

**WMTA Review Committee
Investment Policy Checklist
"Summary of Comments"**

Name of Entity Reviewed: Date:

Name of Reviewer:

Overall Rating: Approved Not Approved

NOTE: COMMENTS BELOW ARE A SUMMARY OF REVIEWER COMMENTS FOR THE FIRST SUBMISSION OF THE CITY'S INVESTMENT POLICY. CITY OF KENMORE ADDRESSED THESE ISSUES AND LATER SUBMITTED THE POLICY THAT RECEIVED CERTIFICATION.

Below is a summary of the three reviewers' comments on the investment policy for the entity listed above. All comments are transcribed exactly as the reviewers wrote them on their review checklist.

1. Policy Statement: The investment policy should be concise and should concern itself only with policy matters. Procedural matters should be contained in desk manuals.

Comments / Suggested Improvements:

2. Scope: Identify all funds covered by the Investment Policy. (Does the policy include pension funds, reserve funds, special funds, etc)?

Comments / Suggested Improvements:

3. Prudent Person Standard: The "prudent person" rule should be incorporated into the investment policy.

Comments / Suggested Improvements:

The "Prudent Person Rule" is included, but the rest of the statement says, "Investment officers acting in accordance with written procedures..." There is no Procedures Manual. What protection is there for the investment personnel?

4. Investment Objectives: The policy must address the entity's objectives regarding safety of capital, liquidity, and yield.

Comments / Suggested Improvements:

What is the "market rate of return?"

5. Delegation of Authority: A list of who is authorized to initiate investment transactions should be included. Identify types of transactions that require special authorization.

Comments / Suggested Improvements:

6. Ethics and Conflicts of Interest: The policy may discuss the issue of officers and employees partaking in personal activities that may impair their ability to make impartial investment decisions.

Comments / Suggested Improvements:

"large personal...positions" ambiguous. The word material might be a more relevant and relative term. Another choice would be to disclose any position.

7. Authorized Financial Dealers and Institutions: The policy should address the method of selection of a primary bank, eligible depositories, brokers, and dealers. Does the entity maintain an approved dealer list?

Comments / Suggested Improvements:

Method of selection/approved list is not addressed.

8. Authorized Investments: The policy statement should specifically identify the types of investments authorized. If repurchase agreements are used, the policy must indicate that a master repurchase agreement is required.

Comments / Suggested Improvements:

The section on Collateralization goes into detail about the use of a Master Repurchase Agreement and collateralization of repos, but the type of transaction is not included in Authorized Investments.

9. Collateralization: If repurchase agreements are authorized, the policy should discuss safekeeping of collateral and collateralization at 102%.

Comments / Suggested Improvements:

Once again, wording, needs to be clarified. What is the city saying, "Transactions will be conducted with primary dealers OF financial institutions qualified by the PDPC." Does the city, if they ever do repo, mean that they will only work with primary dealers of financial institutions doing business within the state of WA and that are qualified under the PDPC?

Not authorized, yet discussed?

10. Safekeeping and Custody: The policy must address, safekeeping and custody arrangements with banks, brokers, dealers and third party custodians, including delivery versus payment (DVP).

Comments / Suggested Improvements:

11. Diversification: The issue of diversification of investments in various types of securities should be addressed.

Comments / Suggested Improvements:

The "safekeeping and custody" and "diversification" sections should be brought into one section and cleaned up. Wording is confusing, as is breakdown of asset classes and products.

Need to discuss diversification by maturity as well.

Why does the section on Diversification limit the holdings of CDs to 35% but the section on Maximum Maturities allows 100%?

12. Maximum Maturity: The maximum and average maturity of investments carried in the portfolio should be defined.

Comments / Suggested Improvements:

Average maturity not discussed. I would recommend a max maturity for all securities of five years.

13. Internal Controls: Periodic independent review of investment operations should be mandated.

Comments / Suggested Improvements:

I hope it works this way.

14. Performance Standards: It may be advisable to establish benchmark comparisons so that the portfolio can be evaluated.

Comments / Suggested Improvements:

If portfolio composition were to change (i.e., city was buying two to ten-year treasuries) a different benchmark would have to be identified.

The discussion of keeping maturities shorter in rising rate environment and vice versa is inconsistent with a passive/match cashflow investment style state earlier in policy.

If you have 85% of the city's investments in the LGIP, you DO NOT use the return of the LGIP as a benchmark. I would suggest using the same benchmark that the LGIP uses.

15. Reporting: Reports are a good way for the entity's governing body to monitor investment activity.

Comments / Suggested Improvements:

16. Adoption of Policy: In order to be effective, the investment policy should be formally adopted by the entity.

Comments / Suggested Improvements:

I would suggest the last sentence be reworded to say "reviewed at least every two years..."

17. Glossary: A glossary of terms used in the investment policy should be part of the policy.

Comments / Suggested Improvements:

Miscellaneous Comments:

Pretty well done, but I would suggest addressing those areas mentioned prior to adoption.

Need to incorporate a glossary and clarify other sections. Please see comments. I feel that many portions were copied, not really them.