement Reserve Fund of the City of Philadelphia). City investments shall conform to all legal requirements, City bond resolutions, and the policies as outlined herein. This policy is meant to supplement the requirements of these existing documents.

II SCOPE

This investment policy applies to all of the investments of the City, except for its Municipal Pension Fund and PGW Retirement Reserve Fund, which are managed by a separate nine-member Board of Directors and three-member Sinking Fund Commission, respectively. All monetary assets of the operating, capital, and debt service accounts are included.

The policies set forth herein are to be strictly followed by all those responsible for any aspect of the management or administration of these accounts.

The Investment Committee attempts to group like accounts by risk tolerance and cash flow patterns for each manager. The Investment Committee may from time to time assign new accounts to existing managers, relieve a manager of responsibility for one or all of its existing accounts and/or add new managers.

III STANDARD OF PRUDENCE

The Standard of Prudence to be applied to the investment of City funds shall be the "Prudent Investor" rule, which states:

> *"Investment 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 outcome to be derived."*

Portfolio managers (either internal or external) acting in accordance with this policy and/or any written procedures pertaining to the administration and management of the City's funds and who exercise the proper due diligence, shall be relieved of personal responsibility for any individual security's credit risk or market price change, provided that these deviations are reported in a timely fashion to the Director of Finance and that appropriate action is taken to control and prevent any further adverse developments.

IV DELEGATION OF AUTHORITY

Investment Committee:

The Director of Finance shall establish an Investment Committee consisting of the Director of Finance, the City Treasurer and the Deputy City Treasurer(s). The committee shall have ex officio members consisting of an agency representative from the Water Department, the Aviation Division of the Department of Commerce, the Philadelphia Gas Works and the Philadelphia Municipal Authority. The committee shall meet periodically, but at least annually at the call of the Director of Finance to determine general investment strategies, monitor portfolio results, ensure the adequacy of maturity restrictions, and perform other duties as may be assigned by the Director of Finance. Further, the Committee will adopt this investment policy and may establish its own rules of procedure to modify, enhance or otherwise change this policy as directed by circumstances then prevailing. The Committee shall be responsible for oversight of the relationship between the City and its investment managers and reviewing the investment managers' performance on a regular basis. The City Treasurer's staff will monitor the investment manager's compliance with City investment policies, communicate any changes in the City's investment policies to the investment managers, and report all transactions to the City's Accounting Bureau.

V INVESTMENT OBJECTIVES

The City's Investment Portfolio shall be managed to accomplish the following hierarchy of objectives:

1. <u>Preservation of Principal</u>

   The single most important objective of this investment program is the preservation of the principal of those funds within each portfolio.

2. <u>Maintenance of Liquidity</u>

The portfolios shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future payment requirements of the City, including but not limited to, payroll, accounts payable, capital projects, debt service and any other such payments so designated by the Director of Finance.

3. Maximize Return

The portfolios shall be managed in such a fashion as to maximize the return on investments, but within the context and parameters set forth by objectives 1 and 2 above.

VI AUTHORIZED INVESTMENTS

Section 19-202 of the Philadelphia Code entitled “Authorized Investments” as amended authorizes the Director of Finance, City Treasurer, and City Controller to invest the monies in the City Treasury which are not required for immediate use in any of the following:

a) Bonds or notes of the United States Government;

b) United States Treasury obligation, including STRIPs; receipts indicating an undivided interest in such United States Treasury obligations; and stripped coupons held under book-entry with the New York Federal Reserve Bank;

c) United States Agency obligations rated Aaa/AAA by Moody’s Investor Services or Standard & Poor’s;

d) Collateralized certificates of deposit;

e) Bankers Acceptances, Eurodollar deposits, and Euro certificates of deposit which are collateralized;

f) Commercial paper rated M1G1 or A1+ by Moody’s Investor Services and Standard & Poor’s, respectively;

g) General obligation bonds of corporations rated “AA” or better by Moody’s Investor Services or Standard & Poor’s, with a maturity of two (2) years or less

h) Collateralized Mortgage Obligations and Passthrough Securities which are rated “AA” or better by Moody’s Investor Services or Standard & Poor’s or are collateralized with securities which meet the City’s own investment criteria as set forth in this section, with a maturity of two (2) years or less;

i) Money market mutual funds, as defined by the Securities and Exchange Commission;

j) Repurchase agreements which are collateralized either through actual delivery of eligible collateral or through segregation of collateral by a depository which is holding the counterparty's securities, provided such collateral meets the City's own investment criteria as set forth in this section or;

k) Obligations of the Commonwealth or any municipality or other political subdivision of the Commonwealth, registered or otherwise as to principal and interest, with a maturity of two (2) years or less.

Authorized investments for Sinking Fund Reserve Portfolios are dictated by the First Class City Revenue Bond Act and as stated in Bond Counsel opinion, (see Exhibit A attached) and include any investment vehicle permitted for any state agency.

VII INVESTMENT RESTRICTIONS

The Investment Committee has adopted the following restrictions and policies relating to the investment of its assets. (Investments due to mature in one business day may be excluded from the computation of the percentage restrictions.) The policies are fundamental and may not be changed without written approval by the Investment Committee.

The investment managers may not: (1) purchase any securities other than money market and other securities described under "Authorized Investments"; (2) invest more than 25% of total assets under their control (taken at market value at the time of each investment) in the securities of issuers in any particular industry (other than United States Government securities, or Government agency securities); (3) invest more than 10% of the account, valued at market at time of purchase, in the securities (other than the United States Government) of any one issuer; (4) purchase more than 10% of the outstanding securities of an issuer, except that such restrictions shall not apply to United States Government or Government agency securities or repurchase agreements; (5) make investments for the purpose of exercising control or management of an issuer; (6) purchase or sell real estate (other than money market securities secured by real estate or money market securities issued by companies which invest in real estate, or interests therein), commodities or commodity contracts, interest in oil, gas or other mineral exploration or development programs; (7) purchase any securities on margin, except for use of short-term credit necessary for clearance of purchases and sales of portfolio securities; (8) make short sales of securities or maintain a short position or write, purchase, or sell puts, calls, straddles, spreads or combinations thereof; (9) make loans to other persons, provided that the investment manager may purchase money market securities or enter into repurchase agreements; (10) mortgage, pledge, hypothecate or in any manner transfer as security for indebtedness any securities owned or held; (11) invest in securities, (except for repurchase agreements) with legal or contractual restrictions on resale or for which no readily available market exists; (12) act as an underwriter of securities; (13) buy or sell any authorized investment when it is a party or any related or affiliated party in the transaction on both sides, except that it may enter into a repo agreement with itself when the maturity does not exceed one business day and the amount does not exceed $500,000.

VIII DIVERSIFICATION AND QUALITY

It is the policy of the City to diversify its investment portfolios. Portfolio diversification is employed as a way to control risk. Investments shall be diversified as to maturities and as to kind of investment to eliminate the risk of loss which might result from over-concentration of assets in a specific maturity, in a specific kind of security or from a specific issuer. Any deviation from the diversification guidelines listed below shall be allowed only with the express approval of the Investment Committee. Diversification strategies as determined by the Investment Committee and subject to revision by the Committee as appropriate are as follows:

A. Diversification as to Maturity

Maturity scheduling shall be timed according to anticipated cash needs. Maturities shall be staggered.

Within the constraints of cash flow needs and staggered maturities, investments should take advantage, whenever possible, of yield curve opportunities.

Other than Sinking Fund Reserve Portfolios, no monies shall be invested in investments with maturities longer than two (2) years.

B. U.S. Government Agency Obligations

Debt obligations (not passthrough issues or derivatives of passthrough issues) issued by government-sponsored enterprises; Federal agencies, Federal financing bank, and international institutions part of whose capital stock has been subscribed for the United States. Examples of agencies included under this paragraph are:

- Federal Farm Credit Bank
- Federal Home Loan Bank
- Federal Home Loan Mortgage Corporation
- Federal Intermediate Credit Bank
- Federal Land Bank
- Federal National Mortgage Association
- Financing Corporation

- Government Loan Trusts
- Government National Mortgage Association
- Government Trust Certificates
- National Archives Facility Trust
- Postal Service
- Resolution Funding Corporation
- Small Business Administration
- Student Loan Marketing Association
- Tennessee Valley Authority
- Washington D.C. Metro that is guaranteed by the United States Treasury

C. Security and Issuer Diversification

	Authorized Investment Instrument	Percent of Portfolio Allowed	Percent of Portfolio Per Issuer	Percent of Portfolio Outstanding Securities Per Issuer
A.	U.S. Government	100%	100%	100%
B.	U.S. Treasury	100%	100%	100%
C.	U.S. Agencies	100%	33%	100%
D.	Certificates of Deposit	25%	10%	10%
E.	Banker's Acceptances, Eurodollar Deposits, and Euro Certificates of Deposit	25%	10%	10%
F	Commercial Paper	25%	10%	10%
G.	Corporate Bonds	25%	10%	10%
H.	Collateralized Mortgage Obligation and Passthroughs	25%	10%	10%
I.	Money Market Mutual Funds	25%	10%	10%
J.	Repurchase Agreements	25%	10%	10%
K.	Commonwealth of PA	25%	10%	10%

D. Certificates of Deposit and Banker Acceptances

1. Issued or endorsed by a domestic bank, or savings and loan association, organized and supervised under Federal or any state laws, or any of its branches located in the United Kingdom, the Bahamas, or the Cayman Islands and denominated in U.S. dollars; provided, however, that:

    a. the banking institution has assets of not less than $100 million;

    b. the banking institution is rated not lower than "B" by Thompson's Bank Watch Service; and

    c) Certificate of Deposits must be secured by acceptable collateral with a total market value equal to 102% of the deposit.

2. Issued or endorsed by a non-domestic bank organized and supervised under the laws of Japan, Canada, England, Holland, West Germany, or Switzerland and denominated in U.S. dollars provided, however, that:

    a. the banking institution has assets of not less than $100 million;

    b. the banking institution has a Thompson's Bank Watch Service "Peer Group Rating" not lower than II.

E. Commercial Paper and Corporate Bonds

Commercial Paper (investments at the time of purchase) must be rated "A1" by Standard & Poor's Corporation and/or M1G1 by Moody's Investor Services, Inc. and the senior long-term debt of the issuer must be rated not lower than "A" by Moody's Investor Services and/or "A" by Standard & Poor's. The investment in corporate bonds and debentures must be rated at the time of purchase at least "AA" by Standard & Poor's or "Aa" by Moody's Investor Services.

F. Repurchase Agreements

The underlying securities shall consist of U.S. Government or government agency securities, provided, however, that:

1. All repurchase transactions must be governed by a written Master Repurchase Agreement;

2. Agreements will be entered into only with a recognized U.S. Government/broker or a bank which meets the requirements set out under paragraph (D);

3. In the case of repurchase collateral held in book entry form in the Federal Reserve

System, all deliveries of securities must be made, for the transfer thereof, through the Federal Reserve book entry system to the account designated by the Investment Manager for such purpose;

Securities held in certificate form must be delivered to the Investment Manager or a custodian as directed by the Investment Manager;

4. Any collateral employed under this paragraph shall be counted towards the applicable maximum limits set forth in this Investment Policy for such type of investment, and such collateral shall be valued at market at not less than 102 percent of the maturity value of the agreement and marked-to-the-market as requested by the manager; and

5. Not more than 25% of the Account, valued at market, may be invested under this paragraph (Investments due to mature in one business day may be excluded from the computation of this percentage).

G. Money Market Mutual Funds

The Investment Manager may invest not more than 25% of the Account, valued at market, in money market fund(s); and not more than 10% of the Account, valued at market, may be invested in any one fund (investments due to mature in one business day may be excluded from the computation of this percentage).

The money market fund(s) selected by the Investment Manager shall be consistent with the investment quality guidelines as stated in this document.

H. Derivatives

City Council Ordinance 460 dated June 2, 1993 broadened the list of authorized investment types to include derivatives with maturities of two years or less. Derivatives are not, therefore expressly prohibited by council ordinance or this investment policy but rather are permitted with certain controls as to type and amount. For purposes of this policy, unauthorized derivative investments are those whose yield or market value does not follow the normal swings of interest rates. They include such items as, “inverse floaters”, leveraged variable rate debt, and interest-only or principal-only CMO’s. ***Investment in these vehicles is expressly forbidden unless the final maturity date and rate have been fixed for the remaining life of the security and the security meets the other criteria of this policy***. To simply deny the use of derivatives altogether, would be to deny their legitimate value as yield enhancement vehicles and their use in portfolio-hedging strategies to actively control market risks.

Investment managers will be held to the highest standards with regard to control over the use of derivatives. Any use of derivative products must first be approved by the Investment Committee prior to purchase. Derivatives are to be used only for investment of portions of “core cash” funds as determined by cash flow forecasting for each fund or investment pool, but at no time can the market value of such derivative investments exceed 25% of any fund’s balance.

Investment in Collateralized Mortgage Obligations (CMO) is permitted provided they meet the following criteria:

1) Maturity of less than two years;
2) Pass the FFIEC test;
3) A Fitch V rating of V-2 or better;
4) Interest-only and principal-only derivatives are not allowed.

Investment managers purchasing CMO's must prepare monthly reports indicating costs and market values and maturities. If market values fall 5% below cost, a written report must be filed with the City Treasurer describing the reasons for the decline in value and outlining the steps, if any, that are needed to correct the situation.

IX CUSTODY GUIDELINES

The City has selected custodian banks that are members of the Federal Reserve System to hold its investments. Delivery of the applicable investment documents (e.g. contracts, securities, and safekeeping receipts) to the City's custodian is required for all investments. For secured transactions, such as repurchase agreements, either the title to or a perfected security interest in the securities, along with any necessary transfer documents, must be transferred to the custodian. Such transactions will always use delivery versus payment procedures. Safekeeping procedures of the custodian shall be reviewed annually by independent auditors, and a copy of their report shall be supplied to the City for review.

X PORTFOLIO REVIEWS

The investment manager(s) shall meet with the City at least quarterly to review the investment outlook structure of each account and past results. A general agenda for these meetings should include (but is not limited to):

A. A review of the investment results achieved over the prior quarter and year in relationship to the account restrictions and the manager's investment views and internal policies in effect prior to, and during the period;

B. The manager's current outlook for the financial markets during the next six through twelve months;

C. The manager's internal investment policies that have been adopted in response to these expectations;

D. The appropriateness of the present portfolio given the expectations, internal policy and the City's requirements;

E. A review of the guidelines relative to any constraints which the manager feels are limiting its ability to respond to developments within the markets in a manner considered most appropriate given the investment objectives; and

F. A review of the previous fiscal year's cash forecasts and presentation of current year forecasts; determination of "core cash" for consideration of investment manager action.

XI MONITORING AND ADJUSTING THE CITY'S PORTFOLIO

Those responsible for the day-to-day management of City funds will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and will adjust the portfolio as necessary to meet the investment objectives listed.

XII COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

It is the City's policy to transact all securities purchases/sales only with approved financial institutions through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers from qualified financial institutions. The City will accept the offer that provides (a) the highest rate of return within the maturity required; and (b) optimizes the investment objectives of the overall portfolio. When selling a security, the City will select the bid that generates the highest sale price. It will be responsibility of the personnel involved with each purchase/sale to produce and retain written records of each transaction including the name of the financial institutions solicited, rate quoted, description of the security, investment selected, and any special considerations that had an impact on the decision.

If the lowest priced security (highest yield) was not selected for purchase, an explanation describing the rationale will be included in this record.

In making investment decisions, all other things being equal and subject to compliance with any applicable Internal Revenue Code requirements for bond proceeds, investments in corporations and financial institutions doing business in the State of Pennsylvania will be given preference over other investment options.

XIII INTERNAL CONTROLS

The Finance Director shall establish a system of internal controls governing the administration and management of the City's short-term investments and these controls shall be documented in writing. Such controls shall be designed to prevent and control losses of City funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by any personnel.

The Finance Director shall establish an annual process of independent review by the City Controller. This review will provide internal control by assuring compliance with policies and procedures.

XIV ARBITRAGE

The Internal Revenue Code of 1986, as amended, provides for arbitrage restrictions that the City's investments are subject to. The City will comply with all arbitrage regulations and will remit all excess arbitrage, where appropriate, to the U.S. Treasury within the legal time limits.