MAXABILITIES OF YORK COUNTY

POLICY: Investment of Agency Funds
EFFECTIVE DATE: August 25, 2023
REVISION DATE: August 27, 2026
REFERENCES: SC Code of Laws Title 6, Chapter 5 “Investment of Funds by Political Subdivisions”

I. Purpose and Governing Authority

This policy outlines the parameters for investment of excess idle funds held by the Agency. Investments shall be made in conformance with governing legislation and other legal requirements.

II. Scope

This policy applies to the investment of all funds owned by the Agency as well as the funds owned by the HUD Projects (Brown Villas, Community Alternatives, and York County Special Housing). Except for cash in certain restricted and special funds, the Agency will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. General Objectives

The primary objectives of investment activities shall be safety, liquidity, and return:

1. *Safety*

Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

a. <u>Credit Risk</u>

The Agency will minimize credit risk, which is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy
- Pre-qualifying and conducting ongoing due diligence of the financial institutions, broker/dealers, intermediaries, and advisers with which the Agency will do business in accordance with Section V
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. <u>Interest Rate Risk</u>

The Agency will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that security maturities match cash requirements for ongoing

operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, the South Carolina Local Government Investment Pool, or similar investment pools and limiting individual security maturity as well as the average maturity of the portfolio in accordance with this policy (see section VIII).

2. *Liquidity*

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 securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

3. *Return*

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal;
- Selling a security and reinvesting the proceeds that would improve the quality, yield, or target duration in the portfolio may be undertaken;
- Unanticipated liquidity needs of the portfolio require that the security be sold.

IV. Standards of Care

1. *Prudence*

The standard of prudence to be used by the Chief Financial Officer ("CFO") shall be the "uniform prudent investor act" standard and shall be applied in the context of managing an overall portfolio. The CFO 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 in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2. *Ethics and Conflicts of Interest*

Officers and employees 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 the CFO shall disclose any material interests in financial institutions with which they conduct business, in accordance with applicable laws. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Agency.

3. *Delegation of Authority*

Authority to manage the investment program is granted to the Chief Executive Officer (CEO) or the CFO, as designee. Responsibility for the operation of the investment program is hereby delegated to the CFO, who shall act in accordance with 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 established by the Board of Directors. The CFO shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

The CFO is authorized to transfer funds to and from the South Carolina Local Government Investment Pool as is necessary to maximize investment earnings while ensuring sufficient available cash flow to meet operating needs. These transfers will require the approval and authorization of the CEO.

Investments in any other options outside of the South Carolina Local Government Investment Pool must be approved by the Board of Directors.

V. Authorized Financial Institutions, Depositories, and Broker/Dealers

The Board of Directors will approve all financial institutions, depositories, and broker/dealers that may be used by the CFO to fulfill investment objectives of the Agency.

VI. Safekeeping and Custody

1. Safekeeping

Proof of investments and certificates of deposits will be safely secured on the Agency server or in the Agency safe.

2. *Internal Controls*

The CFO shall establish a system of internal controls. The internal controls shall be reviewed periodically by the Finance committee and with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, mis-representation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Agency.

VII. Suitable and Authorized Investments

1. Investment Types

Consistent with the South Carolina Code of Laws Section 6-5-10 "Authorized Investments by Political Subdivisions", the following investments will be permitted by this policy:

a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.
b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
c) (i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.
d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.
e) Certificates of deposit where the certificates are collaterally secured by securities of the type described in a) and b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.
f) Repurchase agreements when collateralized by securities as set forth in this section.
g) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (a), (b), (c), and (f) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.

2. *Collateralization*

A qualified public depository, upon the deposit of funds by the Agency, must secure these deposits by deposit insurance, surety bonds, investment securities, or letters of credit to protect the Agency against loss in the event of insolvency or liquidation of the institution or for any other cause. Funds must be collateralized or insured in accordance with the SC Code of Laws Section 6-5-15.

VIII. Investment Diversification & Constraints

1. *Diversification*

It is the policy of the Agency to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all Agency funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the Finance committee/CFO for all funds.

In establishing specific diversification strategies, the following general policies and constraints shall apply: Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity sector. Maturities selected shall provide for stability of income and reasonable liquidity.

- Liquidity shall be assured through practices ensuring that the next disbursement date and payroll date are covered through maturing investments or marketable U.S. Treasury bills.
- Positions in securities having potential default risk (e.g., commercial paper) shall be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
- Risks of market price volatility shall be controlled through maturity diversification and duration management.
- The Finance committee/CFO shall establish strategies and guidelines for the percentage of the total portfolio that may be invested in securities other than repurchase agreements, Treasury bills or collateralized certificates of deposit. The committee shall conduct an annual review of these guidelines and evaluate the probability of market and default risk in various investment sectors as part of its considerations.

2. *Maximum Maturities*

To the extent possible, the Agency shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Agency will not directly invest in securities maturing more than five (5) years from the date of purchase. The Agency shall adopt weighted average maturity limitations consistent with the investment objectives.

3. Competitive Bids

The CFO shall obtain competitive bids from at least two brokers or financial institutions on all purchases and sales of investment instruments transacted on the secondary market. Funds invested in the South Carolina Local Government Investment Pool does not require competitive bids.