

GREENVILLE WATERPOLICY No. FIN-6DATE: 04/01/2014SUBJECT: Investment Policy**CONTENTS**

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I. Governing Authority*Legality*

The investment program shall be operated in conformance with federal, state, and other legal requirements, including those authorized investments for political subdivisions in Section 6-5-10 and Section 6-6-10 of the South Carolina Code of Laws.

II. Scope

This policy applies to the investment of all funds of Greenville Water. Proceeds from certain bond issues may be exempt from provisions of this policy where bond covenants govern investment of those proceeds.

1. Pooling of Funds

Except for cash in certain restricted funds, Greenville Water will consolidate cash and reserve balances to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated based on the respective participation and in accordance with generally accepted accounting principles.

III. General Objectives

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

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

The objective will be to mitigate credit risk and interest rate risk.

a. Credit Risk

Greenville Water will minimize credit risk, which is the risk of loss 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
- Doing business only with the types of financial institutions, depositories, and broker/dealers authorized in Section V
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

Greenville Water 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 securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, the South Carolina Pooled Investment Fund and limiting the average maturity of the portfolio in accordance with this policy (see section VIII).

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. Alternatively, a portion of the portfolio may be placed in the South Carolina Pooled Investment Fund which offers same-day liquidity for short-term funds.

3. Yield

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

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

IV. Standards of Care

1. *Prudence*

The standard of prudence to be used by authorized persons shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Authorized persons acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The "prudent person" standard states that, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

2. *Ethics and Conflicts of Interest*

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees authorized to engage in investment transactions shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of Greenville Water.

3. *Delegation of Authority*

Authority to manage the investment program is granted to the Chief Financial Officer (CFO). Responsibility for the operation of the investment program is hereby delegated to the CFO, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the CFO. The CFO shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

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

1. *Authorized Financial Institutions, Depositories, and Broker/Dealers*

Broker-dealers must be registered with the Securities and Exchange Commission (SEC), the State of South Carolina and be members of the Securities Investor Protection Corporation (SIPC), the Financial Industry Regulatory Authority (FINRA), and be in compliance with the SEC's Rule 15C3-1 (uniform net capital rule) OR be a primary or regional dealer designated by the Federal Reserve Bank.

Financial institutions in which funds are deposited shall be chartered in South Carolina, operate a branch in our service area, be covered by FDIC insurance and be capable of fully collateralizing Greenville Water demand deposits in accordance with the S.C. Code of Laws.

All financial institutions and broker/dealers who desire to become qualified for investment transactions must submit audited financial statements demonstrating compliance with state and federal capital adequacy guidelines and sign an acknowledgement form certifying that they have read, understand and agree to comply with Greenville Water's investment policy.

An annual review of the financial condition and registration of all qualified financial institutions and broker-dealers will be conducted.

VI. Safekeeping and Custody

1. *Delivery vs. Payment*

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

2. *Safekeeping*

Securities will be held by an independent third-party custodian selected by the entity as evidenced by safekeeping receipts in Greenville Water's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

3. *Internal Controls*

The CFO is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of Greenville Water are protected from loss, theft or misuse. The internal controls system shall be reviewed annually and updated periodically in order to ensure their continued effectiveness. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

The internal controls structure shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Dual authorizations of wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

Compliance should be assured through Greenville Water's annual independent audit.



VII. Suitable and Authorized Investments

1. Investment Types

Consistent with Section 6-5-10 and Section 6-6-10 of the South Carolina Code of Laws, only the following investments will be permitted by this policy:

- a) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States;
- b) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations;
- c) (i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations;
- d) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government;
- e) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government;
- f) Repurchase agreements when collateralized by securities as set forth in this section;
- g) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (1), (2), (3), and (6) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method; and
- h) South Carolina Pooled Investment Fund.

2. Collateralization

Full collateralization will be required on all demand deposit accounts, including checking accounts and certificates of deposit.

VIII. Investment Parameters

1. Diversification

The investments shall be diversified by:

- limiting investments to avoid overconcentration in securities from a specific issuer (excluding U.S. Treasury securities or fully insured/collateralized instruments),
- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as the South Carolina Pooled Investment Fund, or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

The following diversification limitations shall be imposed on the portfolio:

- **Maturity:** The weighted average maturity of the portfolio shall not exceed three years. No individual security will have a maturity more than five (5) years from the date of purchase.
- **Liquidity risk:** At least 20 percent of the portfolio shall be invested in overnight instruments or in marketable securities which can be sold to raise cash in one day's notice.
- **Default risk:** The following provides asset class and issuer limits as well as maximum maturities for authorized investments:

Investment Type	Maturity Limit	Asset Class Limits	Issuer Limits
U.S. Treasuries	Up to 60 months	100% of portfolio	Unlimited
U.S. Agencies and Instrumentalities	Up to 60 months	100% of portfolio	Up to 40% of portfolio
Obligations of S.C. or its political units	Up to 36 months	25% of portfolio	Lesser of 5% or \$5 million
Savings and Loan Associations	N/A	25% of portfolio	Current FDIC insurance limit
CDs	Up to 36 months	100% of portfolio	Current FDIC insurance limit or amount collateralized
Repurchase Agreements	Up to 30 days	Overnight – 100% of portfolio Term – 25% of portfolio	Counterparty Limit: 25% of portfolio
Money Market Mutual Fund	N/A	100% of portfolio	30% of portfolio and up to 3% of fund assets
S.C. Pooled Investment Fund	N/A	100% of portfolio	N/A



IX. Reporting

1. *Methods*

The CFO shall prepare an investment report monthly that will include the following:

- Listing of individual securities held at the end of the reporting period and the following information for each:
 - Description of security
 - Maturity date
 - Cost
 - Market value at reporting date
 - Yield
- Listing of each type of investment in the portfolio and the percentage of the total portfolio which each type of investment represents.