COUNTY OF MAUI
INVESTMENT POLICY

Revised March 11, 2016

COUNTY OF MAUI

DEPARTMENT OF FINANCE
TREASURY DIVISION
MAUI, HAWAII

COUNTY OF MAUI
INVESTMENT POLICY

1. SCOPE

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines for the County Treasurer, who is responsible for the stewardship of Maui County's Investment Fund. Each transaction and the entire portfolio must comply with Hawaii Revised Statue Chapter 46 Section 5 and this policy. All portfolio activities will be judged by the standards of the Policy and ranking of objectives.

This investment policy applies to all financial assets of the County of Maui (County). These funds are accounted for in the County's Comprehensive Financial Annual Report and include:

- General Fund
- Special Revenue Funds
- Capital Improvement Project Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds
- Any new fund unless specifically exempted

This investment policy applies to all transactions involving financial assets and related activity of all the foregoing funds. The investment policy does not apply to the Employee Retirement System nor employee deferred compensation funds which are organized and administered separately by the State of Hawaii. Except for cash in certain restricted and special funds, the County of Maui will consolidate cash balances from all funds to maximize earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles (GAAP).

2. INVESTMENT POLICY OBJECTIVES

The primary objectives, in priority order, of investment activities shall be safety, liquidity and yield:

Safety

Safety of principal is the foremost objective of the County. 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.

Credit risk, the risk of loss due to the failure of the security issuer, will be minimized by:

- Limiting investments to the safest types of securities.
- Prequalifying the financial institutions, broker/dealers, intermediaries, and advisors.
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

Interest rate risk, the risk that market value securities in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that securities mature to meet 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, or similar investment pools.

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).

Liquidity shall be further defined as having sufficient cash on hand to meet the reoccurring and anticipated operational outlays of the County for a minimum of 45 days. Furthermore, liquidity will be enhanced by scheduling maturities to occur in each month and as evenly as possible given the cash flow requirements of the County of Maui.

Yield

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 risks constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

- A security with declining credit may be sold early to minimize loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

Program Measure

The investment portfolio of the County shall be designed with the objective to meet or exceed the U.S. Treasury Note constant maturity of more than one year. This index is considered a benchmark and a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above these thresholds consistent with risk limitations identified herein and prudent investment principles.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the County's ability to govern effectively.

3. REPORTING: INTERIM AND ANNUAL

The Treasurer shall prepare an investment report at least quarterly, including a summary of the current investment portfolio and transactions made over the last quarter.

The quarterly investment report will include the following:

1) Listing of each security, face amounts and discount/premium
2) Coupon rates and buy yields of each security, and average yield for the portfolio

3) Value and Accrued Interest of each security
4) Maturity and days to maturity for each security and the portfolio average maturity
5) Transactions during the period: purchase, maturity and interest payments
6) Investment classification by category (e.g. banks, Agency discount and coupon notes)
7) At year end, the investment report should also provide book value and market value for each holding (and any unrealized gains and losses)
8) Expenses and penalties

The quarterly report will be provided to the Director of Finance, the Investment Committee and the County Council within 30 days of the quarter end. In addition to the quarterly investment reports, the Treasurer will provide an annual summary report which will be a consolidation of the quarterly reports.

Annually, the Treasurer will also share with the Investment Committee, economic reports available from the Wall Street Journal and other investment analysis publications. The Investment committee will evaluate economic reports to determine an investment strategy for the County. The economic reports give indications of the direction of interest rates.

Various available investment analyses will be considered during annual investment policy reviews.

Fundamental analysis
- Rate trends
- Supply/demand for capital
- Economy expanding/contracting
- Fed reserve easing or tightening
- Economic reports on employment, inflation, home sales, inventory

Technical analysis
- Yield trends

Also, during the annual evaluation of our overall strategy we will consider bear/bull strategies. These can provide guidance in our pursuit of quality, longer maturities, or higher risk groups of agencies. Always paramount, will be our priority goals of liquidity and safety (yield is a third objective behind liquidity and safety).

4. INSTRUMENTS: MATURITIES, DIVERSIFICATION, AND RISK

The State of Hawaii's (State) Hawaii Revised Statutes (HRS) provide for investments available to the counties.

HRS 46-50 provides for short-term investment of county moneys as follows:

The director of finance of each county may, with the approval of the legislative body, invest county moneys that are in excess of the amounts necessary for the meeting of immediate requirements when in the judgment of the legislative body the action will not impede or hamper the necessary financial operation of the county in:

(l) Bonds or interest-bearing notes or obligations:

(a) of the county;

(b) of the State;

(c) of the United States; or

(d) of agencies of the United States; for which the full faith and credit of the United States are pledged for the payment of principal and interest;

(2) Federal land bank bonds;

(3) Joint stock farm loan bonds;

(4) Federal Home Loan Bank notes and bonds;

(5) Federal Home Loan Mortgage Corporation bonds;

(6) Federal National Mortgage Association notes and bonds;

(7) Securities of a mutual fund whose portfolio is limited to bonds or securities issued or guaranteed by the United States or an agency thereof;

(8) Repurchase agreements fully collateralized by any such bonds or securities;

(9) Bank savings accounts;

(10) Time certificates of deposit;

(11) Certificates of deposit open account;

(12) Bonds of any improvement district of any county of the State;

(13) Bank, savings and loan association, and financial services loan company repurchase agreements;

(14) Student loan resource securities including:

(a) Student loan auction rate securities;

(b) Student loan asset-backed notes;

(c) Student loan program revenue notes and bonds; and

(d) Securities issued pursuant to Rule 144A of the Securities Act of 1933, including any private placement issues; issued with either bond insurance or over collateralization guaranteed by the United States Department of Education; provided all insurers maintain a triple-A rating by Standard & Poor's, Moody's Duff & Phelps, Fitch, or any other major national securities rating agency;

(15) Commercial paper with an Al/PI or equivalent ratings by any national securities rating service;

and

(16) Bankers' acceptances with an AI/PI or equivalent ratings by any national securities rating service;

provided that the investments are due to mature not more than five years from the date of investment. The income derived there from shall be deposited in the fund or funds that the legislative body shall direct, [provided that if any money invested under this section belongs to any waterworks fund, then any income derived there from shall be paid into and credited to the fund.]

The County of Maui will diversify its investments by security type, institution, and maturity. With the exception of US Treasury securities and bank certificates of deposit fully insured by the Federal Deposit Insurance Corporation (FDIC) not to exceed $250,000.00 per banking institution[1]**,** no more than 30% of the County's investment portfolio will be invested in a single security type, or with a single issuer or financial institution.

[1] Policy revision to allow investments in CD's to exceed 30% of portfolio provided each CD is fully insured by the FDIC and that no banking institution has total CD investments greater than $250,000.00. Policy revision approved during March 11, 2016 Investment Committee Meeting.

The policy guidelines, with respect to investment in commercial paper are as follows:

1. Commercial paper must be rated with the highest short-term credit rating of any two Nationally Recognized Statistical Ratings Organizations (NRSROs), at the time of purchase. If the commercial paper is rated by more than two NRSROs, it must have the highest rating from all of the organizations.
2. Commercial paper holdings may not have maturities exceeding 180 days.
3. Any commercial paper purchased with a maturity longer than 100 days must also have an underlying long-term credit rating at the time of purchase in one of the two highest rating categories of an NRSRO.
4. The percentage of commercial paper may not exceed 10 percent of the total assets of the portfolio.
5. The percentage of commercial paper that can be purchased from any single issuer is five percent of the total assets of the portfolio.

To the extent possible, the County of Maui shall attempt to match its investment maturities with anticipated cash flow requirements. Investment maturities will not exceed five years in accordance with state and local laws. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as government money market funds or overnight repurchase agreements to ensure appropriate liquidity is maintained to meet ongoing obligations.

5. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

A list will be maintained of approved security broker/dealers with a minimum capitalization of $10 million and at least five years of operation.

All broker/dealers who desire to become qualified for investment transactions must provide the following as appropriate:

- Audited financial statements
- National Association of Security Dealers (NASD) certification
- Required national licensing and registration with the State
- Completed Broker/Dealer Agreement
- Certification of having read and understood and agreeing to comply with the County of Maui's Investment Policy.

An annual review of the financial condition of broker/dealers will be conducted by the Treasurer. See the Governmental Financial Officers Association (GFOA) Recommended practices on "Governmental Relations with Securities Dealers."

6. LIMITS ON HONORARIA, GIFTS, AND GRATUITIES

This policy hereby establishes limits on honoraria, gifts, and gratuities for the County Treasurer, individuals responsible for the management of the portfolio, and members of the Investment Committee. Any individual who receives an aggregate total of gifts, honoraria, and gratuities in excess of $100.00 in a calendar 12 month time period from a broker/dealer, bank or service provider to the investment fund or its operation must report the gifts, dates, and firms to the County Treasurer and Director of Finance and kept on file for five years in the Treasury

Division.

7. DELEGATION AND AUTHORITY, PRUDENCE, AND ETHICS

In accordance with the Maui County Charter Section 8-4.3 and Hawaii Revised Statute 46-50, the responsibility and authority for maintaining and managing the County treasury and depositing moneys in depositories and instruments authorized by law resides with the Director of Finance.

Management responsibility for the investment program is with the Director of Finance, who shall establish procedures for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. Responsibility for the operation of the investment program is hereby delegated to the Treasurer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

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.

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 the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions. Employees and investment officials shall disclose to the Investment Committee any material financial interest in financial institutions that conduct business within this jurisdiction, and they shall further disclose any large personal financial investment positions that could be related to the performance of this jurisdiction's portfolio. Employees and officials shall subordinate their personal investment transactions to those of this jurisdiction, particularly with regard to the timing of purchases and sales.

8. INVESTMENT COMMITTEE

The County's Investment Committee is composed of the Director of Finance, the Deputy Director of Finance, the Managing Director, the Budget Director and the Accounting System Administrator. The Investment Committee shall meet at least annually to recommend general strategies and monitor results. The Director of Finance will adopt strategies. The Investment Committee shall include in its deliberations such topics as: economic outlook, portfolio diversification and maturity structure, liquidity needs, potential risks to the County of Maui, authorized depositories, brokers and dealers, and the target rate of return on the investment portfolio.

Written investment procedures will be recommended by the Investment Committee. The Director of Finance will approve investment procedures. The committee members shall review quarterly investment reports. Any two members of the committee may request a special meeting, and three members shall constitute a quorum. The committee shall establish its own rules of procedure. The Director of Finance shall chair the Investment Committee meetings, produce agendas, minutes and any necessary reports. The Treasurer or his/her representative shall act as the committee secretary recording minutes and performing other duties as directed.

9. SAFEKEEPING

Maui's Repurchase Agreements are secured by collateral agreements. Our Collateral and Security agreements should ensure the safety of County owned investments as well as the collateral behind those investments. These safety concerns include:

- No payment for a security purchase should be released until delivery is confirmed.
- Custodians should acknowledge the County as the investor through triparty agreements;
- The independent custodian (not the bank) should provide the collateral valuation reports;
- The County should keep original safekeeping receipts;
- Repo collateral custodians should hold sufficient collateral to secure the Repos;
- The County should require substitution of new collateral before withdrawing old collateral
- Bank boards should authorize signing of collateral agreements.

HRS 38-3 restricts security depositories as follows:

> "For the protection of funds deposited by the director under this chapter, the following securities shall be deposited with the director, or with banks in the continental United States, or with financial institutions authorized to do business in the State, as the director may select, to be held therein for safekeeping subject to the order of the director."

The above quotation allows securities to be deposited with the director, with U.S. banks, or with Hawaii financial institutions. It is important to note that securities are not allowed to be held by out of state non-bank financial institutions such as brokers and dealers. See the appendix for the actual HRS sections on investments.

HRS 46-51 allows each county to deposit securities owned by the county in mainland depositories with the approval of their council. In accordance with the GFOA Recommended practice on the Collateralization of Public Deposits, full collateralization will be required on nonnegotiable certificates of deposits.

10 . INTERNAL CONTROLS

The Finance Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met.

The internal controls shall address:

- Control of collusion
- Separation of functions
- Separation of transaction authority from accounting and record keeping
- Custodial safekeeping
- Avoidance of physical delivery (bearer form) securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers. Supervisory control of employee actions
- Minimizing the number of authorized investment officials. Documentation of transactions and strategies

The development of internal controls remains a management function. This investment policy statement therefore avoids specific internal control measures, but rather requires a system of internal controls be established and maintained. The internal controls are documented in Treasury's Investment Procedures.

HAWAII REVISED STATUTES
CHAPTER 46

' 46-50 Short term investment of county moneys. The director of finance of each county may, with the approval of the legislative body, invest county moneys which are in excess of the amounts necessary for the meeting of immediate requirements when in the judgment of the legislative body the action will not impede or hamper the necessary financial operations of the county in:

(1) Bonds or interest-bearing notes or obligations:

(A) Of the county;

(B) Of the State;

(C) Of the United States; or

(D) Of agencies of the United States;

for which the full faith and credit of the United States are pledged for the payment of principal and interest;

(2) Federal land bank bonds;

(3) Joint stock farm loan bonds;

(4) Federal Home Loan Bank notes and bonds;

(5) Federal Home Loan Mortgage Corporation bonds;

(6) Federal National Mortgage Association notes and bonds;

(7) Securities of a mutual fund whose portfolio is limited to bonds or securities issued or guaranteed by the United States or an agency thereof;

(8) Repurchase agreements fully collateralized by any such bonds or securities;

(9) Bank savings accounts;

(10) Time certificates of deposit;

(11) Certificates of deposit open account;

(12) Bonds of any improvement district of any county of the State;

(13) Bank, savings and loan association, and financial services loan company repurchase agreements;

(14) Student loan resource securities including:

(A) Student loan auction rate securities;

(B) Student loan asset-backed notes;

(C) Student loan program revenue notes and bonds; and

(D) Securities issued pursuant to Rule 144A of the Securities Act of 1933, including any private placement issues;

issued with either bond insurance or overcollateralization guaranteed by the United States Department of Education; provided all insurers maintain a triple-A rating by Standard & Poor's, Moody's, Duff & Phelps, Fitch, or any other major national securities rating agency;

provided the investments are due to mature not more than five years from the date of investment. The income derived therefrom shall be deposited in the fund or funds that the legislative body shall direct, provided that if any money invested under this section belongs to any waterworks fund, then any income derived therefrom shall be paid into and credited to the fund. [L 1945, c 43, pt of ''1; RL 1955, ''138-15; am L 1965, c 40, ''1; am L 1976, c 86, ''1; HRS ''46-50; am L 1998, c 297, ''1]