

**INVESTMENT POLICY  
IMPLEMENTATION PLAN**

For Annual Review



## TOWN OF DEWEY BEACH INVESTMENT POLICY IMPLEMENTATION PLAN

*Approved 5/20/2022*

The purpose of this document is to establish the plan for implementing the investment policy for the Town of Dewey Beach, Delaware as specified in Section 24 of the Town Code. 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 Town Manager or 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)

	Target Allocation	Range
Equities	20%	0-30%
Fixed Income	60%	40% - 80%
Cash/Cash Equivalents	20%	10% - 30%
Total	100%	

#### Allowable Assets:

- Equities: Equities: High-quality common stocks or equivalents (i.e., American depository receipts (ADR), convertible bonds) as well as large-cap stock mutual funds or exchange-traded funds (ETF), whether index-based or actively managed, all subject to the following constraints:
  - o Equities permitted in the Short Term Component shall be limited to “large cap” issues, generally those that are identified in the S&P 500, or other issuers’ securities that (a) trade on U.S. stock exchanges, (b) have a market capitalization at least as large as smallest constituent in the S&P 500, and (c) are value oriented (i.e., trading at levels perceived to be lower than its intrinsic value) or dividend producing. Dividend producing companies include, but are not limited to, companies that, in the view of the investment manager, have a consistent history of paying regular quarterly dividends to shareholders based on longterm profitability, with prospects for stable or increasing earnings and sufficient cash flow (and low debt) to support continued dividend payments.
- Cash or cash equivalents, including: short-term highly marketable securities that are readily convertible to cash, such as bank CDs, U.S. Treasury Bills of no more than three months’ maturity, and commercial bank money market and savings accounts.
- Fixed income: U.S. Treasury and agency obligations (including agency-backed mortgage-backed securities (MBS) and commercial mortgage-backed securities (CMBS), corporate bonds, collateralized debt obligations (CDO), collateralized loan obligations (CLO), and asset-backed securities (ABS), all subject to the following constraints:
  - o All allowable assets may be held as individual securities or within investment funds such as exchange-traded funds (ETFs) or mutual funds), whether index-based or actively managed.
  - o 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.
  - o The weighted average credit quality of the portfolio shall be AA- or better.
  - o International bonds are limited to 15% of the fixed portfolio.
  - o 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)
  - o 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 diversify the portfolio in a total return context. They shall not exceed 10% of this portfolio.
  - o The duration of the portfolio should not exceed 120% of the duration of the Barclays Aggregate Bond Index.

### Beach Replenishment Fund (Long Term Component)

	Target Allocation	Range
Equities	30%	15% - 45%
Fixed Income	70%	55% - 85%
Total	100%	

#### Allowable Assets:

- Cash or cash equivalents (as defined above under “short term component”).
- Fixed income (as defined above under “short term component”).
- Equities: Includes all Equities permitted in the Short Term Component, plus high-quality common stocks or equivalents (i.e., American depositary receipts (ADR), convertible bonds) as well as small-cap, mid-cap, and large-cap stock mutual funds, exchange-traded funds (ETF), and international and emerging markets stock mutual funds/ETFs, whether index-based or actively managed, all subject to the following constraints:
  - o Avoidance of extremely volatile issues, as well as issues with limited marketability.
  - o 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.
  - o The investment manager shall be permitted, in consultation with the Investment Committee, to invest at the time of purchase up to 10% of the total Long Term portfolio in less liquid or illiquid securities (whether characterized as equities or fixed income), which may include investments in closed-end registered investment companies, business development companies (BDCs), real estate investment trusts (REITs) or similar real estate focused investment funds, hedge funds, and private equity funds. Those securities that are not listed on a U.S. exchange (e.g., hedge funds, private equity funds, or unlisted REITs) shall not compose more than 5% of the total Long Term portfolio at time of purchase. Any such investments in less liquid or illiquid securities shall be made in diversified funds as opposed to single issuer investments. For example, the investment manager may invest in a REIT, but a single piece of real property is not a permissible investment. Likewise, the investment manager may invest in a diversified private equity fund but may not invest in a private placement of the securities of a single issuer. For the avoidance of doubt, a “diversified” fund shall have a minimum of ten individual holdings.

#### 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 investment 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. For example, if an S&P 500 ETF or mutual fund is offered with a 2% annual expense and a similar S&P 500 product is offered with a 0.5% expense, the one with the lower charge should be chosen, absent another factor such as liquidity or risk that would justify the higher expenses. 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 when there are comparable taxable bonds (but tax-free to the Town) available unless the tax-free bonds are a better choice due to, for example, 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 “shortterm” 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. It may be invested as a long-term asset if at least 20% of it (the short-term component) is 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 Town Manager 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.

# INVESTMENT POLICY

## Chapter 24 of the Dewey Beach Town Code

*Any mention of the “Investment Committee” is referring to the Finance  
Committee ([Ordinance 839](#) not yet codified)*

*<https://ecode360.com/DE2129/laws/LF2085972.pdf>*

## Chapter 24

### INVESTMENT POLICY

§ 24-1.	<b>Purpose and applicability.</b>	§ 24-4.	<b>Standards of care.</b>
§ 24-2.	<b>Investment strategy.</b>	§ 24-5.	<b>Reporting.</b>
§ 24-3.	<b>Objectives.</b>	§ 24-6.	<b>Amendments.</b>

**[HISTORY: Adopted by the Commissioners of the Town of Dewey Beach 1-17-2009 by Ord. No. 639; amended in its entirety 6-12-2020 by Ord. No. 754. Amendments noted where applicable.]**

#### **§ 24-1. Purpose and applicability.**

- A. The Mayor and Town Council of the Town of Dewey Beach have the responsibility to manage the Town's financial resources in such a manner as to maximize its investment return while preserving its invested principal. The Town's Investment Policy is intended to provide the Town's fiduciaries with guidance as to the planning, management, control and safeguarding of the Town's financial assets. The Investment Policy shall be operated in conformity with all applicable federal, state, local and other legal requirements.
- B. The policy shall apply to the investments of the Town's two major funds, the General Fund and the Beach Replenishment Fund.

#### **§ 24-2. Investment strategy.**

- A. The Investment Policy shall be designed to develop an appropriate strategy for investing portions of the Town's General Fund surplus amounts and Beach Replenishment Fund balances that are not needed to meet short-term operational and capital needs in order to increase the Town's total return on its investments and to provide additional resources for the Town's mid- and long-term requirements.
- B. Inasmuch as the General Fund and Beach Replenishment Fund have different financial objectives, liquidity requirements, and restrictions (Beach Replenishment Fund), the investment strategy of each will be somewhat different and shall differ in accordance with each fund's specific requirements.
  - (1) 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.
  - (2) 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.
  - (3) Allowable assets for investing in either fund for short-term to medium needs include:
    - (a) Cash or cash equivalents, including: short-term highly marketable securities that are readily convertible to cash, such as bank CDs, U.S. Treasury Bills of no more than three

months' maturity, and commercial bank money market and savings accounts.

- (b) Fixed income: U.S. Treasury and agency obligations (including agency-backed mortgage-backed securities (MBS) and commercial mortgage-backed securities (CMBS), corporate bonds and bond funds, collateralized debt obligations (CDO), collateralized loan obligations (CLO), and asset-backed securities (ABS), all subject to the following constraints:

- [1] 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.

- [2] The weighted average credit quality of the portfolio shall be AA- or better.

- (4) Allowable assets for investing to meet long-term needs include:

- (a) Equities: High-quality common stocks or equivalents (i.e., American depositary receipts (ADR), convertible bonds) as well as small cap and mid cap stock mutual funds, exchange traded funds (ETF), and international and emerging markets stock mutual funds/ETFs.

- C. The Mayor and Town Council delegate authority to recommend and implement investment decisions, consistent with this strategy, to the Investment Committee, in consultation with the Town on liquidity matters. The plan of implementation for the investment strategy shall be reviewed at least annually by the Investment Committee and approved by the Mayor and Town Council.

### § 24-3. Objectives.

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:

- A. Preserve the real (inflation-adjusted) principal value of the Town's invested assets.
- B. Maintain liquidity and match fund to ensure that the Town can meet its short- and long-term cash flow requirements.
- C. 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.

### § 24-4. Standards of care.

- A. Prudence. The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio.
- B. 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, investment officials, and Commissioners shall disclose any material interests in financial institutions, including investments and employments with which they conduct business that could interfere in their decisionmaking. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town of Dewey Beach. Employees, investment officials and Commissioners should recuse themselves from

any decision on the status or selection of an investment manager when they have an employment or material interest in the investment manager or a proposed investment manager (in the case of requests for proposals).

- C. Delegation of authority. Authority to manage the investment program is granted by the Mayor and Town Council of Dewey Beach to the Investment Committee. A qualified investment manager selected by the Investment Committee and approved by the Mayor and Town Council shall be responsible for the operation of the investment program in accordance with this investment strategy and the plan of implementation approved by the Mayor and Town Council.

**§ 24-5. Reporting.**

The Investment Committee will review the investment manager's decisions and performance on at least a semiannual basis, with a quarterly basis preferred. Financial reports to the Town shall be provided by the investment manager on a monthly basis.

**§ 24-6. Amendments.**

The Investment Committee shall review the Investment Policy and the implementation plan on an annual basis and recommend changes, if any, to the Town Council for approval. Any changes to this policy or the plan for its implementation must be approved by the Town Council.