

TOWN OF DEWEY BEACH INVESTMENT POLICY

The purpose of this document is to establish the investment policy for the Town of Dewey Beach, Delaware. This policy involves money that is both long term and short term as identified to provide for the town's requirements. Adjustments to meet the Town's needs (as provided by the Town Manager) can be accomplished as needed at the direction and action of the Investment Committee. The Investment Committee will review the investment report and provide a quarterly update to the Commissioners and the Town Manager.

Scope

This investment policy applies to all financial assets of the Town, including:

1. The General Fund (short term)
2. The Beach Replenishment Fund (short term component)
3. The Beach Replenishment Fund (long term component)

Delegation of Authority

The Mayor and Town Council delegate authority to recommend and implement investment decisions, consistent with this Policy, to the Investment Committee, in consultation with Town staff on liquidity matters.

1. At the beginning of the fiscal year, the Town Manager will identify the cash reserves that need to be in place for the year's operating budget, and the five year historical general and beach replenishment budget (updated each year). The Town Manager will notify the Investment Committee of any major changes to the cash reserves needed during the year.
2. The Investment Committee will apply an inflation measure such as year over year CPI, to plan year 2 and year 3 cash reserve requirements for planning purposes, taking into account any identified major upcoming expenses.
3. The investment manager appointed to execute the policy will invest the portfolio in accordance with this policy. In particular, the investment manager is accorded full discretion, within policy limits, to (1) select individual securities, (2) adjust the maturity mix, where applicable, and (3) diversify the assets.)
4. The Investment Committee will review the Investment Manager's decisions and performance on a quarterly basis.
5. The Mayor and Town Council retain ultimate authority over all investment decisions.

Objective

The objectives will be sought utilizing the prudent investor concept without incurring a level of rate-of-return volatility materially greater than that generally associated with funds of similar character. The objectives are:

1. Preserve the real (inflation-adjusted) principal value of the town's invested assets.
2. Maintain liquidity and match fund to ensure that the Town can meet its short and long term cash flow requirements.
3. Within the constraints of this Policy, increase the real (inflation-adjusted) value of the portfolio beyond that currently achieved with those funds needed for the Town's short-term operational and capital needs.

Total Return

The investment policy seeks to achieve a reasonable total return, consistent with acceptable investment risk, derived from both appreciation and earnings, and balancing anticipated liquidity needs. The Commissioners have determined that this practice is consistent with the long-term preservations of assets.

Allocation of Assets

The Funds should be allocated as follows:

General Fund & Beach Replenishment Fund (Short Term Component):

		<u>Range</u>
Equities	0%	0%
Fixed Income	60%	40% to 80%
Cash/Cash Equivalents	40%	20% to 60%
Total	100%	

- Allowable Assets
 - Fixed Income: U.S. Treasury and Agency obligations only
 - Cash / Cash Equivalents: Short term highly marketable securities that are readily convertible to cash, including Bank CD's and U.S. Treasury Bills of no more than a 3 month maturity, Commercial bank Money Market and Savings accounts

Beach Replenishment Fund (Long Term Component):

		<u>Range</u>
Equities	25%	15% to 35%
Fixed Income	75%	65% to 85%
Total	100%	

- Allowable Assets
 - Equities: High-quality common stocks or equivalents (i.e., ADRs, convertible bonds) as well as small cap and mid cap stock mutual funds/ETFs, and international and emerging markets stock mutual funds/ETFs. Specific constraints include the avoidance of extremely volatile issues, as well as issues with limited marketability. The investment manager will diversify equities in an attempt to minimize concentrations in any specific industry or issue. No more than 10% of the equity portfolio may be invested in any one company, and the stock price should be above \$5 on a daily closing basis before and after purchase. If a held stock goes below \$5, there will be 60 days before the investment manager needs to sell the security. The investment committee may grant an extension of an additional 120 days, to avoid forced selling of what the investment manager believes is a good stock that declined due to unusual circumstances such as market volatility.
 - Fixed Income: U.S. Treasury and Agency obligations (including Agency-backed MBS, and CMBS), Corporate Bonds and Bond Funds, CDO's / CLO's and ABS, all subject to the following constraints:

- ☐ All individually held fixed income securities, mutual funds and any classes of structured securities held must be rated A- (or equivalent) or better by two of the three major ratings agencies.
 - ☐ The weighted average credit quality of the portfolio shall be AA- or better.
 - ☐ If used, international bonds are limited to 15% of the fixed portfolio.
 - ☐ Except for U.S. Treasury and Agency obligations, the fixed-income portion may not contain more than 10% of a given issuer (regardless of the number of differing issues)
 - ☐ Structured products such as CLOs and ABS are allowed if the investment managers have the proper models to analyze such securities and they are used to achieve diversity of the portfolio in a total return context. They are not to exceed 10% of this portfolio.
 - ☐ The duration of the portfolio should not exceed 120% of the duration of the Barclays Capital Bond Index.
- If there is a risk that the Beach Replenishment Fund may be needed, assets may be moved into cash or cash equivalents to address liquidity needs.

Liquidity

The Town Manager shall notify the investment committee, who will work with the investment manager, of any anticipated need for cash withdrawals in the future. The investment manager may assume that a cash reserve of 20% of the portfolio value is reasonable for investments deemed “short-term” unless otherwise indicated by the Commissioners or Town Manager. For Investments deemed “long-term”, the manager may assume no need to maintain a cash reserve for this purpose other than that indicated by the Commissioners.

Fees and Taxes

Investments should be made with fees and commissions in mind giving consideration to return and risk. Ex: If an S&P 500 ETF is offered with a 2% annual charge and a similar S&P 500 ETF product is offer with a 0.5% charge, the one with the lower charge should be chosen, barring another factor such as liquidity or risk. Commissions should be minimized but not to the detriment of total return or risk.

The Town of Dewey Beach’s tax structure should be accounted for when trading. If there are no taxes the town would pay, then investing in tax-free bonds which generally offer lower yields would not be prudent unless for investment opportunity or risk diversification.

Portfolio Break-Out

The town has two major portfolios, the General Fund and the Beach Replenishment Fund. Balances in the Town’s smaller (minor) portfolios shall be treated according to cash flow needs (short term or long term asset) with minor accounts (those under \$10,000) treated as very short term investments. The exception would be a pension account, which regardless of balance will be considered a long term asset with asset liability management invoked to manage current and future payouts to the participants.

The **General Fund** as the operating fund of the Town of Dewey Beach is used to account for all financial resources (operating and capital) of the Town except for revenue sources that are legally restricted to expenditures for specific purposes. To the extent possible, the Town shall attempt to match its investments of General Fund surplus monies with anticipated cash flow requirements, with those assets treated as a “short-term” asset.

The **Beach Replenishment Fund** monies are restricted as to use to support the Town's Atlantic Ocean beach and, if required, to help finance future beach replenishment projects. It is difficult to predict when, if ever, and to what extent the funds (which have accumulated from a tax on property owners) may be needed. Accordingly, preservation of principal and liquidity of investments are important from a fiduciary perspective. Invest it as a long term asset with 20% of it (the short term component) very liquid.

Performance Evaluation

The relevant benchmarks for each asset class are as follows:

For General Fund and Beach Replenishment Fund (short term component) investments, compare to CPI or other aggregate measure of inflation.

For Beach Replenishment Fund (long term component) investments, compare total return to long term U.S. Treasury Bill (10-Year) yields over the evaluation period.

Financial Shocks and Disasters

In the event of a financial shock, terroristic act, or/and disaster, reinvestment and liquidity needs may suddenly change. The mayor can allow either the Investment Committee chair or the Committee as a whole to work with the Investment Manager to temporarily alter the investment plan to preserve assets or/and increase liquidity. This power will be granted until the next council meeting.

Internal Controls

Internal controls. The Financial Officer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Investment Committee and the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town of Dewey Beach.

Living Document

This investment policy can be considered a “living document” which should be reviewed annually by the Investment Committee.