Investment Standards and Practices

I) Scope

These Standards and Practices hereinafter referred to as the “investment policy”, apply to activities of the Portland Community College District (PCC) with regard to the investment of all financial assets, including bond proceeds. These funds are accounted for in PCC’s Comprehensive Annual Financial Report (CAFR). The amount of funds falling within the scope of this investment policy over the next three years, including bond proceeds, is expected to range between $100 million and $370 million.

II) Governing Authority

PCC’s investment program shall be operated in conformance with PCC’s Board Policy B502, Oregon Revised Statutes and applicable Federal Law. Specifically, this investment policy is written in conformance with ORS 294.035; 294.040; 294.052; 294.135; 294.145; and 294.810. Any revisions or extensions of these sections of the ORS shall be assumed to be part of this investment policy immediately upon being enacted. The College may, without competitive bidding, contract for the purpose of the investment or borrowing of funds when such investment or borrowing is contracted pursuant to duly enacted statute.

III) Objectives

The primary objectives, in priority order, of investment activities shall be:

A) **Preservation of capital:** Investments shall be undertaken in a manner that ensures the preservation of capital in the portfolio. The objective will be to mitigate credit risk and interest rate risk.

   1) Credit Risk: The risk of default may be mitigated by investing in high-grade securities, and diversifying the investment portfolio so that potential losses on individual securities will be minimized.

   2) Interest Rate Risk: The risk that the market value of securities in the portfolio will decline due to changes in interest rates shall be mitigated by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

B) **Liquidity:** Investments shall be undertaken in a manner that seeks to ensure sufficient liquidity to meet all anticipated operating requirements, including construction draws of bond proceeds.

C) **Diversification:** Investments shall be undertaken in a manner that reduces unnecessary risk by avoiding over concentration in specific security types, issuance, issuer, industries, and, to the extent permitted by cash requirements, maturity ranges.

D) **Yield:** The Investment Officer shall maintain a maximum rate of return throughout budgetary and economic cycles given the constraints and spirit of these Standards and Procedures.

IV) Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard, which states, *"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 safety of their capital as well as the income to be derived."* The prudent person standard shall be applied in the context of managing the overall portfolio.

V) Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. 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 PCC. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244.

VI) Indemnification

The district shall indemnify, hold harmless and defend Investment Officers and any College employees engaged in investment activities from personal liability for losses that may occur during the course of administering these Investment Standards and Procedures, provided deviations from expectations are reported and appropriate action is taken to control adverse developments within a timely fashion as defined in this investment policy.

VII) Governing Body

The PCC Board of Directors will retain ultimate fiduciary responsibility for invested funds. Monthly reports will be prepared and provided to the Board upon request, pursuant to, and with sufficient detail to comply with ORS 294.085 and 294.155.

VIII) Delegation of Authority

The Vice President for Administrative Services and Associate Vice President of Financial Services shall be responsible for oversight of the investment program, and the Treasury Manager shall serve as the Investment Officer. The Investment Officer will invest per the terms in this standards and procedures, and per the terms in the following: ORS 294.035 to 294.053, 294.125 to 294.145, and 294.810. The Investment Officer may delegate to specified treasury position(s) the authority to conduct transactions on behalf of PCC, subject to the Investment Standards and Practices contained herein. Delegation of authority shall be in writing. The Investment Officer and treasury staff members authorized to conduct transactions must be bonded individuals.

IX) Internal Controls

The investment officer and AVP of Finance are responsible for establishing and maintaining an adequate internal control structure designed to reasonably assure that invested funds are invested within the parameters of these investment standards and, protected from loss, theft or misuse. A written internal control policy shall be reviewed and updated periodically by the Investment Officer.

A) The concept of reasonable assurance recognizes that the cost of a control should not exceed benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. Internal controls shall address the following points:

1. Compliance with Investment Standards and Practices, investment diversification by type and maturity
2. Control of collusion.
3. Separation of transaction authority from accounting and record keeping.
4. Avoidance of physical delivery of securities when possible and address control requirements for physical delivery

5. Clear delegation of authority to subordinate staff members.
6. Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form.
7. Dual authorizations of non-repetitive wire and automated clearing house transfers
8. Staff training
9. Review, maintenance and monitoring of automated and manual security procedures.

X) Audits

An external auditor shall provide an annual independent review of the College investments to assure compliance with Oregon state law, PCC policies and procedures and internal controls. Such audit will include tests deemed appropriate by the auditor.

XI) Broker/Dealer Qualification and Review

The Investment Officer shall determine which Broker/Dealer firms and registered representatives are authorized for the purposes of investing funds within the scope of this investment policy. The following minimum criteria must be met before Broker/Dealer firms and affiliated registered representatives are authorized to execute investment transactions. The Investment Officer may impose more stringent criteria.

A) A list will be maintained of approved Broker/Dealer firms and affiliated registered representatives. Broker/Dealer firms must meet the following minimum criteria:

1. Must be registered with the Securities and Exchange Commission (SEC)
2. Must be registered with the Financial Industry Regulatory Authority (FINRA)
3. Must provide most recent audited financials
4. Must provide FINRA Focus Report filings

B) Approved Broker/Dealer employees who execute transactions with the College must meet the following minimum criteria:

1. Must be a registered representative with the Financial Industry Regulatory Authority (FINRA)
2. Must be licensed by the state of Oregon
3. Certification, in writing, of having read, understood and agreed to comply with the most current version of this investment standards and procedures

C) Annual review of all authorized Broker/Dealers and their registered representatives will be conducted by the Investment Officer. Factors to consider include:

1. Pending investigations by securities regulators
2. Significant changes in net capital
3. Pending customer arbitration cases
4. Regulatory enforcement actions

XII) Depositories and Collateralization

All financial institutions who desire to become depositories must be qualified Oregon Depositories pursuant to ORS Chapter 295.

XIII) Competitive Bids

A. The Investment Officer shall obtain and follow a protocol to receive competitive bid information on all investments purchased or sold in the secondary market. Competitive bids or offers should be obtained, when possible, from at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.

B. In the instance of a security for which there is no readily available competitive bid or offering on the same specific issue, then the Investment Officer shall document quotations for comparable or alternative securities.

C. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price. However, the Investment Officer is encouraged to follow internal protocols for quotations on comparable securities.

D. The Investment Officer shall routinely monitor the contents of the portfolio comparing the holdings to the markets, relative values of competing instruments, changes in credit quality, and benchmarks. If there are advantageous transactions, the portfolio may be adjusted accordingly.

XIV) Safekeeping and Custody

All trades of marketable securities will be executed (cleared and settled) by delivery vs. payment (DVP) to ensure that securities are deposited in PCC’s safekeeping institutions prior to the release of funds.

Securities will be held by independent third-party safekeeping institutions selected by PCC. All securities will be evidenced by safekeeping receipts in PCC’s name. Upon request, the safekeeping institutions shall make available a copy of its Statement on Standards for Attestation Engagements (SSAE) No. 16.

XV) Diversification by Security Type and Institution

It is the policy of the College to diversify its investments. Where appropriate, exposures will be limited by security type, maturity, issuance and issuer. In accordance with ORS Sections 294.035, 294.040, 294.052 and 294.810, the following securities are authorized for purchase.

A. **Investment Instruments**	**Max. Percent of Portfolio**
1. U.S. Treasury Obligations	100%
2. Securities of U.S. Government Agencies and Instrumentalities	75%
Investment in U.S. Government Agencies and Instrumentalities shall be limited to a maximum of 25% per entity.	
3. Bankers' Acceptances	25%
Bankers' acceptances issued by qualified financial institutions as defined in ORS Section 294.035 (h)(B) , which have obtained a rating of A1 (Standard and Poor's) or P1 (Moody's), or an equivalent rating by any nationally recognized rating agency, must meet the same asset requirements as those discussed	

under *Repurchase Agreements*.

4. Time Certificates of Deposit (TCD) 25%

   TCD's must be FDIC insured, and collateralized in accordance with ORS Chapter 295.001 to 295.108. Exception to the yield objective and asset requirements (discussed under Repurchase Agreements) may be made for deposits in financially sound community banks for up to the current FDIC insurance limit per institution.

   No more than 25% of PCC's total investable funds shall be held in deposits or investment instruments which represent the liability of a single commercial bank or bank holding company.

   Bank demand deposits in qualified depository institutions are considered cash vehicles and not investments and are therefore outside the scope of this investment policy. Pursuant to ORS 294.035(3)(d), time deposits, certificates of deposit and savings accounts are considered investments and within the scope of this investment policy.

5. Corporate Indebtedness 35%

   Commercial paper must be rated A1 by Standard & Poors or P1 by Moody's, or an equivalent rating by any nationally recognized rating agency. Corporate notes, bonds and debentures must be rated AA or better by Standard & Poor's or Aa or better by Moody's, or an equivalent rating by any nationally recognized rating agency.

   The minimum weighted average credit rating of the portfolio's rated investments shall be Aa/AA/AA by Moody's Investors Service; Standard & Poor's; and Fitch Ratings Service respectively or an equivalent rating agency. Corporate indebtedness is subject to a valid registration statement on file with the SEC or issued under the authority of section 3(a)(2) or 3(a)(3) of the Securities Act of 1933 as amended. Corporate indebtedness must be issued by a commercial, industrial or utility business enterprise, or by or on behalf of a financial institution.

   Investment in corporate indebtedness shall be limited to a maximum of 5% for one corporate entity (including any related affiliates) and 20% by industry sector.

6. Repurchase Agreements 25%

   In accordance with ORS Section 294.035(11), investments in repurchase agreements must be for no more than seven (7) days and must be at least 102% collateralized by direct U.S. Government or U.S. Government agency securities. Banking institutions from which repurchase agreements are purchased must have holding company assets of at least $5 billion and execute a master repurchase agreement with the College. PCC will not enter into any reverse repurchase agreements.

7. Regional, State, and Municipal Debt Obligations 25%

   PCC will limit its purchases to lawfully issued debt obligations of the agencies and instrumentalities of the State of Oregon and its political subdivisions that have a long-term rating of A or an equivalent rating or better or are rated on the settlement date in the highest category for short-term municipal debt by a nationally recognized statistical rating organization.

   Per ORS 294.040, the bonds of issuers listed in ORS 294.035 (3)(a) to (c) may be purchased only if there has been no default in payment of either the principal or the interest on the obligations of the issuing county, port, school district or city, for a period of five years next preceding the date of the investment.

8. Investment Pools – PCC may participate, up to the legal limit, in the Local Government Investment Pool (LGIP) as authorized under ORS Section 294.810. 75%*

B. If additional types of securities are considered for investment, per Oregon state statute, they will not be eligible for investment until these standards have been amended and the amended version is adopted by the college.

C. The value of at least 10% of funds from the general fund, available for investing, to meet budgeted operating expenditures will be invested in the Oregon Short Term Fund or investments maturing in less than 90 days to provide sufficient liquidity.

XVI) Market Liquidity

The Investment Officer shall take reasonable steps to improve secondary market liquidity by limiting the par amount invested* in a specific debt issuance. Recommended guidelines include:

Issue Type	Maximum of issuance (par)
US Agency Securities	50%
Corporate Commercial Paper	50%
Corporate Notes and Bonds	25%
Municipal Bonds	50%

* Issued under a single CUSIP.

XVII) Maximum Callable Exposure

The maximum percent of callable securities in the portfolio shall be 50%.

XVIII) Investment Maturity

The maximum stated final maturity of individual securities in the portfolio shall be five (5) years, except as otherwise stated in this investment policy. The maximum portfolio average maturity (measured with stated final maturity) shall be 2.5 years.

Investments shall not be made predicated upon selling the security prior to maturity. The Investment Officer may adjust the contents of the portfolio based on the available markets and the relative values of competing instruments.

XIX) Total Prohibitions

Purchase of standby commitments or forward commitments in excess of 14 business days (in accordance with ORS Section 294.145 are specifically prohibited.

Securities not specifically addressed by this investment policy are prohibited for investment purposes.

XX) Interest Rate Risk:

Interest rate risk will be mitigated by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes.

A) The following strategies will be employed to control and mitigate adverse changes in the market value of the portfolio due to changes in interest rates:

1. Investment maturities should be matched with expected cash outflows to mitigate market risk.
2. Investment maturities not matched with cash outflows, including liquid investments under one year, should be staggered to mitigate re-investment risk.
3. No commitments to buy or sell securities may be made more than 14 days prior to the anticipated settlement date, or receive a fee other than interest for future deliveries.
4. The maximum percent of callable securities in the portfolio shall be 50%.

XXI) Securities Lending Prohibited

The College shall not lend securities nor directly participate in a securities lending program.

XXII) Investment of Bond Proceeds

The Investment Officer will determine the investments best suited for the bond proceeds. These investments will be segregated for both tracking and arbitrage purposes within the district's overall portfolio and invested in a manner consistent with this investment policy, Internal Revenue Service requirements, trust indentures, if any, Oregon Revised Statutes (Chapter 294) and expected drawdown schedules. This provision also applies to bond proceeds received in defeasance of previously issued debt.

XXIII) Portfolio Monitoring, Reporting and Compliance

The Investment Officer shall routinely monitor the contents of the portfolio comparing the holdings to the markets, relative values of competing instruments, changes in credit quality, and benchmarks. If there are advantageous transactions, the portfolio may be adjusted accordingly.

A quarterly report of investment performance will be prepared at the direction of the Investment Officer and distributed to the Vice President of Administrative Services, Associate Vice President of Financial Services. The report will contain investments classified on a principal basis.

A) The report will include, at a minimum, the following:

1. A listing of all investments held during the reporting period showing: par value, principal, accounting book value, market value, type of investment, issuer, credit ratings and yield to maturity
2. Average maturity of the portfolio
3. Maturity distribution of the portfolio
4. Average portfolio credit quality
5. Average weighted yield to maturity
6. Distribution by type of investment.
7. Distribution of transactions among financial counterparties such as Broker/Dealers.
8. Violations of portfolio guidelines or non-compliance issues

XXIV) Benchmark

The Investment Officer shall benchmark monthly portfolio performance duration against available indices which accurately reflect the composition of the investment portfolio, such as the Local

Government Investment Pool. Other indices which may be used include a nationally recognized 3 month Treasury Bill index or a 1-3 Year Us Government/Corporate AA Rated index.

XXV) <u>Accounting Method and Pricing</u>

PCC shall comply with all required legal provisions and Generally Accepted Accounting Principles (GAAP). The accounting principles are those contained in the pronouncements of authoritative bodies including but not necessarily limited to, the American Institute of Certified Public Accountants (AICPA); the Government Accounting Standards Board (GASB); the General Accounting Office (GAO); and the Financial Accounting Standards Board (FASB).

Market valuations shall be obtained for all portfolio holdings on a monthly basis and recorded in the investment performance report for the portfolio. Accounting will record the market value of portfolio holdings as of fiscal year end, each year on June 30.

XXVI) <u>Procedural Review</u>

The investment policy shall be updated periodically as necessitated by material changes in legislative and administrative rules or in the College's investment strategies. In accordance with ORS Section 294.135a, all changes will be submitted to the Oregon Short Term Fund Board for comment prior to review and re-adoption by PCC's Board of Directors.

To ensure consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends, this investment policy will be reviewed and made available to the Board annually.

Any investment held prior to the adoption of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested as provided by this policy.

XXVII) <u>Adoption</u>

These Investment Standards and Practices are adopted by the PCC Board this 21st Day of August, 2014

ORIGINAL POLICY ESTABLISHED: 09/09/1991

REVISION DATES: 07/28/1992
06/10/1997
05/03/2001
07/15/2004
09/16/2010
08/21/2014