

City of Norfolk

Investment Policy

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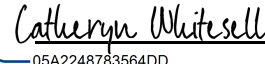
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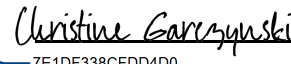
Investment Policy

**EFFECTIVE DATE:** September 23, 2024**POLICY ORGANIZATION:** Department of Finance

APPROVAL

DocuSigned by:

E88E1B3EDF5842D...
Patrick G. Roberts, City Manager

DocuSigned by:

05A2248783564DD...
Catheryn Whitesell, Deputy City Manager

Signed by:

7E1DF338CFDD4D0...
Christine Garczynski, Director of Finance

1. INTRODUCTION

Effective cash flow management and cash investment practices are recognized as essential to good fiscal management. The investment policy of the City of Norfolk (the “City”) is intended to provide for the prudent and efficient investment of the City's temporarily idle cash while safely maximizing returns within carefully defined investment parameters. The investment policies and practices of the City are based on guidelines mandated by the Code of Virginia, the Norfolk City Code, and prudent money management.

This Investment Policy (the “Policy”) provides a set of guidelines that will permit the City’s Department of Finance to oversee the investment of public funds. The Policy will outline the City’s goals and a disciplined approach to investing:

- establishes objectives for the investment of public funds;
- detailing permitted and prohibited financial instruments, including any “legal list”;
- acceptable maturities and goals for fixed-income securities;
- a listing of persons having investing authority and responsibility;
- a broad description of investment strategies;
- a statement on diversification requirements; and
- criteria for monitoring performance and reporting of the investments.

It is the policy of the City to adhere to Federal and State Laws governing the investment of public funds, including, Investment of Public Funds Act of the Code of Virginia, specifically, Section 2.2-4500 et seq. Where the Policy is more restrictive than Federal or State Law, this Policy will supersede.

Through the maintenance of sufficient diversification of investments, the forced liquidation of investments at a loss will be avoided, if possible; however, from time to time, changes in economic or market conditions may dictate that it is in the City's best interest to sell a security prior to maturity to meet unplanned or unanticipated cash flow demands, at a potential loss of investment principal.

For a list of terms and definitions commonly used in cash management, see "Appendix A - Glossary of Terms."

2. SCOPE

This Policy applies to the deposit(s) eligible for investment, except for any funds set aside for the Norfolk Pension Trust Fund, pension, post-employment employee benefits funds, and the investment of bond proceeds specifically governed by the provisions of relevant bond documents. Although these funds may be pooled for investment purposes, they may be segregated as necessary for accounting and budgetary reporting purposes. For this Policy, these funds are referred to as the "Investment Portfolio".

3. OBJECTIVES

The objective of this Policy is to invest public funds in a manner which will provide safety, liquidity, yield and income in that priority order, while meeting the daily cash flow requirements of the City and maximizing investment income to the City. All investment and deposits will be managed to accomplish the following fundamental goals:

- A. **Safety of Principal** – The protection of principal, while accounting for inflation, is the foremost objective when undertaking investment decisions that affect the Investment Portfolio. The focus to achieve this goal is to mitigate credit risk and interest rate risk. The City 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 City will do business;
 - 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.

The City 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, or similar investment pools and limiting individual security maturity, as well as the average maturity of the portfolio in accordance with this policy.

B. **Liquidity** – The Investment Portfolio will be managed with sufficient liquidity to meet all operational requirements which may be reasonably expected or anticipated. Adequate, but not excessive, liquidity shall be the goal.

C. **Yield (Maximize Return on Investment)** – Investments shall be managed with the objective of attaining the highest rate of return consistent with the safety of principal and liquidity objectives throughout the budgetary and economic cycles, considering 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.

4. DELEGATION OF AUTHORITY AND RESPONSIBILITY

The City Code delegates the authority to deposit and invest public monies to the Director of Finance (Director) under the general direction of the City Manager and advised by the City Investment Management Committee. The Director, in fulfilling their responsibility, will establish and maintain investment procedures and objectives. The Director is responsible for and subject to this Policy:

- selection of asset classes;
- identification of specific fixed income investments within each asset class;
- managing and rebalancing allocations to each asset class;
- monitoring the performance of the Investment Portfolio;

- periodically reviewing the appropriateness of the investments of the City;
- preparing and presenting appropriate reports;
- reviewing this Policy, any established Investment Strategy and Guidelines, the Investment Portfolio and the target allocations established at least once each fiscal year, and recommending changes as necessary based on industry standards and best practices or changes in the City's objectives; and
- designating, if necessary, an outside investment manager to manage investment operations.

Individuals delegated with investment authority in writing by the Director shall herein be referred to as Authorized Investment Personnel. No person may engage in an investment transaction, except as provided under the terms of this Policy and the procedures established by the Director.

Authorized Investment Personnel include but are not limited to the Debt Manager, Senior Cash and Investments Analyst, two Assistant Directors, and excludes any outside Investment Managers designated by the Director (see Investment Manager herein defined).

The City Investment Management Committee advises the Director of Finance on the investment policy, the investment managers, the investment advisor and other matters related to the City's investments. That so long not inconsistent with the Investment Management Committee, investment decisions by the Director of Finance may be implemented without approval of the Investment Management Committee, however must be presented to the Investment Management Committee at the meeting following.

5. STANDARD OF PRUDENCE

As fiduciaries of public funds, the Director and Authorized Investment Personnel shall adhere to the "prudent person" standard when managing the City's funds. The prudent person standard provides that the investment of such funds shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and goals of the City.

6. ETHICS AND CONFLICTS OF INTEREST

The Director and Authorized Investment Personnel shall refrain from engaging in any activity that impairs (or has the potential to impair) their ability to make impartial investment decisions for the City. In all circumstances, they shall operate in a manner consistent with those requirements in the most current City Ethics' Policy and any laws, regulations, or policies referenced therein.

The Director and Authorized Investment Personnel shall comply with the Code of Virginia Section 2.2-3100 et seq., the State and Local Government Conflict of Interest Act. Specifically, employee shall not:

- accept any money, loan, gift, favor, service, or business or professional opportunity that reasonably tends to influence the performance of their official duties; or
- accept any business or professional opportunity when they know there is a reasonable likelihood that the opportunity is being afforded to influence the performance of their official duties.

Authorized Investment Personnel shall disclose in writing to the Director any material financial interests, as well as personal relationships existing with employees and/or officers of financial institutions conducting business with the City.

Authorized Investment Personnel who follow the provisions of this Investment Policy and who exercise due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

7. INTERNAL CONTROLS

The City shall establish internal controls for administering and managing the City's Investment Portfolio. The controls are designed to prevent and control losses from fraud, negligence, third-party misrepresentation, employee error, unanticipated changes in financial markets and other foreseeable circumstances that may arise in the operations of the investment function. The internal control structure shall be designed to provide reasonable assurances that these objectives are met.

These controls include, but are not limited to, this formal written Investment Policy; Investment Guidelines, Strategy and Internal Controls Procedures; Strategic Investment Plan; approval and execution of investment transactions; recording and reconciliation of investment holdings; and safeguarding and reporting of Investment Portfolio.

The internal controls shall address the following points:

- **Collusion** – Collusion is a situation where two or more employees are working together to defraud their employer.
- **Separation of duties** – By separating the persons who perform and authorize the transactions from the people who record or otherwise account for the transactions, a separation of duties is achieved.
- **Safekeeping** – Securities purchased from any bank or dealer, including collateral, shall be held in safekeeping by a Custodian acting for the under the terms of a custody agreement. Said

securities shall be held in a manner that establishes the City's right of ownership. Evidence of ownership shall be demonstrated by a monthly safekeeping statement which shall be reconciled on a timely basis to internal holding reports.

- **Clear Delegation of Authority** – Subordinate staff members must have a clear understanding of their authority and responsibility to avoid improper actions.
- **Written Confirmation** – Due to the potential for error arising from telephone transactions, all telephone transactions shall be supported by written communications and approved by the appropriate person.
- **Delivery** – Where applicable, investment transactions of the City, shall be conducted using standard delivery-versus-payment ("DVP") procedures.
- **Daily Procedures** – A detailed written manual shall be created and regularly maintained so that critical investment functions may be performed in the absence of the person normally responsible for performing such work.
- **Annual Audit** – On an annual basis, the City's financial statements and business practices are audited by an external auditor. Included in the auditor's annual review shall be a review of the City's investment and cash management accounting and operational practices.

8. COMPETITIVE BIDDING PROCESS

When practicable, Authorized Investment Personnel shall enter into transactions for the purchase or sale of securities on a competitive bid and offer basis. After the Authorized Investment Personnel have determined the approximate maturity date based on cash flow needs and market conditions and have analyzed and selected one or more optimal types of investments, a minimum of three (3) Authorized Financial Institutions must be contacted and asked to provide bids/offers on the securities in question. The City shall utilize the competitive bid process to select the securities to be purchased or sold. From time to time the City may enter into transactions involving securities for which there is not an active secondary market and competitive bidding is not available or appropriate. Selection by comparison to a current market price shall only be utilized when, in the judgment of the Director, competitive bidding would inhibit the selection process. Authorized Investment Personnel will seek to verify acceptable current market pricing from at least two independent sources such as Bloomberg, Interactive Data, or any approved Broker/Dealer's trading desk.

Examples of when this method may be used include:

- when time constraints due to unusual circumstances preclude the use of the competitive bidding process;
- when no active market exists for the issue being traded due to the age or depth of the issue;
- when a security is unique to a single dealer, for example, a private placement; or

- when the transaction involves new issues or issues in the “when issued” market.

The bid and offer process shall be fully documented for all transactions and those complete records shall be retained onsite for audit and reporting purposes.

Overnight sweep investment instruments shall not be separately bid and may be placed with the City’s depository bank relating to the demand account for which the investment instrument was purchased.

9. MATURITY LIMITS

Maintenance of adequate liquidity to meet cash flow needs is essential. Accordingly, to the extent possible, the Investment Portfolio maturity schedule will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Whenever practical, selection of investment maturities will be consistent with known cash requirements to minimize the potential for a sale of securities to provide cash for disbursement needs.

To effectively manage interest rate risk, this Policy establishes a maximum maturity requirement for any individual security. To effectively manage interest rate risk and market value volatility, the City’s Investment Portfolio should not directly invest in securities maturing more than five and a half (5.50) years from the date of settlement (with the exception of Agency Mortgage-Backed Securities (MBS) that must have a weighted average life (“WAL”) of no more than five and a half (5.50) years) and the maximum weighted average maturity shall not exceed two and half (2.5) years or 30 months.

10. PORTFOLIO DIVERSIFICATION

Asset allocation contributes to increased safety, liquidity overall yield to the Investment Portfolio. For the City to maintain diversification sector and limit market risk, sector and issuer ownership percentages, maturity lengths and other restrictions have been assigned to each class of investments.

Meeting the minimum requirements of this Investment Policy does not make an investment automatically eligible for purchase. In all cases, prudent money management will prevail based upon the objectives of the Policy, as well as consideration of current and forecasted market conditions.

The purchase of any investment that, legally eligible that do not meet the guidelines of this Policy, will require written approval of the Director prior to transaction commitment.

11. SUITABLE AND AUTHORIZED INVESTMENTS (Code of Virginia Section 2.2-4501 et seq.)

Investments should be made subject to cash flow needs and subject to revisions as market conditions and City needs change.

The following are the investment requirements and allocation limits on security types, issuers, and maturities. The Director may have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies. The percentage allocation requirements for investment types and issuers are calculated based on the original cost of each investment at the time of purchase. Investments not listed in this Policy are prohibited.

Permitted Investment Sector Type	Sector Maximum	Maximum per Issuer	Maximum Maturity ³	Minimum Rating Requirement ^{1, 2}
U.S. Treasury Obligations Bills, notes and any other obligation or securities issued by or backed by the full faith and credit of the United States Government, as described by Code of Virginia §2.2-4501 (including all amendments)	100%	100%	5.50 years	N/A
Federal Agency/Government Sponsored Enterprise (GSE) Obligations Bonds, notes and other obligations issued by any federal government agency or instrumentality, or government sponsored enterprise, as described by Code of Virginia §2.2-4501 (including all amendments)	100%	40%	5.50 years	Same as or higher than the U.S. Federal Government
Agency Mortgage-Backed Securities Bonds, notes and other obligations issued by any federal government agency or instrumentality, or government sponsored enterprise, as described by Code of Virginia §2.2-4501 (including all amendments)	40%	40%	5.50 years or 5.50 year WAL	Same as or higher than the U.S. Federal Government

Permitted Investment Sector Type	Sector Maximum	Maximum per Issuer	Maximum Maturity ³	Minimum Rating Requirement ^{1, 2}
Municipal Bonds Issuer must be a city, county, state, or other political subdivision created by a government act. Bonds, notes and any other obligation of a state or municipal government, upon which there is no default, and which otherwise meet the requirements of Code of Virginia §2.2-4501 (including all amendments) The above maximums and ratings do not apply to obligations issued by the City of Norfolk, or any subdivision or organization created by the authority of the City of Norfolk.	25%	5%	5.50 years	At least two of the following Aa (Moody's), AA (S&P) or AA (Fitch)
Commercial Paper "Prime quality" commercial paper, issued by corporations organized and operating under the laws of the United States or any state thereof, and otherwise meeting the requirements of Code of Virginia §2.2-4502 (including all amendments)	35% ⁴	5% ⁵	270 days	At least two of the following: P-1 (Moody's), A-1 (S&P) or F-1 (Fitch)
Corporate Notes Unsecured promissory notes issued by corporations domestic and foreign, and otherwise meeting the requirements of Code of Virginia §2.2-4510 (including all amendments)	35% ⁴	5% ⁵	5 years	At least two of the following Aa (Moody's), AA (S&P) or AA (Fitch)

Permitted Investment Sector Type	Sector Maximum	Maximum per Issuer	Maximum Maturity ³	Minimum Rating Requirement ^{1, 2}
Negotiable Certificates of Deposit and Bank Deposit Notes Negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks, and otherwise meeting the requirements of Code of Virginia §2.2-4509 (including all amendments)	35% ⁴	5%	5 years	At least two of the following: P-1 (Moody's), A-1 (S&P) or F-1 (Fitch) if less than or equal to one year to maturity; at least two of the following: Aa (Moody's), AA (S&P) or AA (Fitch) if greater than one year to maturity
Money Market Mutual Funds Must be the institutional class shares of a U.S. Government, Prime Funds or Municipal Money Market Mutual Fund registered with the Securities and Exchange Commission pursuant to the Federal Investment Company Act of 1940. The fund shall have a minimum of \$500 million in total asset size of portfolio at time of investment and should not drop below this threshold. By prospectus or other fund statement of additional information, the fund shall only invest in investments that comply with this Investment Policy's requirements for Authorized Investments. The fund will have been in existence for a minimum of five (5) years and the investment in the institutional class of shares will not exceed five percent (5%) of the total net asset value of that particular institutional class of shares prior to the investment.	100%	25%	N/A	At least two of the following Aaa-mf (Moody's), AAAm (S&P) or AAAmf (Fitch)

Permitted Investment Sector Type	Sector Maximum	Maximum per Issuer	Maximum Maturity ³	Minimum Rating Requirement ^{1, 2}
Local Government Investment Pool (LGIP) A specialized commingled investment program that operates in compliance with Government Accounting Standards Board's Statement 79 (GASB 79) that was created in the 1980 session of the General Assembly (Code of Virginia §2.2-4700 et seq. including all amendments) designed to offer a convenient and cost-effective investment vehicle for public funds. The LGIP is administered by the Treasury Board of the Commonwealth of Virginia.	100%	100%	N/A	At least two of the following Aaa-mf (Moody's), AAAm (S&P) or AAAmf (Fitch)
Virginia SNAP Non-Arbitrage Program (Virginia SNAP) SNAP Fund (Proceeds of Tax-exempt Bonds Only) A specialized commingled investment program that operates in compliance with GASB 79 and that was authorized by the Government Non-Arbitrage Act in 1989 (Code of Virginia §2.2-4700 et seq. including all amendments). Virginia SNAP and the SNAP Fund are administered by the Treasury Board of the Commonwealth of Virginia. Virginia SNAP offers several investment options, including the SNAP Fund, and arbitrage rebate reporting services that are specifically designed for the investment of tax-exempt bond proceeds.	100%	100%	n/a	n/a
1. At time of purchase 2. From transaction settlement date 3. Maximum allocation to non-government securities is 75% combined 4. Maximum allocation across all non-government permitted investment sectors is 5% combined per issuer 5. Maximum exposure to any one Federal Agency or GSE obligation, including the combined holdings of agency debt and agency MBS is 40%				

12. AUTHORIZED ISSUERS

The City shall perform due diligence for all commercial paper and corporate debt issuers whose securities may be purchased. A list of all authorized companies shall be developed.

13. PROHIBITED INVESTMENTS

State and Federal laws notwithstanding, any investment described herein including, but not limited to; reverse repurchase agreements; derivatives used for the purpose of leveraging the Investment Portfolio; options; futures; inverse floaters; first mortgages or trust deeds; collateralized mortgage obligations (CMO's); limited partnerships; real estate investments trusts (REIT's); closed-end mutual funds; common stock; preferred stock; commodities; bonds and other obligations issued, guaranteed or assumed by the International Bank for Reconstruction and Development, bonds and other obligations issued, guaranteed or assumed by the Asian Development Bank and bonds and other obligations issued, guaranteed or assumed by the African Development Bank; precious metals and/or securities deemed inappropriate under the Prudent Person/Investor standard is strictly prohibited.

14. COLLATERAL, CUSTODY AND SAFEKEEPING ARRANGEMENTS

To protect against potential losses caused by collapse of individual securities dealers, all securities owned by the City, shall be held in safekeeping by a Custodian acting for the under the terms of a custody agreement. The City shall conduct all book-entry eligible security transactions on a DVP basis.

Transactions shall in all cases comply with the City's internal controls as they apply to the transfer of funds through the appropriate payment system (i.e., wire transfers, Automated Clearing House (ACH) transactions, issuance of warrants). In addition, the Department of Finance's Financial Reporting Division shall have in place procedures to reconcile safekeeping receipts and statements to the City's position and transaction records.

15. COLLATERALIZATION OF BANK DEPOSITS

All bank deposits of the City shall be considered Public Deposits as defined by Code of Virginia Security for Public Deposits Act (SPDA) (Section 2.2-4400 et seq.) and all deposits must be made with Qualified Public Depositories.

16. VERIFICATION OF DEPOSITS

The City Treasurer shall regularly verify that all bank deposits are held in compliance with the SPDA and related guidelines. On an annual basis, the City Treasurer shall require all depositories to confirm that all bank accounts are being held as Public Deposits as defined by Code of Virginia Section 2.2-4401 and shall require all depositories to continue to provide monthly account reports. On a quarterly basis, the City Treasurer shall utilize the Public Fund Accounts system provided on the Department of the Treasury's website to confirm that all quarter-end bank account balances are being reported as Public Deposits. The City Treasurer shall report any discrepancies identified during the quarterly verification to the Treasurer of the Commonwealth of Virginia.

17. CREDIT DOWNGRADE PROVISION

In the event that an investment is downgraded below the minimum required rating, the Director shall take immediate steps to review the investment. The Director shall consider such factors as time to maturity and expected gain or loss on sale, and then shall render a written decision on whether to hold or liquidate the investment and take appropriate action consistent with the decision.

18. PORTFOLIO REBALANCING

The City's portfolio management approach will be active, allowing periodic rebalancing of the Investment Portfolio throughout all market cycles to keep allocations as close to compliance with the Investment Policy as possible, while at the same time minimizing transaction costs.

19. PERFORMANCE STANDARDS AND INVESTMENT BENCHMARKS

As preservation of capital is of utmost importance, the City also recognizes the importance of obtaining an adequate rate of return throughout budgetary and economic cycles. The Director and Authorized Investment Personnel will monitor the investment performance while targeting an annual yield (based on amortized cost) equivalent to the following benchmarks:

- **Benchmark** – The Investment Portfolio will be designed to obtain at least a market level rate of return, given budgetary and economic cycles, commensurate with the City's risk tolerances and cash flow needs.
- **Evaluation** – Benchmarks are to be reviewed every three (3) years, based on the City's fiscal year of July 1 – June 30.
- **Investment Strategy** – The investment strategy of the portfolio is to seek liquidity first, then income and total return in that order. Total return is the aggregate return from capital appreciation and interest income. The City's portfolio management approach will be active, allowing periodic rebalancing of the Investment Portfolio throughout all market cycles.

20. INVESTMENT RECORDS AND ACCOUNTING REPORTING

In accordance with generally accepted accounting principles, the City shall mark-to-market its investments at least a quarterly using an independent pricing source. Market values will be looked upon as indications of market movements and volatility in making investment decisions rather than an indication of performance.

Authorized Investment Personnel shall submit on request to the Director, prior day's closing (current day's opening) banking activity and balances, current day's transaction authorizations, current day's reconciled transaction audit report, current day's portfolio holdings and cash flow projections for next business day.

Authorized Investment Personnel shall submit to the Director, not less than quarterly, an investment report that summarizes the investment strategies employed in the most recent period, and describe the portfolio in terms of investments, maturities, risk characteristics and other features as determined by the Director. The report shall explain the period's total investment income and compare the amount with budgetary expectations. The report shall include all transactions during the past quarter.

All market values will be as of the last business day of the month as reported by a Custodian acting for the under the terms of a custody agreement. Broker-dealer transaction confirmations and month-end custodian agent reports shall be mailed directly to the Department of Finance from the issuing institution.

Within a timely manner of the end of the fiscal year, Authorized Investment Personnel shall present an annual report on the investment program and investment activity. The annual report shall suggest improvements that might be made in the investment program.

21. QUALIFIED SECURITIES FIRMS

The City shall transact business with firms that meet the qualifications criteria established by the Director. Authorized Investment Personnel may enter into transactions relating to authorized investments, that regularly reports to the New York Federal Reserve Bank or any financial institution that is approved by the Director for investment purposes.

All Financial Institutions seeking to transact business with the City shall be required to fully complete both the City's Broker/Dealer Questionnaire and the Certification every two (2) years. In addition, the City shall require that background bios of primary sales personnel be reviewed and retained on file as part of the due diligence process. This is critical for the establishment of a stable and long-term relationship.

Financial Institutions must provide on an annual basis, information sufficient to adequately evaluate their financial capacity and creditworthiness. This includes audited financial statements that certify capital requirements as follows:

- dealers must be registered and qualify under the federal Securities and Exchange Commission ("SEC") Rule 15c3-1 (Uniform Net Capital);
- capital of no less than ten million dollars (\$10,000,000) and deemed "well-capitalized" by the City, in the Director of Finance's own discretion;
- registered as a broker-dealer under the Securities Exchange Act of 1934;
- a member of the Financial Industry Regulatory Authority (FINRA), the regulatory agency responsible for regulating the financial industry;
- proof the assigned broker has a Series 7 license and registration to sell securities in Virginia;

- the firm and assigned broker have been engaged in the business of effecting transactions in U.S. Government and Agency obligations for at least five (5) consecutive years; and
- any additional information requested by the Finance Department.

The Director will maintain a list of financial institutions, securities dealers and broker/dealers (“Authorized Financial Institutions”) that are approved, for investment purposes, to transact business with the City. The City is under no obligation to do business with any financial institution and may at any time remove or add a financial institution from the list of Authorized Financial Institutions at the City’s sole discretion.

This Section applies solely to broker/dealers and excludes any outside investment Managers designated by the Director, who will maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the Commonwealth of Virginia.

22. INVESTMENT MANAGERS

With the approval of the Director, the City may contract with a discretionary or non-discretionary investment manager(s) to invest a portion of the City’s overall portfolio. The manager shall be selected based on the appropriateness of its management style and risk/return objectives, and must adhere to the investment objectives, parameters and restrictions as determined by the Director and detailed in the executed management agreement. The manager shall operate in conformance with federal, state, and other legal requirements and acknowledge in writing that they are fiduciaries of the City relative to the services they provide.

Only firms meeting the following requirements will be eligible to serve as investment manager for the City:

- registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940;
- must provide to the City an annual updated copy of Form ADV, Part II;
- must be registered to conduct business in the Commonwealth of Virginia; and
- must have proven experience in providing investment management services under Code of Virginia §2.2-4500 et seq.

The Director is authorized to permit the Investment Advisor to serve in a discretionary or non-discretionary basis.

Investment Manager(s) are responsible for assisting the City in evaluating and/or formulating an appropriate investment plan based on the cash flow and liquidity needs, objectives and risk profile of the portfolio. Any firm engaged by the City to serve as an Investment Manager shall:

- maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the Commonwealth of Virginia;
- advise the City about the selection of and allocation to asset categories, investments and goals for the portfolio;
- provide monthly reports of transactions and holdings to the Director;
- provide quarterly performance reports that display investment performance in comparison to the City's investment benchmarks;
- upon request must show that it has solicited at least three bids for any security purchased or sold on behalf of the City; and
- not collect any soft dollar fees from any broker/dealer or other financial firm in relation to services provided to the City.
- identify and select specific investments for each asset category;
- advise and rebalance allocations to specific investments;
- monitor the performance of all selected asset categories and investments;
- meeting with the City at least once each year, and at other times deemed necessary at the City's request; and
- recommend and implement changes to any of the above.

23. POLICY ADOPTION AND REVISION

This Investment Policy shall be reviewed annually or more often if the need arises, to ensure that it is current with changes in regulatory and best practice guidelines. Any material revisions will be reviewed by Director and approved by the City Manager, Chief Deputy City Manager or designee.

APPENDIX A

GLOSSARY OF TERMS

The following is a glossary of key investing terms, many of which appear in the City of Norfolk Investment Policy.

Accrued Interest – Interest earned but not received.

Agency or Agencies – A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. An example of a Federal Agency is the Government National Mortgage Association (GNMA). Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of an FSA is the Federal National Mortgage Association (FNMA).

Amortization – An accounting practice of gradually decreasing (increasing) an asset's book value by spreading its depreciation (accretion) over a period.

Annual Comprehensive Financial Report (ACFR) – The official annual financial report for the City. It includes government-wide, and fund financial statements prepared in conformity with Generally Accepted Accounting Principles (GAAP).

Asking Price – The price a broker/dealer offers to sell securities.

Average Life – The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

Bank Deposit Note – A unique type of time deposit with a longer maturity of up to 5 years, that allows either the holder or issuer of the note to redeem it (principal + any accrued interest up to the redemption date) earlier than the stated maturity. Interest is also calculated differently through an accrual method of a 360-day year and 30-day month.

Basis Point (BPS) – A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield (one hundredth of one percent (.01)), e.g., "1/4" of 1 percent is equal to 25 basis points.

Benchmark – A comparative base for measuring the performance of a portfolio or security.

Bid – The price offered by a buyer of securities.

Bond – A financial obligation for which the issuer promises to pay the bondholder a specified stream of future cash flows, including periodic interest payments and a principal repayment.

Book Value – The value at which a debt security is shown on the holder's balance sheet. Book value is acquisition cost less amortization of premium or plus accretion of discount.

Broker – A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; the broker does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

Callable Bond – A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Call Price – The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

Call Risk – The risk to a bondholder that a bond may be redeemed prior to maturity.

Cash Sale/Purchase – A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

Certificate of Deposit (CD) – A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable. CD's may be eligible for FDIC insurance.

Collateral – Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Commercial Paper – An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

Convexity – A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

Corporate Note – A type of unsecured senior or subordinated medium-term debt security issued by corporations, with maturities ranging from 2-10 years.

Coupon Rate – The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate".

Constant Maturity Treasury (CMT) – An average yield of a specific Treasury maturity sector for a specific period. This is a market index for reference of past direction of interest rates for the given Treasury maturity range.

Coupon – The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

Credit Rating – A symbolic representation of the current assessment of an entity's or financial instrument's credit risk, as determined by recognized credit rating agencies such as Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Fitch Ratings (Fitch). These ratings are generally categorized in a hierarchical scale, where the highest rating of AAA (or equivalent) indicates the lowest credit risk, and ratings such as BBB mark the threshold for investment-grade. Ratings below BBB are considered speculative-grade or junk ratings, ranging from BB to D, with D indicating default. In addition to these broad categories, modifiers like "+" (plus) or "-" (minus) are often used to indicate relative positioning within each rating category, providing further granularity. For example, an AA+ rating would indicate a higher credit quality than AA. However, for Permissible Investments under this Investment Policy— those that must meet the minimum rating requirements of at least two rating agencies (Aa from Moody's, AA from S&P, or AA from Fitch)— the "+" or "-" modifiers within these categories are disregarded. Specifically, for investments to be considered permissible, they are considered rated Aa (Moody's), AA (S&P), or AA (Fitch), regardless of any "+" or "-" modifiers within these categories.

Credit Risk – Also known as default risk. The bond issuer's ability or inability to make timely interest payments and/or to repay the face value of its bonds at maturity. The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Current Yield (current return) – A yield calculation determined by dividing the annual interest received on a security by the current market price of that security. The interest paid on an investment expressed as a percentage of the current price of the security.

Custody – A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principle.

Debenture – A bond secured only by the general credit of the issuer.

Delivery vs. Payment (DVP) – Delivery of securities with a simultaneous exchange of payment.

Discount – The difference between the cost of a security and its value at maturity when quoted at lower than face value.

Discount Securities – Non-interest-bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

Diversification – Dividing investment funds among a variety of securities offering independent return and risk profiles.

Diversification Risk – The overconcentration of one particular investment category, investment type or investment holding.

Duration – The weighted average maturity of a bond's cash flow stream, where the present value of the cash flows serves as the weights; the future point in time at which on average, an investor has received exactly half of the original investment, in present value terms; a bond's zero-coupon equivalent; the fulcrum of a bond's present value cash flow timeline.

Federal Deposit Insurance Corporation (FDIC) – Insurance provided to customers of a subscribing bank, which guarantees deposits to a set limit (currently \$100,000) per account.

Federal Funds Rate – The rate of interest at which Federal funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB) – Governments sponsored wholesale banks that lend funds and provide correspondent banking services to member commercial banks, thrifty institutions, credit unions and insurance companies. The mission of the FHLB is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

Federal Home Loan Mortgage Corporation (FHLMC) – The FHLMC was created under the Federal Home Loan Mortgage Act, Title III of the Emergency Home Finance Act of 1970 as a stockholder owned government-sponsored enterprise. Although agency obligations are not explicitly guaranteed by the federal government, the rating agencies believe that in the unlikely event of financial difficulties, the federal government will support the agency to the extent necessary to provide for full and timely payment on their securities.

Federal National Mortgage Association (FNMA) – FNMA, is chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). Although agency obligations are not explicitly guaranteed by the federal government, the rating agencies believe that in the unlikely event of financial difficulties, the federal government will support the agency to the extent necessary to provide for full and timely payment on their securities.

Federal Reserve System – The central bank of the U.S., which consists of a seven-member Board of Governors, 12 regional banks and 5,700 commercial, banks that are members.

Fiduciary – A person or organization that makes financial decisions on behalf of another party who is legally obligated to act in their client's best interests.

GASB 31 – Government Accounting Standards Board requires the reporting of investment portfolios at a mark to market valuation. Any unrealized losses must be accounted for as a change in revenue on the balance sheet.

Government National Mortgage Association (GNMA) – Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations and other institutions. Security holder is protected by the full faith and credit of the U.S. Government.

Government Sponsored Enterprise (GSE) – A quasi-governmental entity established to enhance the flow of credit to specific sectors of the US economy. These agencies while privately held, were created by acts of Congress to provide public financial services through third party lenders, loan purchases in the secondary market, and bond issuance to ensure liquidity. Although GSE bonds carry the backing of the U.S. Government, they are not guaranteed by them therefore carrying a slightly higher yield than comparable Treasury issues to compensate for slightly higher credit and default risk. Federal National Mortgage Association (FNMA/Fannie Mae), Federal Home Loan Mortgage Corp (FHLMC/Freddie Mac), Farm Credit System (FCS), and Sallie Mae are all examples of GSEs.

Inactive Deposits – Funds not immediately needed for disbursements.

Instrumentality – An independent agency or entity that provides an essential service to the public that while subject to government overview, has no government powers. While the term includes many similarities to as well as the inclusion of GSEs, it also encompasses but are not limited to other public service needs such as libraries, schools/universities, hospitals, and fire departments. Instrumentalities may exist at the federal, state, or local level and as such are not subject to taxation.

Interest Rate – The annual yield earned on an investment, expressed as a percentage.

Interest Rate Risk – The market price volatility that fixed-income securities experience as a consequence of changing market interest rates.

Liquidity – Refers to the ability to rapidly convert an investment into cash with minimal risk of losing some portion of principal and/or interest.

Local Government Investment Pool (LGIP) – The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Value – The price at which a security is trading and could presumably be purchased or sold.

Maturity – The date upon which the principal or stated value of an investment becomes due and payable.

Money Market – The market in which short-term debt instruments (bills, commercial paper, banker's acceptances, etc.) are issued and traded.

New Issue – Term used when a security is originally "brought" to market.

Nationally Recognized Statistical Ratings Organization (NRSRO) – A credit rating agency that provides objective and independent assessments to the creditworthiness of a firm, entity, or financial instrument that is registered and approved by the Securities and Exchange Commission (SEC). NRSROs are subject to regulation at several different levels, but not all credit rating organizations are NRSROs. The big three are Moody's Investors Service, Inc., Standard and Poor's and Fitch Ratings, Inc. each using their own methodologies.

Offer – The price asked by a seller of securities. (When you are buying securities, you ask for an offer.)
See Asked and Bid.

Portfolio – Collection of securities held by an investor.

Primary Dealer – A group of -government securities dealers that submit daily reports of market activity and security positions held to the Federal Reserve Bank of New York and are subject to its informal oversight.

Principal – The baseline sum in a financial transaction: initial amount invested or borrowed and is the basis for calculating returns, interest, and fees.

Private Placement – A common method for private or public companies to raise business capital by directly offering equity shares to specific groups of accredited investors or entities prior to a public offering, if offered. This method does not require a prospectus and is subject to minimal regulatory requirements and standards.

Purchase Date – The date in which a security is purchased for settlement on that or a later date.

Qualified Public Depositories – A financial institution that does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less approved by the Public Deposit Protection Commission to hold public deposits.

Rate of Return – The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Reinvestment Risk – The risk that when an investment must be reinvested the coupon payments and redemptions at a lower rate of return and thus the portfolio return will decline.

Risk – Degree of uncertainty of return on an asset.

Safekeeping – See custody.

Secondary Market – A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities and Exchange Commission – Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Settlement Date – The date on which a trade is cleared by delivery of securities against funds.

Sweep Account – A bank or brokerage account that automatically transfers amounts exceeding a certain level into a higher interest-earning investment account, usually a money market fund, at the close of each business day.

Treasury Bills – A non-interest-bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

Treasury Bonds – Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than ten years.

Treasury Notes – Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to ten years.

U.S. Government Agencies – Instruments issued by various U.S. Government Agencies which are secured by the credit worthiness of the particular agency and an implied credit support from the U.S. Treasury.

Virginia State Non-Arbitrage Program (SNAP) – A program created to simplify compliance by providing short-term comprehensive investment management, accounting and arbitrage rebate calculation services for the proceeds of tax-exempt borrowings and other financings of Virginia Issuers subject to Section 148 of the Internal Revenue Code. Created out of the Tax Reform Act of 1986, Virginia legislature passed the Government Non-Arbitrage Investment Act of 1989 that authorized the Virginia Treasury Board to create the Program which is open to all Virginia Issuers.

Weighted Average Life (WAL) – The average length of time each dollar of unpaid principal on a loan, a mortgage, or an amortizing bond remains outstanding. In general, WAL shows how many years it will take to receive roughly half the amount of outstanding principal. This metric is useful in measuring the credit risk between comparable fixed-income securities.

Weighted Average Maturity (WAM) – The weighted average measure of the overall maturity of the mortgages pooled in a portfolio, aka mortgage-backed security (MBS). The higher this metric the longer it takes for all of the mortgages or bonds in the portfolio to mature. Like the WAL metric, a longer WAM implies greater credit and interest rate risk between comparable MBS.

Yield – The rate of annual income returns on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current offering price of the security.

Yield to Maturity – The rate of income returns on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

Yield at Market – The rate of annual income returns on an investment, expressed as a percentage. It is obtained by dividing the current dollar income by the current market price of the security.

Yield to Call/Put – The rate of income returns on an investment, minus any premium or plus any discount, with the adjustment spread over the period from the date of purchase to the date of first call or put of the bond, expressed as a percentage.

Yield at Book – The rate of income returns on an investment, minus any amortized premium or plus any accreted discount, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond, expressed as a percentage.

APPENDIX B

GFOA BEST PRACTICES

**Government Finance Officers' Association
Recommended Practices Pertaining to Cash Management and Investment
Activities**

1. Government Relationships with Securities Dealers
2. Using Mutual Funds for Cash Management Purposes
3. Mark-to-Market Reporting for Public Investment Portfolios
4. Using Commercial Paper in Investment Portfolios
5. Using Cash Forecasts for Treasury and Operations Liquidity
6. Managing Market Risk in Investment Portfolios
7. Diversifying the Investment Portfolio
8. Using Benchmarks to Assess Portfolio Risk and Return
9. Investment Policy

Government Finance Officers Association Recommended Practice Government Relationships with Securities Dealers (2012)

Background. Finance officers, treasurers and investment officers (hereafter referred to as government investors) who manage and invest public funds place billions of dollars in the fixed-income and money markets on a daily basis. They have a fiduciary responsibility to protect public funds, to always act in the best interest of their entity, to maintain safety and an appropriate level of liquidity and to attain a competitive return on their portfolio. Generally, access to the securities markets is made through securities dealers who are registered broker/dealers and through financial institutions (banks) with broker/dealer subsidiaries. The fiduciary responsibilities of a government investor include ensuring that;

- reasonable comparisons are made to judge the appropriateness of all investments;
- securities meet the criteria established in the investment policy, including liquidity, diversity and risk of investments; security transactions are made on a best execution basis through a competitive process;
- the counterparty to the transaction will fulfill all its obligations; and,
- the securities are properly safe kept at a qualified custodial agent in a segregated account.

It is important to note that brokers/firms may have unique strengths that may provide exceptional value within a specific category of investments, provided that you understand the security that you are purchasing, it dovetails with your investment policy, and you are aware of the risks associated with the transaction. A unique strength may compliment the skills and abilities of other approved brokers/firms.

Communication with a broker for the purposes of discussing market conditions, reviewing investment strategies and transacting a trade often occur by phone, e-mail, or fax. Regardless of the method of communicating with a broker, a government investor needs to perform due diligence on all securities dealers prior to adding them to their list of approved brokers/dealers for transacting trades.

Recommendation. The Government Finance Officers Association (GFOA) makes the following specific recommendations to government investors in selecting securities dealers for their approved vendor list, managing the relationships with the broker/dealers, and conducting investment transactions with them:

- 1) All securities are held in a third-party bank separate from the broker/dealer that is transacting business.
- 2) Use a defined internal process to select, qualify, renew or terminate brokers and dealers:
 - a) Use a questionnaire, conduct an interview, and/or conduct peer references to help determine that the broker understands the public entity's needs/objectives.

- b) Determine that the broker is actively involved in the market sectors utilized by the government entity.
 - c) Select a number of brokers suitable to the entity, allowing for appropriate competition/service on all transactions; while limiting it to a manageable number.
 - d) Require security brokers and dealers to comply with the Federal Reserve Bank of New York's capital adequacy guidelines or SEC Net Capital Rule as a condition of doing business. Obtain annual financial reports of the securities firm.
 - e) Require that brokers certify to a review of the government entity's investment policy to assure compliance with its objectives, portfolio risk constraints, and investment trading requirements.
 - f) Record and retain pertinent information on the firm and the individual broker including an annual review of the Central Registration Depository (CRD®) information for both maintained by the Financial Industry Regulation Authority (FINRA). Violations or sanctions imposed by a regulatory agency or government should be carefully reviewed for termination of relationship.
 - g) Establish parameters that guide periodic review and potential termination of a broker dealer relationship.
 - h) Do not select or approve more broker/dealers than will be reasonably used. It is better to develop good relationships with a small number of approved dealers than to have a long list of firms who transact little or no business with the investing entity.
- 3) Due diligence on Broker/Dealers should include obtaining information on:
- a) a security dealer's experience and knowledge of public funds investing;
 - b) all contact information for the primary contact, backup and operations staff;
 - c) a broker's manager and supervisor;
 - d) the financial strength of the firm;
 - e) areas of expertise and trading activity;
 - f) registration with FINRA and any citations;
 - g) the names and contact information for references similar to the entity; and
 - h) potential conflicts of interest.
- 4) Establish a competitive procedure for attaining reasonable market rates on investment transactions:
- a) Require that all security sales be made through a competitive bid process. If possible, use a competitive offer process on purchases as well.

- b) Securities sold through a selling group at a set price (usually par) or available for specific bidding should be compared to comparable maturity securities as part of the competitive process to determine the best relative value.
- 5) Require that all security transactions be settled on a delivery versus payment basis at the entity's custodian bank to perfect ownership under a written custodial agreement.
- 6) Retain complete documentation for audit trail purposes including trade tickets, confirmations and safekeeping receipts.
- 7) Electronic trading platforms, such as Bloomberg and Tradeweb, are becoming another alternative to competitive pricing. These platforms can provide improved transparency over competitive bids and should be considered if cost effective for the government. It is still important to have a broker assigned to the account on the electronic platforms so that contact can be made if necessary. The same due diligence should be completed with all broker dealers on the electronic platforms.
- 8) Follow all state and entity ethics policies when dealing with all broker/dealers and investment vendors.

References:

<https://www.gfoa.org/materials/government-relationships-with-securities-dealers>

GFOA Board approval date: Wednesday, October 31, 2012.

Government Finance Officers Association Recommended Practice of Using Mutual Funds for Cash Management Purposes (2015)

Background. State and local government cash managers may benefit from investing public monies through mutual funds. Mutual funds are SEC-regulated investment instruments that pool and jointly invest monies of multiple investors. Mutual funds are available for both fixed income and equity investments. Short-term liquid fixed income mutual funds that maintain a weighted average maturity of 60 days or less and have a stated aim to maintain investor shares with a constant one dollar (\$1) Net Asset Value are called money market mutual funds. While these funds seek to maintain a constant or stable NAV, this is not guaranteed, and investors of public monies should be aware of this risk. Other non-money market fixed income mutual funds generally have a longer-term weighted average maturity and have a fluctuating price or Net Asset Value. The Government Finance Officers Association (GFOA) has endorsed the use of money market mutual funds by public cash managers in the past. Portfolio safety, liquidity, diversification, and professional management are desirable features of these investment vehicles; however, liquidity may be impaired by the floating NAV.

Recommendation. The GFOA recommends that state and local governments restrict their use of mutual funds for cash management purposes exclusively to: (1) money market mutual funds that are invested in Treasury, federal government agency, or first tier categories and possess the highest ratings available from at least one nationally-recognized ratings agency and (2) short-term bond funds that receive the highest credit quality ratings and the lowest risk ratings available. When analyzing risk, the following should be taken into consideration:

- **Local Investment Policy.** State and local government cash managers should exercise prudence and caution when investing in short-term bond funds. Public cash managers should also check applicable statutes to determine if the use of money market mutual funds and/or short-term bond funds is permitted within their jurisdictions.
- **Fund Prospectus.** Before investing, governments should review and understand a fund's prospectus and statement of additional information to determine:
 - Portfolio composition;
 - Risk characteristics;
 - The duration and weighted average maturity of the mutual fund;
 - The reputation and experience of the investment company;
 - The performance history relative to appropriate benchmarks;
 - Total expense ratio;
 - Philosophy, strategies, and portfolio policies;
 - If the fund is rated by a nationally recognized rating agency; and
 - Whether the fund can meet the compliance requirements of the government's approved investment policy. Cash managers should continue to monitor these characteristics as they may change over time.

- **Restriction on Redemptions (Gates).** Prior to investing in a money market mutual fund, cash managers should familiarize themselves with any restriction gates assessed against the fund which could impair the ability of an entity to withdraw monies from the fund on a timely basis in order to meet current liquidity requirements.
- **Fees.** During extremely low interest rate environments, mutual fund expenses may exceed yield. While fees are included in all mutual funds, these fees should be considered when investing in mutual funds. Investors should assess the risk that the net yield (gross yield minus expenses) will be less than zero – in some cases it may be more beneficial to own the underlying securities directly.
- **Duration.** Bond funds investing in short-term instruments, with a varying NAV, may be legal and appropriate investments in some jurisdictions when monies are not needed for near-term disbursement. However, mutual funds of an intermediate or long-term duration should be avoided by investors if short-term liquidity is a concern.
- **Holdings.** Investors should review the specific holdings of their mutual fund at least monthly to know what underlying securities the fund owns. Prime money market funds that are AAA rated and hold A1+ paper may have foreign debt exposure that is not obvious. In addition, Investors should review the NAV at least monthly. If the NAV varies below \$0.995 (known as "breaking the buck"), investors should reevaluate their investments in these funds. Governments should consider investing in money market funds that invest in U.S. Government securities, which have a higher level of safety and will not be subject to the floating NAV.

References:

<https://www.gfoa.org/materials/using-mutual-funds-for-cash-management-purposes>

GFOA Board approval date: Saturday, January 31, 2015.

Government Finance Officers Association Recommended Practice Mark-to-Market Reporting for Public Investment Portfolios (2008)

Background. Market risk is significant in public investment portfolios. Due to price volatility, valuing investments at their current price is necessary to provide a realistic measure of a portfolio's true liquidation value. Over time, reporting standards for state and local government investment portfolios have been enhanced so that investors, governing bodies, and the public remain informed of the current market value of the portfolio. Regular disclosure of the value of a governmental entity's investments is an important step to furthering taxpayer and market confidence in state and local government investment practices. The Governmental Accounting Standards Board (GASB) has also recognized the need to report investments at fair value at fiscal year-end. Government officials should be aware of state, local, accounting, and rating agency requirements regarding mark-to-market practices.

Recommendation. The Government Finance Officers Association (GFOA) recommends that state and local government officials responsible for investment portfolio reporting determine the market value of all securities in the portfolio on at least a quarterly basis. These values should be obtained from a reputable and independent source and disclosed to the governing body or other oversight body at least quarterly in a written report. The independent source of pricing should not be one of the parties to the transaction being valued and could include:

1. a broker or other financial institution who was not a counterparty to the transaction,
2. the custodial bank if the bank was not a counterparty to the transaction,
3. publicly available publications such as the Wall Street Journal, or
4. other pricing services for which a separate fee would be paid.

It is recommended that the written report include the market value, book value, and unrealized gain or loss of the securities in the portfolio. If there is a significant event in the local or national economy that might affect the value of the portfolio, then a mid-term valuation of the portfolio should be conducted. Governments that employ a more active portfolio management style should consider more frequent marking to market and reporting.

References:

<https://www.gfoa.org/materials/mark-to-market-reporting-for-public-investment-portfolios>

GFOA Board approval date: Thursday, February 28, 2008.

Government Finance Officers Association Recommended Practice of Using Commercial Paper in Investment Portfolios

Background. Commercial paper (CP) is a short-term, unsecured promissory note issued by corporations typically used as a source of working capital, receivables financing, and other short-term financing needs. CP has maturities ranging anywhere from 1 to 270 days. By federal law due to the short maturity terms, CP issues are exempt from registration with the U.S. Securities and Exchange Commission. Nationally recognized statistical rating organizations (NRSROs) routinely rate commercial paper and regularly review the strength of the credit quality. CP may be sold directly to investors by the issuing company (direct issued) or by the underwriting brokerage firm (dealer placed) and backed by various lines of credit. Commercial paper is used by many government entities as a short-term investment for funds not immediately required, and to provide diversification and competitive rates of return. Typically, governments purchase CP with a buy and hold until maturity strategy and for liquidity purposes a secondary market exists that can be utilized for sales prior to maturity. However, because overall market conditions may change quickly, CP is generally less liquid than U.S. Treasury or Agency obligations and therefore offer incremental yield. Due to these risks state statutes vary as to the extent or ability of governments to utilize CP.

Recommendation. The Government Finance Officers Association (GFOA) recommends that if commercial paper is used as part of an investment program of state and local governments, government investors are highly encouraged to not only verify whether CP is allowed under state statute and their investment policy as well as develop policies and procedures to appropriately manage the risk of such investments. To protect public funds invested in commercial paper, government investors should consider practices such as:

- diversification by issuer, industry sector or CP type
- limitation on percentage of portfolio comprised of commercial paper
- limitation on percentage of commercial paper issued by any one issuer, industry, or type
- limitation of investments to shorter maturities reflecting the most active part of the commercial paper market and providing the least opportunity for credit quality changes
- restricting investments in sectors or industries experiencing turmoil, volatility, or major changes in the regulatory or technological landscape
- recognizing different types of commercial paper, such as corporate promissory notes, asset backed paper (both multi- and single-issuer programs), funding paper, or extendible paper (also called liquidity or structured notes) and determining the appropriateness of each for the government's portfolio

- limitation to first tier short-term credit ratings by two NRSROs (for example, A-1, P-1, F-1 or better)
- evaluation of underlying credit enhancements such as bank lines of credit or insurance in addition to the dual credit ratings
- maintenance of information on each commercial paper issue in the portfolio
- monitoring of ratings and rating outlook analyses

References:

<https://www.gfoa.org/materials/using-commercial-paper-in-investment-portfolios>

GFOA Board approval date: n/a

Government Finance Officers Association Recommended Practice Using Cash Forecasts for Treasury and Operations Liquidity (2019)

Background. Cash forecasts are conducted to ensure sufficient operating liquidity by estimating available cash deposits, expected inflows, and required cash disbursements (together, cash transactions) during a given period. Common inflows include tax receipts, bond proceeds, utility payments received, grant revenue, other revenue from fees and penalties, and maturities and interest revenue from investment securities. Outflows represent anticipated payments such as debt service, employee payroll and benefits, payments to vendors for goods and services, and purchase/roll over of investment securities. Cash forecast analysis is intended to measure and assess the government's ability to meet its liquidity needs. Cash forecasting can reduce the need for short-term borrowing or liquidation of long-term investments before maturity in the event of a cash shortfall and can identify idle funds and determine whether those funds could be invested during that idle time frame. When used as a cash management guide, it can lead to the optimized use of funds as well as ensure sufficient liquidity. When used for investment purposes it also helps identify maximum maturity limits, and weighted average maturity limits that establish potential benchmarks.

¹ *Cash flow forecasting can determine what dollar amount of the portfolio needs to remain liquid to meet disbursement obligations, generally on a monthly basis. Also, it can identify core funds, or those funds available for longer-term investing which allows a longer maximum maturity. For instance, cash flow forecasts can help identify reasonable maximum maturity and a weighted average maturity for safety and liquidity in the portfolio. Cash flow forecasting is distinct from governmental accounting and budgeting. It is a forecast to measure the organization's ability to meet liquidity needs. The ultimate goal of this forecast is to mitigate the need for short-term borrowing or liquidation of securities (investments) before maturity. Cash forecasting should take into consideration on all organization-wide portfolios and funds. This allows spending patterns to be coordinated to mitigate potential shortfalls and balance the flow of funds.*

Recommendation. GFOA recommends that governments perform ongoing cash forecasting to ensure that they have sufficient cash liquidity to meet disbursement requirements and limit idle cash. The cash forecast period should be at least a 12-month rolling period, as opposed to a fiscal year basis. The forecast within this rolling period should be divided up in at least monthly sections for most governments, or weekly or daily for larger and more complex governments.

Cash forecasts should be based on conservative assumptions about both the cash receipts and disbursement portions of the analysis, and these assumptions should be reviewed and updated regularly, as well after any major changes in operations (e.g., a new debt issuance, new taxes, etc.). An appropriate tool for conducting the cash forecast should also be selected such as using simple spreadsheet software, while organizations that require more complex modeling can use

¹ Additional Cash Flow Forecasting definitions and usage included to provide context to GFOA Best Practice

commercially available analytic or business intelligence systems, or modules found within common enterprise resource planning (ERP) or financial management systems.

The cash forecast should be updated periodically by staff to ensure sufficient liquidity and actual cash flow results should be compared with the cash forecast projections. The cash forecast report should be frequently reviewed by finance management and a summarized report could be included in the periodic investment report.

¹ *It is recommended that state and local governments take into account the following considerations when undertaking cash flow forecasting:*

All operating departments should be involved in developing reasonable expectations of timing and amounts of planned expenditures. This ensures all possible outflows of resources are measured, and if needed, prioritized. Forecast time frames should accurately reflect the cash transactions of the organization.

The organization's goals should drive the prioritization of expenditures. Further, fixed items such as payroll, employee benefits, insurance, and debt service should have priority of cash demand over discretionary expenditures.

Historical data should be used to measure activity of a cyclical nature, both for receipts and disbursements. A well-established base of financial activity predicated on historical data enables the cash forecaster to anticipate disbursements and receipts. This activity should be verified by the operating department for its likely recurrence. Analytical software can be used to maintain historical data and provide an enhanced ability to forecast future liquidity needs. Analytical software can also enhance the organization's ability to perform statistical analysis to compare the forecast to actual activity. Dependent upon the use of the information, the 80-20 Rule can be used to maintain information and reduce gathering and maintenance efforts.

A forecast for receipts should include expected inflows and investment maturities. Inflows include payments such as property taxes, utility payments, and user fees. Maturities include all items held in investments that will mature during the forecast time frame.

A forecast for disbursements should include regular expenditures such as payroll and recognize non-repetitive expenditures. Historical data can assist in forecasting disbursements.

Cash flow forecasts should be used to recognize the items and controls that influence the organization's cash position. Organizations should develop strategies to implement effective and efficient cash management techniques such as collecting receipts as soon as possible and managing disbursements judiciously.

Forecasts should be made conservatively. Fluctuations may occur in both receipts and disbursements for a variety of reasons. The level of precision required in a forecast or tolerance for variance should be determined at the organizational level and not on an ad hoc basis.

¹ Additional Cash Flow Forecasting definitions and usage included to provide context to GFOA Best Practice

Forecasts should be updated on a regular basis, for example, monthly. The frequency of such updates is determined by the volatility of revenues and expenditures. Daily monitoring and recording of actual revenues and expenditures by major categories can greatly enhance the organization's ability to prepare timely updates to the cash flow forecast.

References:

<https://www.gfoa.org/materials/using-cash-forecasts-for-treasury-and-operations-liquidity>

GFOA Board approval date: Monday, September 30, 2019

Government Finance Officers Association Recommended Practice Managing Market Risk in Investment Portfolios (2009)

Background. Fixed-income securities are investment instruments that provide a stream of cash flows in the form of coupon and principal payments. Typically, they are issued with maturities ranging from one year to 30 years. A security's stated maturity is the date on which its final interest and principal payments are due. There are several general structures for fixed-income securities:

Bullet securities – the principal amount will be paid in one payment at maturity. They are issued without any option that could cause redemption prior to the stated maturity;

Securities with options – issued with either a call or put option that could change the stream of cash flows. Call options give the issuer the right to redeem bonds prior to maturity in accordance with the call schedule. Securities with call options have greater volatility than bullet securities. Issuers of callable securities typically call these when interest rates have fallen, causing investors to lose the higher interest rate in periods when such rates are hard to replace. Put options give the investor the right to submit a bond for redemption prior to maturity in accordance with the rules of the put. Buyers pay a premium for the put option. Typically, investors of puttable securities “put” these when interest rates have risen, gaining the opportunity to reinvest their principal at the then prevailing higher market rates; and

Amortizing securities – pay a portion of the principal with each interest payment throughout the life of the bond (e.g. – mortgage securities, asset-backed securities). They have a stated final maturity and an average maturity and can also have early redemption options.

Market risk refers to the effect that changing interest rates have on the present value of a fixed income security and can also be referred to as interest rate risk. There is an inverse relationship between interest rates and price. As interest rates rise, the value of a security falls. The reverse is true as interest rates fall. The extent of price change is a function of the length of term to maturity, the structure of the security (type of embedded options), the level of interest rates, and the size of the coupon.

Of these factors, the most important are the length of term to maturity and the structure. Generally, the longer the maturity of a security, the greater its market risk as measured by price volatility. Longer maturities have greater volatility because as the time to maturity increases, each change in interest rates has a greater impact on the present value of a security.

The size of a security's coupon also affects price volatility. When analyzing securities with the same maturity, securities with low coupons will have greater price volatility than securities with high coupons. The security with the greatest price volatility for any given maturity is a zero coupon security.

Many government investors employ a buy-and-hold approach, so that changes in a security's market value are never realized and the full face value of the security is received upon maturity. Despite this, market value must be managed for three reasons:

1. The total return of the portfolio is computed and compared to the total return of the portfolio's benchmark to evaluate portfolio performance.
2. The market value of an entity's investments must be disclosed in its annual financial report. Often an entity will include it in more frequent reports to the governing body and public. Accordingly, an entity must be able to understand and explain changes in the market value of its portfolio.
3. Circumstances may arise in which an entity is forced to sell a security before its maturity. In such instances, a government entity may have to accept a loss on a security that it had never planned to sell. Market risk is a critical risk for a government investor. Therefore, it is necessary to understand fully the maturity structure of securities before investing. To ensure appropriate liquidity and to reduce interest rate risk in operating portfolios, most state and local governments:
 - Limit the maximum maturity for securities they purchase;
 - Ensure that funds are available for scheduled disbursement by developing cash flow projections and properly structuring the maturities in a portfolio according to the expected cash flows;
 - Ensure that a reasonable liquidity buffer is maintained to meet unexpected disbursements; and
 - Ensure that a security can be sold with ease and minimal cost (price disruption) to the investor by investing in high grade, actively traded fixed-income securities.

Maximum maturity and weighted average maturity limits relate directly to an entity's statute and policy constraints, investment objectives and cash flow projections. Although setting maximum maturity constraints may help limit the market risk in a portfolio, it is not generally considered to be the most effective way for managing market risk and understanding the potential price volatility of either an individual security or an entire portfolio. Maximum maturities allow the portfolio to take advantage of longer securities, and the weighted average maturity protects against over-extension of the portfolio in those longer maturities. A widely used measure of market risk in the investment industry is modified duration. Durations can be obtained from professional market resources such as Bloomberg. For governments without access to these resources, broker-dealers may send documentation of the durations. Duration is more comprehensive and accurate in measuring market risk than the maturity of a security for two important reasons. First, duration takes into consideration all cash flows (interest and principal payments) of a fixed-income security using their present values. Maturity as a market risk measure only considers the principal payment of a security using its future value.

Second, modified duration is a multiplier that measures the approximate percentage change in the value of a security or portfolio given a 1% (100 basis points) move in interest rates. For example, if a security has a modified duration of 1.74 and interest rates rose by 50 basis points, the security would experience approximately a -0.87% change in value.

With this type of price volatility analysis, a government investor can determine more accurately the amount of market risk in a security or portfolio. Weighted average maturity and weighted average duration in a portfolio are calculated using the maturity and duration values of all the securities in a portfolio. Weighted average maturity allows a government to verify compliance with investment constraints since most investment policies and state statutes have maximum weighted average maturity limitations. Weighted average duration is considered industry wide as an acceptable measure of market risk in a portfolio. As such, it can provide the government investor with valuable information for managing the market risk in a portfolio.

The Governmental Accounting Standards Board (GASB) in GASB Statement No. 40 requires a disclosure of all risks associated with a government entity's portfolio, including market risk, including market rate or interest rate risk. Weighted average maturity and weighted average duration are two of five accepted methods for disclosing a portfolio's market risk. (A description of the other three is beyond the scope of this Best Practice.) In accordance with the GASB fair market value reporting requirements in GASB Statement No. 31, a government entity's portfolio could show unrealized losses or gains for any reporting period.

Recommendation. State and local governments should comply with state statutes pertaining to investing public funds along with all investment policy parameters. Fixed income investing involves a certain level of market risk. Investors should be aware of their risk tolerance and confirm that the market risk they assume is within this tolerance level.

GFOA makes the following recommendations to government investors with respect to managing market risk:

1. Develop and update cash flow projections to determine a) the dollar amount of the portfolio that needs to remain liquid (liquidity buffer) to meet disbursement obligations within a six-month period (short-term), b) what dollar amount is required within the next 6 – 12-month period, and c) whether there is a 'core' of funds available for longer-term investing.
2. Structure the portfolio to provide sufficient liquidity for anticipated cash flow requirements by continuously investing a portion of the portfolio in money market type investments such as local government investment pools, money market mutual funds, overnight repurchase agreements and money market securities.
3. Understand fully the maturity structure of a security. Prior to purchase, the government should confirm compliance with its investment constraints and overall investment strategy. If a security has options associated with it such as call options, the structure of the option should be analyzed to determine its potential impact on market risk through an analysis such as option adjusted spread (OAS) analysis. The stated

maturity date should always be used to determine compliance with maximum maturity constraints, not any potential call dates unless an official announcement of a call has been released.

4. Adopt weighted average maturity limitations and/or weighted average duration targets, consistent with the government's investment objectives, constraints, cash flow needs and risk tolerances. The weighted average maturity limitations are used to limit the liquidity and market risk in a portfolio consistent with the constraints in the governing state statutes and the investment policy. The weighted average duration targets can be used to manage market risk in a portfolio.
5. Do not directly invest in securities with maturities greater than the limits imposed by investment policy. In general, the maturities in a portfolio should coincide as nearly as practicable with the expected use of funds. Securities with maturities greater than five years should be matched to a specific cash requirement. The government should include in its investment policy a process for authorizing longer-term investments and for providing disclosures.

References:

<https://www.gfoa.org/materials/managing-market-risk-in-investment-portfolios>

GFOA Board approval date: Saturday, October 31, 2009.

Government Finance Officers Association Recommended Practice Diversifying the Investment Portfolio (2007)

Background. Government investors have a fiduciary responsibility to protect public funds and to prudently manage their investments to achieve the investment objectives of safety, liquidity, and return. Generally, greater risk in a portfolio increases the opportunity for higher returns. However, greater risk also increases the volatility of the returns, which is another definition of risk. The effective management of risk in a portfolio is critical for achieving an entity's investment objectives.

A useful strategy for managing risk in a portfolio is through diversification. To this end, a government should establish a target risk profile. In establishing a risk profile, an entity considers its investment objectives and constraints, risk tolerances, liquidity requirements and the current risk/reward characteristics of the market. The profile should be adjusted as needed for changes in any of those considerations. Such a profile provides a framework and discipline for making individual investment decisions that manage the risk and create the structure of a portfolio.

The government entity's risk profile, in turn, helps it determine appropriate levels of diversification. Diversification of investments in a portfolio is based on the different types of risk – primarily interest rate or market risk, liquidity risk and credit risk. Diversification is achieved by investing in a variety of securities with dissimilar risk characteristics that respond differently to changes in the market. Areas where diversification can be achieved include the maturity distribution in a portfolio (market and liquidity risk), sector allocation (credit risk), issuer allocation (credit risk), and the structures (non-callable vs. callable) of securities (market and liquidity risk).

Recommendation. GFOA recommends that state and local governments properly manage the risk in their portfolios to achieve their investment objectives and comply with their investment constraints. GFOA further recommends the use of diversification in a portfolio as an important strategy for managing risk. Diversification strategies can be implemented through the following steps:

- carefully and clearly defining what the objectives safety, liquidity and return mean to the government entity
- preparing a cash flow projection to determine liquidity needs and the level and distribution of risk that is appropriate for the portfolio
- considering political climate, stakeholders' view toward risk, and risk tolerances
- ensuring liquidity to meet ongoing obligations by investing a portion of the portfolio in readily available funds, such as Local Government Investment Pools (LGIPs), money market funds, or overnight repurchase agreements
- establishing limits on positions in specific securities to protect against default risk

- establishing limits on specific business sectors
- developing strategies and guidelines for investments in single class of securities (such as commercial paper or banker's acceptances)
- limiting investments in securities that have higher credit and/or market risks (such as derivatives)
- limiting particular structures (i.e. optionality, amortizing components, coupons, issue sizes)
- defining parameters for maturity/duration ranges
- establishing a targeted risk profile for the portfolio based on investment objectives and constraints, risk tolerances, liquidity requirements and the current risk/reward characteristics of the market.

References:

<https://www.gfoa.org/materials/diversifying-the-investment-portfolio>

GFOA Board approval date: Saturday, March 31, 2007.

Government Finance Officers Association Recommended Practice Using Benchmarks to Assess Portfolio Risk and Return (2015)

Background: Measuring portfolio risk and return results against appropriate market benchmarks is a technique to verify that all the investment objectives are being met and that portfolio investment returns are appropriate for the risk incurred. Comparing total return to a proper benchmark or index is the preferred means for assessing performance relative to risk and investment objectives.

Investment yield alone is not sufficient for assessing risk and performance. Investment yield measures the percentage increase or decrease that a portfolio generates during a given period and is useful for budgeting purposes but overall, is unreliable for decision making and assessing the risk and return characteristics of the portfolio.

1. There are many definitions of yield such as: yield to maturity, yield to call, book yield, and market yield.
2. Yield results can be distorted by the timing of investing relative to the current level of interest rates and by the presence of call options. For example, it is possible to sell a bond at a loss and buy another bond with a higher yield leaving an increase in the investment portfolio yield but a decrease in the portfolio size.
3. Yield can be manipulated to generate more income or show higher yield in one particular period as opposed to others.

Recommendation. The Government Finance Officers Association recommends that government investors assess their investment portfolio for performance and risk by comparing the total return of the portfolio to carefully selected benchmarks. Total return provides a complete snapshot of the outcomes resulting from investment decisions since it measures the percent change in the value of a portfolio over a defined historical period.

1. Total return comparisons should be completed at least quarterly and more often for portfolios managed by external providers and those containing large investments.

Any total return measurement that is much greater or much less than that of the benchmark should be analyzed since significant deviations between the total return measurement and the benchmark often correlates to the portfolio risk profile. Based on total return analysis, investment managers can adjust the portfolio's risk profile when it is determined to be outside the acceptable variance with the benchmark.

To provide a valid reference for comparison of an entity's investment portfolio, it is important to select a benchmark that closely resembles policy constraints and management practice in terms of duration, maturity range, average duration, security types, sector allocations and credit quality.

Selected benchmark should:

1. Be unambiguous and transparent – The names and weights of securities that constitute a benchmark should be clearly defined;
2. Be investable – The benchmark should contain securities that an investor can purchase in the market or easily replicate;
3. Be priced on a regular basis – The benchmark's return should be calculated regularly;
4. Be supported by historical data – Past returns of the benchmark should be available in order to gauge historical returns;
5. Be specified in advance – The benchmark should be adopted prior to the start of evaluation;
6. Be consistent – Consistently keep the same benchmark for comparison purposes;
7. Have published risk characteristics – The benchmark provider should regularly publish detailed risk metrics of the benchmark so an investor can compare his/her portfolio risks against the benchmark risks; and
8. Have a composition that is similar to the portfolio holdings.

*Notes: A benchmark (or index) is an unmanaged basket of securities that provides a reference for understanding performance and risk characteristics of an investment strategy given investment policy parameters.

References:

<https://www.gfoa.org/materials/using-benchmarks-to-assess-portfolio-risk-and-return>

GFOA Board approval date: Saturday, January 31, 2015.

Government Finance Officers Association Recommended Practice Investment Policy (2025)

Background. An investment policy describes the parameters for investing government funds and identifies the investment objectives, preferences or tolerance for risk, constraints on the investment portfolio, and how the investment program will be managed and monitored. The document itself serves as a communication tool for the staff, elected officials, the public, rating agencies, bondholders, and any other stakeholders on investment guidelines and priorities. An investment policy enhances the quality of decision making and demonstrates a commitment to the fiduciary care of public funds, making ensuring safety and managing risk of public funds and that the government can meet its liquidity requirements.

Recommendation. GFOA recommends that all governments establish and have its governing board adopt an investment policy.

The investment policy should be reviewed and updated at least annually and adhere to state law and other government policies. The policy should at a minimum address:

- **Scope and investment objectives:** Identify the scope and investment objectives of safety of public funds, being able to meet liquidity needs of the government, and to preserve principal. Additionally, the policy should declare what types of funds the policy applies to (example: operating funds, bond proceeds, pool participants).
- **Roles, responsibilities, and standards of care:** Identify the roles of all persons involved in the investment program by title and responsibility. Standards of care should include language on prudence (i.e., the prudent person/investor rule), due diligence, ethics and conflicts of interest, delegation and authority, and knowledge and qualifications.
- **Suitable and authorized investments:** Include guidelines on selecting investment types, maturities, credit quality, along with any collateralization requirements. The policy should reference permissible investments per state codes and whether the government further restricts utilizing investment products.
- **Risk Management:** The policy should address how the government manages various types of risks (interest rate, credit, liquidity) that apply to its investment program.
- **Investment diversification:** State the government's approach to investment diversification, identifying the method that will be used to create a mix of assets that will achieve and maintain the government's investment objectives and ensure that all aspects of risk management are being addressed.
- **Internal controls, safekeeping, and custody:** State how the government addresses separation of duties (same person is not authorizing, trading and booking investments) and reducing the risk of fraud, loss and misuse. State the government's commitment to utilizing the delivery versus payment method, performing due diligence of its

investment professionals and institutions, and that parties (including internal investment staff) are independent of conflicts between trading, holding and custodial services.

- Authorized financial institutions, depositories, and broker/dealers: Establish a process for selecting creating a list of financial institutions (depositories), investment advisers, and broker/dealers that will provide the primary services necessary for executing the investment program. This process should address the minimum qualification standards, term and performance review of professionals/institutions and how they are added or deleted from the government's authorized list of investment program providers, and mandating that professionals and institutions attest to have read the government's investment policy.
- Risk and performance standards: State how the government's investment portfolio will be measured/benchmarked to demonstrate its performance.
- Reporting and disclosure standards: Define the frequency, information, and type (internal and external) of reporting to the governing body and the government's management team.
- Implementing the Policy: State that the government has procedures to implement all elements of its investment policy.

*Notes: Governments should be aware that changes in state law may require more frequent reviews.

References:

<https://www.gfoa.org/materials/investment-policy>

GFOA Board approval date: Friday, March 7, 2025.

CITY OF NORFOLK MUNICIPAL CODE**Director of Finance -**

https://library.municode.com/va/norfolk/codes/code_of_ordinances?nodeId=COCI_CH16FIGE_ARTIIDIIFI

Sec. 16-25. General Powers and duties.

- (a) The general accounts of the city shall be kept under the direct supervision of the director of finance. All accounting forms, books and blanks in use shall be approved by the director of finance and no department shall make any change in the forms, or introduce any new forms, without the approval of the director in writing.
- (b) The director of finance shall be the custodian of all warrants, vouchers and other documents relating to the city's expenditures; shall keep a record or to cause another department of the city to keep a record of all franchise compensations, wharfing privileges, rents and special privileges, and to render bills therefor; and shall also keep a record or to cause another department of the city to keep a record of all contracts, leases, and agreements, copies of which shall be furnished or made available to the city clerk. The director of finance shall:
 - (1) Record on the general books of the city all revenues and expenses as they accrue.
 - (2) Keep a complete and detailed record of the city's debt.
 - (3) Supervise all finance activities and advise the city manager on fiscal policy.
 - (4) Handle debt administration and manage the investment of city funds, as provided by city code sections pertaining to investment committee
 - (5) Execute such writings on behalf of the city as may be essential to the procurement and maintenance of necessary insurance and bonds for the city.

([Ord. No. 48,607](#), § 1, 12-14-21)

Sec. 16-25.1. Divisions and bureaus designated.

There shall be in the department of finance the following divisions and bureaus:

- (a) Reserved.
- (b) City controller bureau. The city controller bureau shall be charged with the recording of financial transactions on the general books of the city, the establishment and maintenance of centralized accounting records and systems, the preparation of required financial statements and reports, the payment of city obligations, and the investments of

available cash balances. The city controller shall be the head of the city controller bureau, and the duties of the city controller shall be such as may be prescribed by ordinance or by the director of finance.

(c) Reserved.

(d) Reserved.

(e) Reserved.

(f) Retirement bureau. The retirement bureau shall be responsible for providing administrative and clerical services and support to the board of trustees of the employees' retirement system of the city in the implementation of the city's retirement ordinance, Code section 37-1 et seq. The executive secretary of the employees' retirement system shall be the head of the retirement bureau, shall serve as secretary to the board of trustees of the employees' retirement system of the city and shall perform such other duties as may be prescribed by the board of trustees, the director of finance, the city manager, or by ordinance.

([Ord. No. 48,607](#), § 1, 12-14-21)

City Treasurer -

https://library.municode.com/HTML/10121/level3/COCI_CH16FIGE_ARTIVCITR.html#COCI_CH16FIGE_ARTIVCITR_S16-82GEPODU

Sec. 16-82. General powers and duties.

The city treasurer shall receive, collect and be the custodian for the city of all money due for taxes and levies, for assessments for paving and other purposes, and also for water rents, the rents on lands belonging to the city, for fees and all other revenues or money accruing to the city; and, the treasurer may attach or distrain for the same, proceeding in the manner required by law. For the collection of assessments for paving streets, opening streets, and other purposes, the treasurer is hereby vested with all the powers which are now, or may hereafter be, vested in a sheriff or the treasurer of the state for the collection of state taxes.

([Ord. No. 48,607](#), § 1, 12-14-21)

Sec. 16-91. Funds to be placed in city depositories.

(a) The city treasurer shall deposit all moneys received by the treasurer, belonging to the city, in such banks as the council may by ordinance designate as "city depositories."

(b) All officers and agents of the city having, in their hands, funds belonging to the city that are not required to be deposited daily with the city treasurer, shall keep the same on deposit in the banks designated by ordinance as city depositories, in the name of and to the credit of the office that such officer or agent holds, and in such manner as the director of finance may authorize.

([Ord. No. 48,607](#), § 1, 12-14-21)

Sec. 16-92. City designated depositories in banks and savings institutions.

Moneys to be paid into the city treasury shall be deposited in the banks and savings institutions designated as qualified public depositories by the state treasurer and that maintain at least one retail branch within the city. The city treasurer, in consultation with the director of finance, may arrange for and make deposits in such amounts and for such time as in the city treasurer's judgment the condition of the city treasury permits, and the Code of Virginia allows. The money deposited in a bank or savings institution in excess of the amount insured by the Federal Deposit Insurance Corporation or other federal insurance agency shall be fully collateralized by eligible collateral as defined in the Code of Virginia § 2.2-4401.

No city funds shall be deposited in any depository unless it is a "qualified public depository" as defined in the Code of Virginia section § 2.2-4401. For purposes of this article, "city funds" means public funds or moneys from any source, belonging to or for the use of the City of Norfolk, or for the use of any city department, division, officer, board, commission, institution, or other agency or authority owned or controlled by the City of Norfolk. All city funds shall be secured pursuant to the Virginia Security for Public Deposits Act (§ 2.2-4400 et seq.).

([Ord. No. 48,607](#), § 1, 12-14-21)

INVESTMENT OF PUBLIC FUNDS ACT OF THE CODE OF VIRGINIA, SECTION 2.2-4500 THRU SECTION 2.2-4519

<https://law.lis.virginia.gov/vacode/title2.2/chapter45/>

§ 2.2-4500. Legal investments for public sinking funds.

The Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any sinking funds belonging to them or within their control in the following securities:

1. Bonds, notes and other evidences of indebtedness of the Commonwealth, and securities unconditionally guaranteed as to the payment of principal and interest by the Commonwealth.
2. Bonds, notes and other obligations of the United States, and securities unconditionally guaranteed as to the payment of principal and interest by the United States, or any agency thereof. The evidences of indebtedness enumerated by this subdivision may be held directly, or in the form of repurchase agreements collateralized by such debt securities, or in the form of securities of any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, provided that the portfolio of such investment company or investment trust is limited to such evidences of indebtedness, or repurchase agreements collateralized by such debt securities, or securities of other such investment companies or investment trusts whose portfolios are so restricted.
3. Bonds, notes and other evidences of indebtedness of any county, city, town, district, authority or other public body of the Commonwealth upon which there is no default; provided, that such bonds, notes and other evidences of indebtedness of any county, city, town, district, authority or other public body are either direct legal obligations of, or those unconditionally guaranteed as to the payment of principal and interest by the county, city, town, district, authority or other public body in question; and revenue bonds issued by agencies or authorities of the Commonwealth or its political subdivisions upon which there is no default.
4. Bonds and other obligations issued, guaranteed or assumed by the International Bank for Reconstruction and Development, bonds and other obligations issued, guaranteed or assumed by the Asian Development Bank and bonds and other obligations issued, guaranteed or assumed by the African Development Bank.

5. Savings accounts or time deposits in any bank or savings institution within the Commonwealth provided the bank or savings institution is approved for the deposit of other funds of the Commonwealth or other political subdivision of the Commonwealth.

(1956, c. 184, § 2-297; 1958, c. 102; 1966, c. 677, § 2.1-327; 1970, c. 75; 1974, c. 288; 1986, c. 270; 1988, cc. 526, 834; 1996, cc. 77, 508; 2001, c. 844.)

§ 2.2-4501. Legal investments for other public funds.

- A. The Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any and all moneys belonging to them or within their control, other than sinking funds, in the following:

1. Stocks, bonds, notes, and other evidences of indebtedness of the Commonwealth and those unconditionally guaranteed as to the payment of principal and interest by the Commonwealth.
2. Bonds, notes and other obligations of the United States, and securities unconditionally guaranteed as to the payment of principal and interest by the United States, or any agency thereof. The evidences of indebtedness enumerated by this subdivision may be held directly, or in the form of repurchase agreements collateralized by such debt securities, or in the form of securities of any open-end or closed-end management type investment company or investment trust registered under the Investment Company Act of 1940, provided that the portfolio of such investment company or investment trust is limited to such evidences of indebtedness, or repurchase agreements collateralized by such debt securities, or securities of other such investment companies or investment trusts whose portfolios are so restricted.
3. Stocks, bonds, notes and other evidences of indebtedness of any state of the United States upon which there is no default and upon which there has been no default for more than ninety days; provided, that within the twenty fiscal years next preceding the making of such investment, such state has not been in default for more than ninety days in the payment of any part of principal or interest of any debt authorized by the legislature of such state to be contracted.
4. Stocks, bonds, notes and other evidences of indebtedness of any county, city, town, district, authority or other public body in the Commonwealth upon which there is no default; provided, that if the principal and interest be payable from revenues or tolls and the project has not been completed, or if completed, has not established an operating record of net earnings available for payment of principal and interest equal to estimated requirements for that purpose according to the terms of the issue, the standards of judgment and care required in Article 9 (§ 64.2-780 et seq.) of Chapter 7 of Title 64.2, without reference to this section, shall apply.

In any case in which an authority, having an established record of net earnings available for payment of principal and interest equal to estimated requirements for that purpose

according to the terms of the issue, issues additional evidences of indebtedness for the purposes of acquiring or constructing additional facilities of the same general character that it is then operating, such additional evidences of indebtedness shall be governed by the provisions of this section without limitation.

5. Legally authorized stocks, bonds, notes and other evidences of indebtedness of any city, county, town or district situated in any one of the states of the United States upon which there is no default and upon which there has been no default for more than ninety days; provided, that (i) within the twenty fiscal years next preceding the making of such investment, such city, county, town or district has not been in default for more than ninety days in the payment of any part of principal or interest of any stock, bond, note or other evidence of indebtedness issued by it; (ii) such city, county, town or district shall have been in continuous existence for at least twenty years; (iii) such city, county, town or district has a population, as shown by the federal census next preceding the making of such investment, of not less than 25,000 inhabitants; (iv) the stocks, bonds, notes or other evidences of indebtedness in which such investment is made are the direct legal obligations of the city, county, town or district issuing the same; (v) the city, county, town or district has power to levy taxes on the taxable real property therein for the payment of such obligations without limitation of rate or amount; and (vi) the net indebtedness of such city, county, town or district (including the issue in which such investment is made), after deducting the amount of its bonds issued for self-sustaining public utilities, does not exceed ten percent of the value of the taxable property in such city, county, town or district, to be ascertained by the valuation of such property therein for the assessment of taxes next preceding the making of such investment.
 6. Bonds and other obligations issued, guaranteed or assumed by the International Bank for Reconstruction and Development, by the Asian Development Bank or by the African Development Bank.
- B. This section shall not apply to funds authorized by law to be invested by the Virginia Retirement System or to deferred compensation plan funds to be invested pursuant to § 51.1-601 or to funds contributed by a locality to a pension program for the benefit of any volunteer fire department or volunteer emergency medical services agency established pursuant to § 15.2-955.
- C. Investments made prior to July 1, 1991, pursuant to § 51.1-601 are ratified and deemed valid to the extent that such investments were made in conformity with the standards set forth in Chapter 6 (§ 51.1-600 et seq.) of Title 51.1.

(1956, c. 184, § 2-298; 1966, c. 677, § 2.1-328; 1980, c. 596; 1988, c. 834; 1991, c. 379; 1992, c. 810; 1996, c. 508; 1999, c. 772; 2001, c. 844; 2007, c. 67; 2008, c. 295; 2015, cc. 502, 503.)

§ 2.2-4502. Investment of funds of Commonwealth, political subdivisions, and public bodies in "prime quality" commercial paper.

A. The Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any and all moneys belonging to them or within their control other than sinking funds in "prime quality" commercial paper, with a maturity of 270 days or less, of issuing corporations organized under the laws of the United States, or of any state thereof including paper issued by banks and bank holding companies. "Prime quality" means that the paper has received at least two of the following ratings: (i) at least prime 1 by Moody's Investors Service, Inc.; (ii) at least A1 by Standard & Poor's; or (iii) at least F1 by Fitch Ratings, Inc., provided that at the time of any such investment:

1. The issuing corporation, or its guarantor, has a net worth of at least fifty million; and
2. The net income of the issuing corporation, or its guarantor, has averaged three million per year for the previous five years; and
3. All existing senior bonded indebtedness of the issuer, or its guarantor, has received at least two of the following ratings: (i) at least A by Moody's Investors Service, Inc.; (ii) at least A by Standard & Poor's; or (iii) at least A by Fitch Ratings, Inc.

Not more than thirty-five percent of the total funds available for investment may be invested in commercial paper, and not more than five percent of the total funds available for investment may be invested in commercial paper of any one issuing corporation.

B. Notwithstanding subsection A, the Commonwealth, municipal corporations, other political subdivisions and public bodies of the Commonwealth may invest any and all moneys belonging to them or within their control, except for sinking funds, in commercial paper other than "prime quality" commercial paper as defined in this section provided that:

1. Prior written approval is obtained from the governing board, committee or other entity that determines investment policy. The Treasury Board shall be the governing body for the Commonwealth; and
2. A written internal credit review justifying the creditworthiness of the issuing corporation is prepared in advance and made part of the purchase file.

(1973, c. 232, § 2.1-328.1; 1974, c. 295; 1976, c. 665; 1986, c. 170; 1987, c. 73; 1988, c. 834; 1992, c. 769; 2001, c. 844; 2020, c. 333.)

§ 2.2-4504. Investment of funds by the Commonwealth and political subdivisions in bankers' acceptances.

Notwithstanding any provisions of law to the contrary, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any and

all moneys belonging to them or within their control other than sinking funds in bankers' acceptances.

(1981, c. 18, § 2.1-328.3; 1988, c. 834; 2001, c. 844.)

§ 2.2-4505. Investment in certificates representing ownership of treasury bond principal at maturity or its coupons for accrued periods.

Notwithstanding any provision of law to the contrary, the Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any and all moneys belonging to them or within their control, in certificates representing ownership of either treasury bond principal at maturity or its coupons for accrued periods. The underlying United States Treasury bonds or coupons shall be held by a third-party independent of the seller of such certificates.

(1983, c. 117, § 2.1-328.5; 1985, c. 352; 1988, c. 834; 2001, c. 844.)

§ 2.2-4506. Securities lending.

Notwithstanding any provision of law to the contrary, the Commonwealth, all public officers, municipal corporations, political subdivisions and all public bodies of the Commonwealth may engage in securities lending from the portfolio of investments of which they have custody and control, other than sinking funds. The Treasury Board shall develop guidelines with which such securities lending shall fully comply. Such guidelines shall ensure that the state treasury is at all times fully collateralized by the borrowing institution.

(1983, c. 268, § 2.1-328.6; 2001, c. 844.)

§ 2.2-4507. Investment of funds in overnight, term and open repurchase agreements.

Notwithstanding any provision of law to the contrary, the Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth, may invest any and all moneys belonging to them or within their control in overnight, term and open repurchase agreements that are collateralized with securities that are approved for direct investment.

(1985, c. 352, § 2.1-328.8; 1988, c. 834; 2001, c. 844.)

§ 2.2-4508. Investment of certain public moneys in certain mutual funds.

Notwithstanding any provision of law to the contrary, the Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any and all moneys belonging to them or within their control, other than sinking funds that are governed by the provisions of § 2.2-4500, in one or more open-end investment funds, provided that the funds are registered under the Securities Act (§ 13.1-501 et

seq.) of the Commonwealth or the Federal Investment Co. Act of 1940, and that the investments by such funds are restricted to investments otherwise permitted by law for political subdivisions as set forth in this chapter, or investments in other such funds whose portfolios are so restricted.

(1986, c. 170, § 2.1-328.9; 1988, c. 834; 1996, c. 508; 2001, c. 844.)

§ 2.2-4509. Investment of funds in negotiable certificates of deposit and negotiable bank deposit notes.

Notwithstanding any provision of law to the contrary, the Commonwealth and all public officers, municipal corporations, and other political subdivisions and all other public bodies of the Commonwealth may invest any or all of the moneys belonging to them or within their control, other than sinking funds, in negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks:

1. With maturities not exceeding one year, that have received at least two of the following ratings: (i) at least P-1 by Moody's Investors Service, Inc.; (ii) at least A-1 by Standard & Poor's; or (iii) at least F1 by Fitch Ratings, Inc.; and
2. With maturities exceeding one year and not exceeding five years, that have received at least two of the following ratings: (i) at least Aa by Moody's Investors Service, Inc.; (ii) at least AA by Standard & Poor's; or (iii) at least AA by Fitch Ratings, Inc.

(1998, cc. 20, 21, § 2.1-328.15; 2001, c. 844; 2020, c. 333)

§ 2.2-4510. Investment of funds in corporate notes.

- A. Notwithstanding any provision of law to the contrary, the Commonwealth, all public officers, municipal corporations, other political subdivisions and all other public bodies of the Commonwealth may invest any and all moneys belonging to them or within their control, other than sinking funds, in high quality corporate notes with maturities of no more than five years that have received at least two of the following ratings: (i) at least Aa by Moody's Investors Service, Inc.; (ii) at least AA by Standard and Poor's; or (iii) at least AA by Fitch Ratings, Inc.
- B. Notwithstanding any provision of law to the contrary, any qualified public entity of the Commonwealth may invest any and all moneys belonging to it or within its control, other than sinking funds, in high quality corporate notes that have received at least two of the following ratings: (i) at least A by Moody's Investors Service, Inc.; (ii) at least A by Standard and Poor's; or (iii) at least A by Fitch Ratings, Inc.

As used in this section, "qualified public entity" means any state agency or institution of the Commonwealth, having an internal or external public funds manager with professional investment management capabilities.

- C. Notwithstanding any provision of law to the contrary, the Department of the Treasury may invest any and all moneys belonging to it or within its control, other than sinking funds, in

high quality corporate notes with a rating of at least BBB or Baa2 by two rating agencies. One of the two qualifying ratings shall be (i) at least Baa2 by Moody's Investors Service, Inc.; (ii) at least BBB by Standard and Poor's; or (iii) at least BBB by Fitch Ratings, Inc. With regard to investment securities rated below A, the Commonwealth Treasury Board shall establish strict investment guidelines concerning the investment in such securities and monitor the performance of the securities for compliance with the investment guidelines.

(1987, c. 187, § 2.1-328.10; 1988, c. 834; 1994, c. 145; 2001, c. 844; 2002, cc. 18, 438; 2005, c. 30; 2020, c. 333)

§ 2.2-4511. Investment of funds in asset-backed securities.

- A. For purposes of this section, "qualified public entity" means any state agency, institution of the Commonwealth, or statewide authority created under the laws of the Commonwealth having an internal or external public funds manager with professional investment management capabilities.
- B. Notwithstanding any provision of law to the contrary, any qualified public entity of the Commonwealth may invest any and all moneys belonging to it or within its control, other than sinking funds, in asset-backed securities with a duration of no more than five years (i) that are unconditionally guaranteed as to payment of principal and interest by the United States or any agency thereof or (ii) with a rating of at least AAA or Aaa by two rating agencies. One of the two qualifying ratings shall be (a) at least Aaa by Moody's Investors Service, Inc.; (b) at least AAA by Standard and Poor's; or (c) at least AAA by Fitch Ratings, Inc.

(1994, c. 145, § 2.1-328.13; 1997, c. 29; 2001, c. 844; 2020, c. [333](#); 2024, cc. [65](#), [66](#).)

§ 2.2-4512. Investment of funds by State Treasurer in obligations of foreign sovereign governments.

Notwithstanding any provision of law to the contrary, the State Treasurer may invest unexpended or excess moneys in any fund or account over which he has custody and control, other than sinking funds, in fully hedged debt obligations of sovereign governments and companies that are fully guaranteed by such sovereign governments with a maturity of no more than five years that have received at least AAA by Moody's Investors Service, Inc.; (ii) at least AAA by Standard and Poor's; or (iii) at least AAA by Fitch Ratings, Inc.

Not more than ten percent of the total funds of the Commonwealth available for investment may be invested in the manner described in this section.

(1988, c. 461, § 2.1-328.11; 2001, c. 844; 2020, c. [333](#))

§ 2.2-4513. Investments by transportation commissions

Transportation commissions that provide rail service may invest in, if required as a condition to obtaining insurance, participate in, or purchase insurance provided by, foreign insurance companies that insure railroad operations.

(1988, c. 834, § 2.1-328.12; 2001, c. 844.)

§ 2.2-4514. Commonwealth and its political subdivisions as trustee of public funds; standard of care in investing such funds.

Public funds held by the Commonwealth, public officers, municipal corporations, political subdivisions, and any other public body of the Commonwealth shall be held in trust for the citizens of the Commonwealth. Any investment of such funds pursuant to the provisions of this chapter shall be made solely in the interest of the citizens of the Commonwealth and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

(1996, c. 437, § 2.1-328.14; 2001, c. 844.)

§ 2.2-4515. Collateral and safekeeping arrangements.

Securities purchased pursuant to the provisions of this chapter shall be held by the public official, municipal corporation or other political subdivision or public body or its custodial agent who may not otherwise be a counterparty to the investment transaction. Securities held on the books of the custodial agent by a custodial agent shall be held in the name of the municipal corporation, political subdivision or other public body subject to the public body's order of withdrawal. The responsibilities of the public official, municipal corporation, political subdivision or other public body shall be evidenced by a written agreement that shall provide for delivery of the securities by the custodial agent in the event of default by a counterparty to the investment transaction.

As used in this section, "counterparty" means the issuer or seller of a security, an agent purchasing a security on behalf of a public official, municipal corporation, political subdivision or other public body or the party responsible for repurchasing securities underlying a repurchase agreement.

The provisions of this section shall not apply to (i) investments with a maturity of less than 31 calendar days or (ii) the State Treasurer, who shall comply with safekeeping guidelines issued by the Treasury Board or to endowment funds invested in accordance with the provisions of the Uniform Prudent Management of Institutional Funds Act, Chapter 11 (§ 64.2-1100 et seq.) of Title 64.2.

(1988, c. 834, § 2.1-329.01; 2001, c. 844; 2008, c. 184.)

§ 2.2-4516. Liability of treasurers or public depositors.

When investments are made in accordance with this chapter, no treasurer or public depositor shall be liable for any loss therefrom in the absence of negligence, malfeasance, misfeasance, or nonfeasance on his part or on the part of his assistants or employees.

(1979, c. 135, § 2.1-329.1; 2001, c. 844.)

§ 2.2-4517. Contracts on interest rates, currency, cash flow or on other basis.

- A. Any state entity may enter into any contract or other arrangement that is determined to be necessary or appropriate to place the obligation or investment of the state entity, as represented by bonds or investments, in whole or in part, on the interest rate cash flow or other basis desired by the state entity. Such contract or other arrangement may include contracts providing for payments based on levels of, or changes in, interest rates. These contracts or arrangements may be entered into by the state entity in connection with, or incidental to, entering into, or maintaining any (i) agreement that secures bonds or (ii) investment, or contract providing for investment, otherwise authorized by law. These contracts and arrangements may contain such payment, security, default, remedy, and other terms and conditions as determined by the state entity, after giving due consideration to the creditworthiness of the counterparty or other obligated party, including any rating by a nationally recognized rating agency, and any other criteria as may be appropriate. The determinations referred to in this subsection may be made by the Treasury Board, the governing body of the state entity or any public funds manager with professional investment capabilities duly authorized by the Treasury Board or the governing body of any state entity authorized to issue such obligations to make such determinations.

As used in this section, "state entity" means the Commonwealth and all agencies, authorities, boards and institutions of the Commonwealth.

- B. Any money set aside and pledged to secure payments of bonds or any of the contracts entered into pursuant to this section may be invested in accordance with this chapter and may be pledged to and used to service any of the contracts or other arrangements entered into pursuant to this section.

(2002, c. 407.)

§ 2.2-4518. Investment of funds in deposits.

- A. Notwithstanding any provision of law to the contrary, the Commonwealth and all public officers, municipal corporations, other political subdivisions, and all other public bodies of the Commonwealth, each referred to in this section as a "public entity," may invest any or all of the moneys belonging to them or within their control in accordance with the following conditions:

1. The moneys are initially invested through any federally insured bank or savings institution selected by the public entity that is qualified by the Virginia Treasury Board to accept public deposits;
 2. The selected bank or savings institution arranges for the deposit of the moneys in one or more federally insured banks or savings institutions wherever located, for the account of the public entity;
 3. The full amount of principal and any accrued interest of each such deposit is covered by federal deposit insurance;
 4. The selected bank or savings institution acts as custodian for the public entity with respect to each deposit issued for the public entity's account; and
 5. At the same time that the public entity's moneys are deposited, the selected bank or savings institution receives an amount of deposits from customers of other financial institutions wherever located equal to or greater than the amount of moneys invested by the public entity through the selected bank or savings institution.
- B. After deposits are made in accordance with the conditions prescribed in subsection A, such deposits shall not be subject to the provisions of Chapter 44 (§ 2.2-4400 et seq.), § 2.2-4515, or any security or collateral requirements that may otherwise be applicable to the investment or deposit of public moneys by government investors.

(2008, c. 103; 2010, c. 33.)

§ 2.2-4519. Investment of funds by the Virginia Housing Development Authority and the Virginia Resources Authority.

- A. For purposes of §§ 36-55.44 and 62.1-221 only, the following investments shall be considered lawful investments and shall be conclusively presumed to have been prudent:
1. Obligations of the Commonwealth. Stocks, bonds, notes, and other evidences of indebtedness of the Commonwealth, and those unconditionally guaranteed as to the payment of principal and interest by the Commonwealth.
 2. Obligations of the United States. Stocks, bonds, treasury notes, and other evidences of indebtedness of the United States, including the guaranteed portion of any loan guaranteed by the Small Business Administration, an agency of the United States government, and those unconditionally guaranteed as to the payment of principal and interest by the United States; bonds of the District of Columbia; bonds and notes of the Federal National Mortgage Association and the Federal Home Loan Banks; bonds, debentures, or other similar obligations of federal land banks, federal intermediate credit banks, or banks of cooperatives, issued pursuant to acts of Congress; and obligations issued by the United States Postal Service when the principal and interest thereon is guaranteed by the government of the United States. The evidences of indebtedness enumerated by this subdivision may be held directly, in the form of repurchase agreements collateralized by such debt securities, or in the form of securities of any open-end or closed-end management type investment company or investment trust registered under the federal Investment Company Act of 1940, provided that the portfolio of such

investment company or investment trust is limited to such evidences of indebtedness or repurchase agreements collateralized by such debt securities, or securities of other such investment companies or investment trusts whose portfolios are so restricted.

3. Obligations of other states. Stocks, bonds, notes, and other evidences of indebtedness of any state of the United States upon which there is no default and upon which there has been no default for more than 90 days, provided that within the 20 fiscal years next preceding the making of such investment, such state has not been in default for more than 90 days in the payment of any part of principal or interest of any debt authorized by the legislature of such state to be contracted.
4. Obligations of Virginia counties, cities, or other public bodies. Stocks, bonds, notes, and other evidences of indebtedness of any county, city, town, district, authority, or other public body in the Commonwealth upon which there is no default, provided that if the principal and interest is payable from revenues or tolls and the project has not been completed, or if completed, has not established an operating record of net earnings available for payment of principal and interest equal to estimated requirements for that purpose according to the terms of the issue, the standards of judgment and care required in the Uniform Prudent Investor Act (§ 64.2-780 et seq.), without reference to this section, shall apply.

In any case in which an authority, having an established record of net earnings available for payment of principal and interest equal to estimated requirements for that purpose according to the terms of the issue, issues additional evidences of indebtedness for the purposes of acquiring or constructing additional facilities of the same general character that it is then operating, such additional evidences of indebtedness shall be governed fully by the provisions of this section without limitation.

5. Obligations of cities, counties, towns, or districts of other states. Legally authorized stocks, bonds, notes, and other evidences of indebtedness of any city, county, town, or district situated in any one of the states of the United States upon which there is no default and upon which there has been no default for more than 90 days, provided that (i) within the 20 fiscal years next preceding the making of such investment, the city, county, town, or district has not been in default for more than 90 days in the payment of any part of principal or interest of any stock, bond, note, or other evidence of indebtedness issued by it; (ii) the city, county, town, or district shall have been in continuous existence for at least 20 years; (iii) the city, county, town, or district has a population, as shown by the federal census next preceding the making of such investment, of not less than 25,000 inhabitants; (iv) the stocks, bonds, notes, or other evidences of indebtedness in which such investment is made are the direct legal obligations of the city, county, town, or district issuing the same; (v) the city, county, town, or district has power to levy taxes on the taxable real property therein for the payment of such obligations without limitation of rate or amount; and (vi) the net indebtedness of the city, county, town, or district, including the issue in which such

investment is made, after deducting the amount of its bonds issued for self-sustaining public utilities, does not exceed 10 percent of the value of the taxable property in the city, county, town, or district, to be ascertained by the valuation of such property therein for the assessment of taxes next preceding the making of such investment.

6. Obligations subject to repurchase. Investments set forth in subdivisions 1 through 5 may also be made subject to the obligation or right of the seller to repurchase these on a specific date.
7. Bonds secured on real estate. Bonds and negotiable notes directly secured by a first lien on improved real estate or farm property in the Commonwealth, or in any state contiguous to the Commonwealth within a 50-mile area from the borders of the Commonwealth, not to exceed 80 percent of the fair market value of such real estate, including any improvements thereon at the time of making such investment, as ascertained by an appraisal thereof made by two reputable persons who are not interested in whether or not such investment is made.
8. Bonds secured on city property in Fifth Federal Reserve District. Bonds and negotiable notes directly secured by a first lien on improved real estate situated in any incorporated city in any of the states of the United States which lie wholly or in part within the Fifth Federal Reserve District of the United States as constituted on June 18, 1928, pursuant to the act of Congress of December 23, 1913, known as the Federal Reserve Act, as amended, not to exceed 60 percent of the fair market value of such real estate, with the improvements thereon, at the time of making such investment, as ascertained by an appraisal thereof made by two reputable persons who are not interested in whether or not such investment is made, provided that such city has a population, as shown by the federal census next preceding the making of such investments, of not less than 5,000 inhabitants.
9. Bonds of Virginia educational institutions. Bonds of any of the educational institutions of the Commonwealth that have been or may be authorized to be issued by the General Assembly.
10. Securities of the Richmond, Fredericksburg and Potomac Railroad Company. Stocks, bonds, and other securities of the Richmond, Fredericksburg and Potomac Railroad Company, including bonds or other securities guaranteed by the Richmond, Fredericksburg and Potomac Railroad Company.
11. Obligations of railroads. Bonds, notes, and other evidences of indebtedness, including equipment trust obligations, which are direct legal obligations of or which have been unconditionally assumed or guaranteed as to the payment of principal and interest by, any railroad corporation operating within the United States that meets the following conditions and requirements:
 - a. The gross operating revenue of such corporation for the fiscal year preceding the making of such investment, or the average of the gross operating revenue for the five

- fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have not been less than \$10 million;
- b. The total fixed charges of such corporation, as reported for the fiscal year next preceding the making of the investment, shall have been earned an average of at least two times annually during the seven fiscal years preceding the making of the investment and at least one and one-half times during the fiscal year immediately preceding the making of the investment. The term "total fixed charges" as used in this subdivision and subdivision c shall be deemed to refer to the term used in the accounting reports of common carriers as prescribed by the regulations of the Interstate Commerce Commission; and
 - c. The aggregate of the average market prices of the total amounts of each of the individual securities of such corporation junior to its bonded debt and outstanding at the time of the making of such investment shall be equal to at least two-thirds of the total fixed charges for such railroad corporation for the fiscal year next preceding the making of such investment capitalized at an annual interest rate of five percent. Such average market price of any one of such individual securities shall be determined by the average of the highest quotation and the lowest quotation of the individual security for a period immediately preceding the making of such investment, which period shall be the full preceding calendar year plus the then-expired portion of the calendar year in which such investment is made, provided that if more than six months of the calendar year in which such investment is made shall have expired, then such period shall be only the then-expired portion of the calendar year in which such investment is made, and provided further that if such individual security shall not have been outstanding during the full extent of such period, such period shall be deemed to be the length of time such individual security shall have been outstanding.
12. Obligations of leased railroads. Stocks, bonds, notes, other evidences of indebtedness, and any other securities of any railroad corporation operating within the United States, the railroad lines of which have been leased by a railroad corporation, either alone or jointly with other railroad corporations, whose bonds, notes, and other evidences of indebtedness shall, at the time of the making of such investment, qualify as lawful investments for fiduciaries under the terms of subdivision 11, provided that the terms of such lease shall provide for the payment by such lessee railroad corporation individually, irrespective of the liability of other joint lessee railroad corporations, if any, in this respect, of an annual rental of an amount sufficient to defray the total operating expenses and maintenance charges of the lessor railroad corporation plus its total fixed charges, plus, in the event of the purchase of such a stock, a fixed dividend upon any issue of such stock in which such investment is made, and provided that if such investment so purchased shall consist of an obligation of definite maturity, such lease shall be one which shall, according to its terms, provide for the payment of the obligation at maturity or extend for a period of not less than 20 years beyond the maturity of such obligations so purchased, or if such investment so purchased shall be a stock or other form of

investment having no definite date of maturity, such lease shall be one which shall, according to its terms, extend for a period of at least 50 years beyond the date of the making of such investment.

13. Equipment trust obligations. Equipment trust obligations issued under the "Philadelphia Plan" in connection with the purchase for use on railroads of new standard gauge rolling stock, provided that the owner, purchaser, or lessee of such equipment, or one or more of such owners, purchasers, or lessees, shall be a railroad corporation whose bonds, notes, and other evidences of indebtedness shall, at the time of the making of such investment, qualify as lawful investments for fiduciaries under the terms of subdivision 11, and provided that all of such owners, purchasers, or lessees shall be both jointly and severally liable under the terms of such contract of purchase or lease, or both, for the fulfillment thereof.
14. Preferred stock of railroads. Any preference stock of any railroad corporation operating within the United States, provided such stock and such railroad corporation meet the following conditions and requirements:
 - a. Such stock shall be preferred as to dividends, such dividends shall be cumulative, and such stock shall be preferred as to assets in the event of liquidation or dissolution;
 - b. The gross operating revenue of such corporation for the fiscal year preceding the making of such investment, or the average of the gross operating revenue for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$10 million;
 - c. The total fixed charges, as defined in subdivision 11 b, of such corporation, as reported for the fiscal year next preceding the making of such investment, plus the amount, at the time of making such investment, of the annual dividend requirements on such preference stock and any preference stock having the same or senior rank, such fixed charges and dividend requirements being considered the same for every year, shall have been earned an average of at least two and one-half times annually for the seven fiscal years preceding the making of such investment and at least two times for the fiscal year immediately preceding the making of such investment; and
 - d. The aggregate of the average market prices of the total amount of each of the individual securities of such corporation, junior to such preference stock and outstanding at the time of the making of such investment, shall be at least equal to the par value of the total issue of the preference stock in question plus the total par value of all other issues of its preference stock having either the same rank as, or a senior rank to, the issue of such preference stock plus total fixed charges, as defined in subdivision 11 b, for such railroad corporation for the fiscal year next preceding the making of such investment capitalized at an annual interest rate of five percent. Such average market price of any one of such individual securities shall be determined in the same manner as prescribed in subdivision 11c.

15. Obligations of public utilities. Bonds, notes, and other evidences of indebtedness of any public utility operating company operating within the United States, provided such company meets the following conditions and requirements:
- a. The gross operating revenue of such public utility operating company for the fiscal year preceding the making of such investment, or the average of the gross operating revenue for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$5 million;
 - b. The total fixed charges of such corporation, as reported for the fiscal year next preceding the making of the investment, shall have been earned, after deducting operating expenses, depreciation, and taxes, other than income taxes, an average of at least one and three-quarters times annually during the seven fiscal years preceding the making of the investment and at least one and one-half times during the fiscal year immediately preceding the making of the investment;
 - c. In the fiscal year next preceding the making of such investment, the ratio of the total par value of the bonded debt of such public utility operating company, including the total bonded indebtedness of all its subsidiary companies, whether assumed by the public utility operating company in question or not, to its gross operating revenue shall not be greater than four to one; and
 - d. Such public utility operating company shall be subject to permanent regulation by a state commission or other duly authorized and recognized regulatory body.

The term "public utility operating company" as used in this subdivision and subdivision 16 means a public utility or public service corporation (i) of whose total income available for fixed charges for the fiscal year next preceding the making of such investment at least 55 percent thereof shall have been derived from direct payments by customers for service rendered them; (ii) of whose total operating revenue for the fiscal year next preceding the making of such investment at least 60 percent thereof shall have been derived from the sale of electric power, gas, water, or telephone service and not more than 10 percent thereof shall have been derived from traction operations; and (iii) whose gas properties are all within the limits of one state, if more than 20 percent of its total operating revenues are derived from gas.

16. Preferred stock of public utilities. Any preference stock of any public utility operating company operating within the United States, provided such stock and such company meet the following conditions and requirements:
- a. Such stock shall be preferred as to dividends, such dividends shall be cumulative, and such stock shall be preferred as to assets in the event of liquidation or dissolution;
 - b. The gross operating revenue of such public utility operating company for the fiscal year preceding the making of such investment, or the average of the gross operating revenue for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$5 million;

- c. The total fixed charges of such public utility operating company, as reported for the fiscal year next preceding the making of such investment, plus the amount, at the time of making such investment, of the annual dividend requirements on such preference stock and any preference stock having the same or senior rank, such fixed charges and dividend requirements being considered the same for every year, shall have been earned, after deducting operating expenses, depreciation, and taxes, including income taxes, an average of at least two times annually for the seven fiscal years preceding the making of such investment and at least two times for the fiscal year immediately preceding the making of such investment;
 - d. In the fiscal year next preceding the making of such investment, the ratio of the sum of the total par value of the bonded debt of such public utility operating company, the total par value of the issue of such preference stock, and the total par value of all other issues of its preference stock having the same or senior rank to its gross operating revenue shall not be greater than four to one; and
 - e. Such public utility operating company shall be subject to permanent regulation by a state commission or other duly authorized and recognized regulatory body.
17. Obligations of the following telephone companies. Bonds, notes, and other evidences of indebtedness of American Telephone and Telegraph, Bell Atlantic, Bell South, Southwestern Bell, Pacific Telesis, Nynex, American Information Technologies, or U.S. West, and bonds, notes, and other evidences of indebtedness unconditionally assumed or guaranteed as to the payment of principal and interest by any such company, provided that the total fixed charges, as reported for the fiscal year next preceding the making of the investment, of such company and all of its subsidiary corporations on a consolidated basis shall have been earned, after deducting operating expenses, depreciation, and taxes, other than income taxes, an average of at least one and three-fourths times annually during the seven fiscal years preceding the making of the investment and at least one and one-half times during the fiscal year immediately preceding the making of the investment.
18. Obligations of municipally owned utilities. The stocks, bonds, notes, and other evidences of indebtedness of any electric, gas, or water department of any state, county, city, town, or district whose obligations would qualify as legal for purchase under subdivision 3, 4, or 5, the interest and principal of which are payable solely out of the revenues from the operations of the facility for which the obligations were issued, provided that the department issuing such obligations meets the requirements applying to public utility operating companies as set out in subdivisions 15 a through c.
19. Obligations of industrial corporations. Bonds, notes, and other evidences of indebtedness of any industrial corporation incorporated under the laws of the United States or of any state thereof, provided such corporation meets the following conditions and requirements:

- a. The gross operating revenue of such corporation for the fiscal year preceding the making of such investment, or the average of the gross operating revenue for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$10 million;
 - b. The total fixed charges of such corporation, as reported for the fiscal year next preceding the making of the investment, shall have been earned, after deducting operating expenses, depreciation, and taxes, other than income taxes, and depletion in the case of companies commonly considered as depleting their natural resources in the course of business, an average of at least three times annually during the seven fiscal years preceding the making of the investment and at least two and one-half times during the fiscal year immediately preceding the making of the investment;
 - c. The net working capital of such industrial corporation, as shown by its last published fiscal year-end statement prior to the making of such investment, or in the case of a new issue, as shown by the financial statement of such corporation giving effect to the issuance of any new security, shall be at least equal to the total par value of its bonded debt as shown by such statement; and
 - d. The aggregate of the average market prices of the total amounts of each of the individual securities of such industrial corporation, junior to its bonded debt and outstanding at the time of the making of such investment, shall be at least equal to the total par value of the bonded debt of such industrial corporation at the time of the making of such investment, such average market price of any one of such individual securities being determined in the same manner as prescribed in subdivision 11c.
20. Preferred stock of industrial corporations. Any preference stock of any industrial corporation incorporated under the laws of the United States or of any state thereof, provided such stock and such industrial corporation meet the following conditions and requirements:
- a. Such stock shall be preferred as to dividends, such dividends shall be cumulative, and such stock shall be preferred as to assets in the event of liquidation or dissolution;
 - b. The gross operating revenue of such corporation for the fiscal year preceding the making of such investment, or the average of the gross operating revenue for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$10 million;
 - c. The total fixed charges of such corporation, as reported for the fiscal year next preceding the making of such investment, plus the amount, at the time of making such investment, of the annual dividend requirements on such preference stock and any preference stock having the same or senior rank, such fixed charges and dividend requirements being considered the same for every year, shall have been earned, after deducting operating expenses, depreciation, and taxes, including income taxes, and

- depletion in the case of companies commonly considered as depleting their natural resources in the course of business, an average of at least four times annually for the seven fiscal years preceding the making of such investment and at least three times for the fiscal year immediately preceding the making of such investment;
- d. The net working capital of such industrial corporation, as shown by its last published fiscal year-end statement prior to the making of such investment, or, in the case of a new issue, as shown by the financial statement of such corporation giving effect to the issuance of any new security, shall be at least equal to the total par value of its bonded debt plus the total par value of the issue of such preference stock plus the total par value of all other issues of its preference stock having the same or senior rank; and
 - e. The aggregate of the lowest market prices of the total amounts of each of the individual securities of such industrial corporation junior to such preference stock and outstanding at the time of the making of such investment shall be at least two and one-half times the par value of the total issue of such preference stock plus the total par value of all other issues of its preference stock having the same or senior rank plus the par value of the total bonded debt of such industrial corporation. Such lowest market price of any one of such individual securities shall be determined by the lowest single quotation of the individual security for a period immediately preceding the making of such investment, which period shall be the full preceding calendar year plus the then-expired portion of the calendar year in which such investment is made, and if such individual security shall not have been outstanding during the full extent of such period, such period shall be deemed to be the length of time such individual security shall have been outstanding.
21. Obligations of finance corporations. Bonds, notes, and other evidences of indebtedness of any finance corporation incorporated under the laws of the United States or of any state thereof, provided such corporation meets the following conditions and requirements:
- a. The gross operating income of such corporation for the fiscal year preceding the making of such investment, or the average of the gross operating income for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$5 million;
 - b. The total fixed charges of such corporation, as reported for the fiscal year next preceding the making of the investment, shall have been earned, after deducting operating expenses, depreciation, and taxes, other than income taxes, an average of at least two and one-half times annually during the seven fiscal years preceding the making of the investment and at least two times during the fiscal year immediately preceding the making of the investment;

- c. The aggregate indebtedness of such finance corporation as shown by its last fiscal year-end statement, or, in the case of a new issue, as shown by the financial statement giving effect to the issuance of any new securities, shall be no greater than three times the aggregate net worth, as represented by preferred and common stocks and surplus of such corporation; and
 - d. The aggregate of the average market prices of the total amounts of each of the individual securities of such finance corporation, junior to its bonded debt and outstanding at the time of the making of such investment, shall be at least equal to one-third of the sum of the par value of the bonded debt plus all other indebtedness of such finance corporation as shown by the last published fiscal year-end statement, such average market price of any one of such individual securities being determined in the same manner as prescribed in subdivision 11c.
22. Preferred stock of finance corporations. Any preference stock of any finance corporation incorporated under the laws of the United States or of any state thereof, provided such stock and such corporation meet the following conditions and requirements:
- a. Such stock shall be preferred as to dividends, such dividends shall be cumulative, and such stock shall be preferred as to assets in the event of liquidation or dissolution;
 - b. The gross operating income of such corporation for the fiscal year preceding the making of such investment, or the average of the gross operating income for the five fiscal years next preceding the making of such investment, whichever of these two is the larger, shall have been not less than \$5 million;
 - c. The total fixed charges of such finance corporation, as reported for the fiscal year next preceding the making of such investment, plus the amount, at the time of making such investment, of the annual dividend requirements on such preference stock and any preference stock having the same or senior rank, such fixed charges and dividend requirements being considered the same for every year, shall have been earned, after deducting operating expenses, depreciation, and taxes, including income taxes, an average of at least three and one-half times annually for the seven fiscal years preceding the making of such investment and at least three times for the fiscal year immediately preceding the making of such investment;
 - d. The aggregate indebtedness and par value of the purchased stock, both the issue in question and any issues equal or senior thereto, of such finance corporation as shown by its last published fiscal year-end statement, or, in the case of a new issue, as shown by the financial statement giving effect to the issuance of any new securities, shall be no greater than three times the aggregate par value of the junior securities and surplus of such corporation; and
 - e. The aggregate of the lowest market prices of the total amounts of each of the individual securities of such finance corporation junior to such preference stock and outstanding at the time of the making of such investment shall be at least equal to

one-third of the sum of the par value of such preference stock plus the total par value of all other issues of preference stock having the same or senior rank plus the par value of the total bonded debt plus all other indebtedness of such finance corporation as shown by the last published fiscal year-end statement, such lowest market price of any one of such individual securities being determined in the same manner as prescribed in subdivision 20e.

23. Federal housing loans. First mortgage real estate loans insured by the Federal Housing Administrator under Title II of the National Housing Act.
24. Certificates of deposit and savings accounts. Certificates of deposit of, and savings accounts in, any bank, banking institution, or trust company, whose deposits are insured by the Federal Deposit Insurance Corporation at the prevailing rate of interest on such certificates or savings accounts; however, no such fiduciary shall invest in such certificates of, or deposits in, any one bank, banking institution, or trust company an amount from any one fund in his or its care which shall be in excess of such amount as shall be fully insured as a deposit in such bank, banking institution, or trust company by the Federal Deposit Insurance Corporation. A corporate fiduciary shall not, however, be prohibited by the terms of this subdivision from depositing in its own banking department, in the form of demand deposits, savings accounts, time deposits, or certificates of deposit, funds in any amount awaiting investments or distribution, provided that it shall have complied with the provisions of §§ 6.2-1005 and 6.2-1007, with reference to the securing of such deposits.
25. Obligations of International Bank, Asian Development Bank, and African Development Bank. Bonds and other obligations issued, guaranteed, or assumed by the International Bank for Reconstruction and Development, the Asian Development Bank, or the African Development Bank.
26. Deposits in savings institutions. Certificates of deposit of, and savings accounts in, any state or federal savings institution or savings bank lawfully authorized to do business in the Commonwealth whose accounts are insured by the Federal Deposit Insurance Corporation or other federal insurance agency; however, no such fiduciary shall invest in such shares of any one such association an amount from any one fund in his or its care which shall be in excess of such amount as shall be fully insured as an account in such association by the Federal Deposit Insurance Corporation or other federal insurance agency.
27. Certificates evidencing ownership of undivided interests in pools of mortgages. Certificates evidencing ownership of undivided interests in pools of bonds or negotiable notes directly secured by first lien deeds of trust or mortgages on real property located in the Commonwealth improved by single-family residential housing units or multi-family dwelling units, provided that (i) such certificates are rated AA or better by a nationally recognized independent rating agency; (ii) the loans evidenced by such bonds or negotiable notes do not exceed 80 percent of the fair market value, as determined by an

independent appraisal thereof, of the real property and the improvements thereon securing such loans; and (iii) such bonds or negotiable notes are assigned to a corporate trustee for the benefit of the holders of such certificates.

28. Shares in credit unions. Shares and share certificates in any credit union lawfully authorized to do business in the Commonwealth whose accounts are insured by the National Credit Union Share Insurance Fund or the Virginia Credit Union Share Insurance Corporation, provided no such fiduciary shall invest in such shares an amount from any one fund in his or its care which shall be in excess of such amount as shall be fully insured as an account in such credit union by the National Credit Union Share Insurance Fund or the Virginia Credit Union Share Insurance Corporation.
- B. Whenever under the terms of this section the par value of a preference stock is required to be used in a computation, there shall be used instead of such par value the liquidating value of such preference stock in the case of involuntary liquidation, as prescribed by the terms of its issue, in the event that such liquidating value shall be greater than the par value of such preference stock; or in the event that the preference stock in question has no par value, then such liquidating value shall be used instead; or when such preference stock shall be one of no par value and one for which no such liquidating value shall have been so prescribed, then for the purposes of such computation the preference stock in question shall be deemed to have a value of \$100 per share.
- C. When any security provided for in this section is purchased by a fiduciary and at the time of such purchase the statement for the preceding fiscal year of the corporation issuing the security so being purchased has not been published and is therefore not available, the statement of such corporation for the fiscal year immediately prior to such preceding fiscal year shall be considered the statement for such preceding fiscal year and shall have the same force and effect as the statement for the fiscal year preceding such purchase, provided the date of such purchase is not more than four months after the end of the last fiscal year of the corporation.
- D. In testing a new issue of securities under the provisions of this section, it shall be permissible, in determining the number of times that fixed charges or preferred dividend requirements have been earned, to use pro forma fixed charges or dividend requirements, provided the corporation or its corporate predecessor has been in existence for a period of not less than seven years.
- E. Investments made under the provisions of this section, if in conformity with the requirements of this section at the time such investments were made, may be retained even though they cease to be eligible for purchase under the provisions of this section, but shall be subject to the provisions of the Uniform Prudent Investor Act (§ 64.2-780 et seq.).

(2012, c. 614.)