

INVESTMENT POLICY

- 1.0 **Purpose.** The purpose of this document is to specify the policies and procedures that support a prudent and systematic program for investment activities involving operating, capital, bond and reserve funds of the District.
 - 1.1 This Investment Policy complies with the Board of Education policy 2.4 Financial Condition and Activities, section 14.
- 2.0 **Scope.**
 - 2.1 This Policy applies to investment of all operating, capital, bond and reserve funds of the District (collectively, the "Portfolio").
 - 2.2 This Policy shall not restrict the ability of the District to invest proceeds from the issuance of District securities in financial obligations permitted through Board-approved bond resolutions or indentures of trust pursuant to which the securities were issued. The standards of care dictated for investments of other District funds shall also pertain to the investment of such proceeds.
- 3.0 **Objectives.** The objectives, in priority order, of the District's investment activities shall be:
 - 3.1 **Safety.** Safety of principal is the foremost objective of the investment program. Investments of the District will be made in a manner that seeks to ensure the preservation of capital in the Portfolio. To attain this objective, the District will endeavor to mitigate credit and interest rate risks.
 - 3.1.1 **Credit Risk:** The District 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 the Authorized Investments section of this Policy; and
 - 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.
 - 3.1.2 **Interest Rate Risk:** The District 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.
 - 3.2 **Liquidity.** The Portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated. This will be achieved through maturity diversification and purchases of securities that have an established secondary market.
 - 3.3 **Yield.** The 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, liquidity needs, and cash flow characteristics of the Portfolio.
- 4.0 **Standards of Care.**
 - 4.1 **Prudence.** The Chief Financial Officer (the "CFO") shall adhere to the guidance provided by the "prudent investor" standard to insure that:

- 4.1.1 When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.
- 4.1.2 This standard of prudence is to be used by all District officers and employees involved in the investment process as well as any external investment advisors.
- 4.1.3 The District recognizes that no investment is totally riskless and that the investment activities of the District are a matter of public record. Accordingly, the District recognizes that occasional measured losses are inevitable in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented, and that the sale of a security is in the best long-term interest of the District.
- 4.1.4 Authorized investment personnel acting in accordance with this Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectation are reported in a timely fashion and appropriate action is taken to control adverse developments.
- 4.2 **Delegation of Authority.**
 - 4.2.1 The District may, in its discretion, contract with one or more investment advisers, registered with the Securities and Exchange Commission under the Investment Adviser Act of 1940, to manage a portion of the District's portfolio assets. Any such advisor shall comply with this Policy and such other written instructions as provided by the District.
 - 4.2.2 While it is understood that the procedures and trading counterparties of a contracted investment adviser may differ from those of the District, contracted investment advisers must maintain internal controls and compliance systems at least as extensive as those of the District in order to assure adequate protection of District assets in keeping with the standards of prudence outlined below.
- 4.3 **Investment Procedures.** The CFO shall establish written procedures for the operation of the investment program, consistent with this Policy, which shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the internal procedures established by the CFO.
- 4.4 **Internal Controls.** The CFO shall establish a system of internal controls, which shall be reviewed annually. The controls shall be designed to prevent loss of funds due to fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of District.

4.5 **Ethics and Conflicts of Interest.** Investment activities shall be performed in accordance with District Policy 4130 and other policies of the District. Officers and employees of the District involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the Superintendent any material financial interests in financial institutions that conduct business with the District, and they shall further disclose any large personal/financial/investment positions that could be related to the performance of the District’s portfolio. Employees and officers shall subordinate their personal investment transactions to those of the District particularly with regard to the timing of purchases or sales.

5.0 **Authorized Investments.**

5.1 The CFO is authorized to invest in those investment vehicles that are specifically listed below and any other investment authorized under C.R.S. § 24-75-601.1 et seq.

5.2 Credit criteria listed in this section refer to the credit rating at the time the security is purchased and are those as published by Standard & Poor’s (“S&P”), a Nationally Recognized Statistical Rating Organization (“NRSRO”). Securities purchased may be rated by Standard & Poor’s, Moody’s Investors Service, or Fitch Ratings, therefore, the ratings equivalents of those referenced by S&P are listed below:

STANDARD & POOR’S	MOODY’S INVESTORS SERVICE	FITCH RATINGS
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
AAAm	Aaa	AAAmmf
A-1+	P-1	F1+
A-1	P-1	F1

In the event that an issuer is downgraded below the minimum rating level for any specific security that is held in the Portfolio, the CFO will review the exposure of that security holding and will determine if it is advisable to sell such holding.

5.3 Maturity restrictions shall be calculated from settlement date to maturity date. Portfolio percentage restrictions by security type and issuer are applicable only on the date of settlement of the investment.

- 5.4 The Portfolio will be limited to an aggregate exposure of 50% for the following investment types: Municipal Bonds, Corporate Bonds, Commercial Paper, Negotiable Certificates of Deposit and Banker's Acceptances.
- **U.S. Treasury Obligations:** Treasury Bills, Treasury Notes, Treasury Bonds and Treasury Strips or those for which the full faith and credit of the United States are pledged for the payment of principal and interest with maturities not exceeding five years from the date of trade settlement. There is no limit on the amount of the portfolio that may be invested in U.S. Treasury Obligations.
 - **Federal Agency and Instrumentality Securities:** Any security issued by, fully guaranteed by, or for which the full credit of the following is pledged for payment: The Federal Farm Credit Bank, the Federal Land Bank, a Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Export-Import Bank, the Tennessee Valley Authority, the Government National Mortgage Association, the World Bank, or an entity or organization that is not listed in this paragraph but that is created by, or the creation of which is authorized by, legislation enacted by the United States congress and that is subject to control by the federal government that is at least as extensive as that which governs an entity or organization listed in this paragraph. Such securities shall be rated at least AA- or the equivalent at the time of purchase by at least two NRSROs and have maturities not exceeding five years from the date of trade settlement. No more than 75% of the Portfolio may be invested in Federal Agency or Instrumentality Securities and no more than 35% may be invested in any one issuer. Subordinated debt may not be purchased.
 - **Time Certificates of Deposits (CDs):** Non-negotiable CDs with maturities less than one year and in FDIC insured state or nationally chartered banks or savings banks. CDs exceeding the FDIC insured amounts shall be collateralized in accordance with the Colorado Public Deposit Protection Act C.R.S. § 11-10.5-101, et seq. No more than 5% of the Portfolio may be invested in time certificates of deposit, and no more than 2% of the Portfolio may be invested in CDs of a single institution.
 - **Negotiable Certificates of Deposit:** Negotiable certificates of deposit denominated in U.S. dollars, issued by a bank that is organized and operating within the United States, that matures within three years from the date of trade settlement, and that at the time of purchase has either a) a long-term rating of at least AA- or the equivalent by at least two NRSROs or b) short-term ratings of at least A-1 or the equivalent by two NRSROs. These rating requirements first apply to the security being purchased and second, if the security itself is unrated, to that of the issuer, provided the security contains no provisions subordinating it from being a senior debt obligation of the issuer. No more than 35% of the Portfolio may be invested in negotiable certificates of deposit, and no more than 5% of the Portfolio may be invested with a single issuer.
 - **Corporate Bonds:** Corporate debt issued by any bank or corporation organized and operating within the United States. Such securities must be dollar-denominated and rated at least AA- or equivalent for longer term securities, and A-1/P-1 or the equivalent at time of purchase by at least two NRSROs. The maximum maturity of such securities shall not exceed three years from the date of trade settlement. No more than 35% of the Portfolio may be invested in corporate bonds, and no more than 5% may be invested with a single corporation.

- **Municipal Bonds:** General Obligations and Revenue Obligations of state or local governments. Such obligations of Colorado (or any political subdivision, institution, department, agency, instrumentality, or authority of the state) shall be rated at least A or the equivalent at the time of purchase by at least two NRSROs. Such obligations of any other governmental entity shall be rated at least AA or the equivalent at the time of purchase by at least two NRSROs.

In addition, certificates of participation or other security evidencing rights in payments to be made by a school district under a lease, lease-purchase agreement, or similar agreement if the security carries at least two ratings by NRSROs and each rating is at least A or the equivalent at the time of purchase.

All Municipal Bonds shall have a final maturity not exceeding five years from the date of trade settlement. The District shall limit its combined investment in such securities to no more than 25% of the total portfolio and 5% per issuer.

- **Commercial Paper:** With maturities not exceeding 270 days from the date of trade settlement and issued by any corporation or bank organized and operating within the United States. Such securities must be dollar-denominated and rated at least A-1 or the equivalent at the time of purchase by at least two NRSROs. No more than 35% of the Portfolio may be invested in commercial paper, and no more than 5% may be invested with a single issuer.
- **Eligible Bankers Acceptances:** With maturities not exceeding 180 days from the date of trade settlement and issued by FDIC insured state or national banks with combined capital and surplus of at least \$250 million. Bankers Acceptance shall be rated at least A-1 or the equivalent at the time of purchase by at least two NRSROs. If the issuing bank has senior long-term debt, it shall be rated at the time of purchase A or the equivalent. No more than 35% of the Portfolio may be invested in bankers acceptances, and no more than 5% may be invested with a single institution.
- **Local Government Investment Pools (“LGIP”):** Authorized under C.R.S. § 24-75-702, that 1) limit assets of the fund to securities authorized by state statute; 2) have a rating of AAA or the equivalent by any NRSRO. There is no limit on the amount of the Portfolio that may be invested in LGIPs.
- **Money Market Mutual Funds:** registered under the Investment Company Act of 1940 and are authorized under C.R.S. § 24-75-601 that 1) are “no-load (i.e. no commission or fee shall be charged on purchases or sales of shares); 2) seek A constant net asset value per share of \$1.00; 3) have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and 4) have a rating of AAAM or the equivalent by any NRSRO. There is no limit on the amount of the Portfolio that may be invested in money market mutual funds.

- **Repurchase Agreements:** Agreements between a seller and a buyer whereby the seller agrees to repurchase the securities at an agreed upon price and usually at a stated time. Such securities subject to these agreements must have a coupon rate that is fixed from the time of settlement until its maturity date, and must be marketable. The title to or a perfected security interest in such securities, along with any necessary transfer documents, must be transferred to the District or to a custodian acting on behalf of the District. Such securities must actually be delivered to a third-party custodian or third-party trustee for safekeeping on behalf of the District. The collateral securities of repurchase agreements must be collateralized at no less than 102% and marked-to-market no less frequently than weekly. Eligible securities consist of only those referenced above (U.S. Treasury Obligations and Federal Agency and Instrumentality Securities). Maximum maturity of such securities shall not exceed one year from the date of trade settlement. No more than 50% of the Portfolio may be invested in repurchase agreements and no more than 10% may be invested with a single counterparty.

Securities that have been downgraded below the minimum ratings described herein may be sold or held at the District's discretion. The Portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

Any investment currently held that does not meet the current guidelines of this Policy shall be exempted from the requirements of this Policy. At maturity or liquidation, such monies shall be reinvested only as provided by this Policy.

6.0 Investment Parameters.

- 6.1 **Sale of Securities.** Fluctuations in market rates or changes in credit quality may produce situations where securities may be sold at a nominal loss in order to mitigate further erosion of principal or to reinvest proceeds of sale in securities that will out-perform the original investment.
- 6.2 **Competitive Bidding.** A record shall be maintained of all bids and offers for securities transactions to support the District's competitive pricing process. Relative offerings shall not be required in the purchase of obligations at their initial auction or offering. Typically, awards will be made to the bidder offering the highest effective yield consistent with the Policy; however, transaction costs, diversification requirements, extraordinary events and other factors may be considered by the CFO when awarding investments.
- 6.3 **Portfolio Duration.** The maturity of the securities in the Portfolio shall be managed with respect to the cash flow needs of District.
- 6.4 **Authorized Financial Dealers and Institutions.** It shall be the policy of the District to purchase securities only from authorized institutions and firms. Trading counterparties shall be limited to (i) primary dealers reporting to the Federal Reserve Bank of New York, or (ii) broker/dealers that qualify under Securities and Exchange Commission Rule 15c3-1 (uniform net capital rule). Broker/dealers will be selected on the basis of their expertise in public cash management and their ability to provide service to the District's account.

6.5 **Authorized Investment Advisors.** District may engage the services of one or more professional investment advisory firms to assist in the management of the Portfolio. Such investment advisors may be granted discretion to purchase and sell investment securities in accordance with this Policy and may utilize their own approved list of broker/dealers. Such list of brokers/dealers will be provided when requested. Such firms must be authorized to conduct business in the State of Colorado and shall be registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

7.0 **Safekeeping and Custody.**

7.1 With the exception of collateral under repurchase agreements (discussed below), all investment securities purchased shall be held in a safekeeping account or trust custody account at a designated third party custodian. For safekeeping accounts, the institution shall issue a safekeeping receipt for each security, listing the specific instrument, par value, rate, CUSIP and any other pertinent information. In addition, the safekeeping or trust custody institutions shall provide a statement on at least a monthly basis listing all securities held in account, including book value and market value of holdings at month end.

7.2 For collateral (purchased securities) under repurchase agreements, the District may utilize tri-party repurchase agreements with an acceptable third-party custodian provided that the District is satisfied that it has perfected interest in the securities used as collateral, and that the District has a properly executed tri-party agreement.

7.3 Delivery vs. Payment. All investment transactions will be executed on a delivery versus payment basis.

8.0 **Reporting Requirements.**

8.1 The CFO shall prepare investment reports on a monthly, quarterly and annual basis. Transaction summaries shall be maintained and available in the office of the CFO or other authorized investment personnel. Quarterly investment reports shall be prepared outlining the total investment return and compare the portfolio's performance to a publicly available index of securities having similar quality and duration characteristics.

8.2 Within 120 days of the end of the District's fiscal year, the CFO shall prepare a comprehensive report on the District's investment program and investment activity. The annual report shall include quarterly comparisons of investment return (for applicable portfolios) and may suggest improvements that might be made in the investment program. Such annual report shall include any other item of significance which may enhance the understanding of the investment program. Each investment advisor shall submit like reports in a timely manner based on the respective terms of each contract and agreement

8.3 All securities holdings reports for the District shall disclose the maturity date, par value, market value, and credit quality of each security.

9.0 **Performance Standards.**

9.1 District's Portfolio is managed with the objective of obtaining a market rate of return, commensurate with identified risk constraints and cash flow characteristics. Because the composition of the Portfolio fluctuates, depending on market and credit conditions, various indices may be used to monitor investment performance.

9.2 The District recognizes that bond proceeds must be invested in accordance with Section 1.148 of the U.S. Internal Revenue Code, related to arbitrage rebate, which limits the investment returns which may be achieved or retained by the District on such proceeds investments. For purposes of this Policy “bond proceeds” shall mean proceeds from the issuance of bonds, certificates of participation or other financial securities issued by the District.

10. **Investment Policy Review and Approval.** The CFO shall conduct a review of the Policy on an annual basis, and any modifications thereto must be approved by the Superintendent.

11.0 **Authorized Investment Summary.** The table below provides only a summary of the authorized investments of the District. For a detailed description of the investment parameters that govern the District’s investments, please see the “Suitable and Authorized Investments” section of this Policy.

The ratings requirements outlined in this summary grid of eligible investments and transactions are those published by Standard & Poor’s (“S&P”), a nationally Recognized Statistical Rating Organization (“NRSRO”). Securities purchased may be rated by Standard & Poor’s, Moody’s Investors Service, or Fitch Ratings, therefore, the ratings equivalents of those referenced by S&P are outlined on page 2 of this policy.

Security Type	Maximum Portfolio %	Maximum Issuer %	Maturity Restrictions	Rating Restrictions
U.S. Treasuries	100%	100%	5 years	N/A
Federal Agencies and Instrumentalities	75%	35%	5 years	AA- by 2 NRSROs
Time Deposit/CD	5%	2%	1 year	FDIC Insured or PDPA
Negotiable CDs	35%	5%	3 Years	AA- or A-1 by 2 NRSROs
Corporate Bonds	35%	5%	3 years	AA- by 2 NRSROs
Municipal Bonds of a Colorado Issuer	25%*	5%*	5 years	A- by 2 NRSROs
Municipal Bonds of a Non-Colorado Issuer	25%*	5%*	5 years	AA- by 2 NRSROs
Municipal Bonds, School District Certificates of Participation	25%*	5%*	5 years	A- by 2 NRSROs
Commercial Paper	35%	5%	270 days	A-1 by 2 NRSROs
Banker Acceptances	25%	5%	180 days	A-1 by 2 NRSROs
Repurchase Agreements	50%	10%	180 days	Collateral required
Local Government Investment Pools	100%	75%	N/A	AAA by 1 NRSRO
Money Market Funds	100%	75%	N/A	AAAm by 1 NRSRO

*The aggregate exposure to municipal bonds may not exceed 25% of the Portfolio, and no more than 5% of the Portfolio may be invested with a single issuer.

Note: The Portfolio will be limited to an aggregate exposure of 50% for the following investment types: Municipal Bonds, Corporate Bonds, Commercial Paper, Negotiable Certificates of Deposit and Bankers Acceptances.

Adams 12 Five Star Schools

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