

**CITY OF CORDOVA, ALASKA
RESOLUTION 08-10-50**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CORDOVA, ALASKA,
ABOLISHING ALL PREVIOUS INVESTMENT POLICIES AND ADOPTING A
REVISED INVESTMENT POLICY TO PROVIDE GUIDELINES FOR ALL
INVESTMENTS OF THE CITY.**

WHEREAS, in 1990, the City Council of the City of Cordova established an investment policy for investments and management of the City's General Fund Balance and General Reserve Fund principal; and

WHEREAS, on October 5th, 2005, the City Council of the City of Cordova by Resolution 10-05-45, adopted a revised investment policy, for investments and management of the City's General Fund Balance and General Reserve Fund principal, and to include Alaska Municipal League Investments Pool as an authorized investment venue, and designating the City Manager as the Investment Officer, and updating language as recommended by the city's auditing firm, to achieve consistency with the Government Finance Officers Association (GFOA) recommended practices ; and

WHEREAS, on August 21, 2009, at a City Council Special Meeting, the City Council of the City of Cordova unanimously approved the motion "that we select UBS as the financial advisor for the City"; and

WHEREAS, on November 4th, 2009, the City Council of the City of Cordova passed and approved Ordinance 1059 amending Cordova Municipal Code Section 5.44.040, Management of General Reserve Fund, to remove the restrictions on City Investments imposed in the Municipal Code by previous City Council; and

WHEREAS, by Election held on March 2, 2010 the voters approved Proposition #2 which amended City of Cordova Charter, Article V, Section 5-15, Deposit and Investment of funds, by adding the words "ordinance or resolution"; and

WHEREAS, now the City Council of the City of Cordova desires to adopt a revised investment policy, with new provisions which take into consideration the relationship between the purposes and the investments that are suitable for each Fund of the City, and current financial markets including many types of investments of suitable quality that provide superior returns, in particular to provide the opportunity to invest amounts of the Permanent Fund in securities that are suitable for holding long-term, in accordance with the long-term investment purpose of the Permanent Fund; and

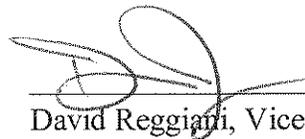
WHEREAS, the primary changes in the revised Investment Policy compared to the current Investment Policy are:

- Explicit provision for the role of External Investment Manager, including criteria for their selection, and their duties and responsibilities.
- Provides for the responsibilities of the City's Investment Officer.
- Requires that there be a Custodian for securities purchased by the City, and prescribes the Custodian's duties.
- Provides an option of hiring an Investment Consultant, whose responsibilities are to revise and update the Investment Policy, and evaluate the performance of the City's Investment Managers.
- Provide for four classes of authorized investments; cash equivalents, fixed income, corporate equity securities and alternative investments, and addresses the appropriate allocation.
- Identifies specific types of assets and transactions that are not suitable for City Funds.
- Provides a section incorporating the recommendations of the Investment Consultant regarding the investment of City monies belonging to Funds other than the Permanent Fund.
- Provides a section incorporating the recommendations of the Investment Consultant regarding the investment of City moneys belonging to the Permanent Fund.

NOW, THEREFORE, BE IT RESOLVED THAT the City Council of the City of Cordova, Alaska, hereby abolishes any previous Investment Policies, and adopts the attached Investment Policy to provide guidelines for all investments of the City.

PASSED AND APPROVED THIS 16th DAY OF AUGUST, 2010




David Reggiani, Vice-Mayor

ATTEST:


Susan Bourgeois, City Clerk

CITY OF CORDOVA, ALASKA

INVESTMENT POLICY

AUGUST 16, 2010

1. Scope & Authority

This Investment Policy (the "IP") governs the investment of the funds the (the "Funds") maintained by the City of Cordova (the "City"). Authority for the creation and enforcement of this IP derives from Section 5-15 of the City Charter.

2. Purpose

The purpose of this IP is to assist the Investment Officers, who shall be the City Manager and his or her designees, in effectively managing and investing the Funds' principal and in monitoring the investment results.

3. Objectives

The Funds will be invested in accordance with Section 5-15 of the City Charter, this IP and written administrative procedures. The objectives of this IP are (i) to maintain the purchasing power of the Funds' corpus, and (ii) to attain a market rate of return throughout budgetary and economic cycles while preserving and protecting capital in the overall portfolio. The Funds will be invested by utilizing a balanced investment approach, within prudent levels of risk, using an investment allocation appropriate to each Fund as provided below. Investments shall be made based on statutory constraints and subject to available designated staffing capabilities.

4. Standards of Care

4.1 Prudent Investor Standard

The Investment Officer shall invest the Funds subject to the following "prudent investor rule": 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. This rule shall be applied in the context of managing an overall portfolio.

4.2 Limitation of Liability

The Investment Officer acting in accordance with written procedures and this IP 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 purchases and sales of securities are carried out in accordance with the terms of this IP.

4.3 Ethics and Conflicts of Interest

The Investment Officer shall refrain from personal business activity that could conflict with the proper execution and management of the investment of the Funds, or that could impair their ability to make impartial decisions. The Investment Officer shall disclose any material interests in financial institutions with which the Investment Officer conducts business. The Investment Officer shall further disclose any personal financial/investment positions that could be affected by the performance of the investment portfolio. All required disclosures shall be made in writing to the City Council by the City Manager acting as Investment Officer, and to the City Manager by any other Investment Officer. The Investment Officer shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

4.4 Delegation of Authority

Authority to manage the investment of the Funds, and responsibility for the operations of the investment program are delegated to the Investment Officer. No person may engage in an investment transaction, except as provided under the terms of this IP and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

4.5 Safekeeping and Custody

All investment securities purchased by the City shall be held in third-party safekeeping by an institution designated as primary agent. The primary agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity, and other pertinent information.

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.

Deposit-type securities (*i.e.*, certificates of deposit) shall be collateralized for any amount exceeding FDIC or any other federal deposit insurance limits. Other investments shall be collateralized by the actual security held in safekeeping by the primary agent. Collateral shall consist only of securities that are legal investments defined by this IP. The market value of the securities held as collateral for a deposit shall never be less than the value of the deposit.

5. Guidelines for External Investment Managers

5.1 General Investment Management Criteria

To achieve the investment objectives of the Funds, external investment managers may be employed to invest the assets. Both separate accounts and collective investment vehicles may be considered. The selection process shall conform

to appropriate municipal procurement requirements. An external investment manager must meet the following minimum criteria:

- 5.1.1 Be a bank, insurance company, independent investment counselor, or investment adviser, as defined by the Investment Advisers Act of 1940.
- 5.1.2 Clearly articulate the investment strategy that will be followed, provide historical performance associated with the strategy, and document that the strategy is consistent with the IP guidelines.
- 5.1.3 Provide historical quarterly performance numbers calculated on a time-weighted basis.
- 5.1.4 Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel.
- 5.1.5 Selected firms shall not be subject to any legal judgments which may reflect negatively upon the firm's ability to perform.
- 5.1.6 Demonstrate highly ethical business principles and strictly manage potential conflicts of interest.
- 5.1.7 Offer a competitive fee structure.
- 5.1.8 Have assets under management in an amount appropriate for the Fund assets assigned.

5.2 Duties and Responsibilities of External Investment Managers

The duties and responsibilities of each investment manager retained for the Funds shall include the following:

- 5.2.1 Manage the Fund assets under its care, custody, and/or control in accordance with the IP objectives and guidelines set forth herein.
- 5.2.2 Exercise investment discretion within the IP objectives and guidelines set forth herein.
- 5.2.3 For each fund under management provide a monthly reports including the following: (i) holdings at the end of the period, with a comparison to the required asset allocation; (ii) transactions; and (iii) the return achieved net of all fees and commissions, with a comparison to the applicable benchmark. Provide quarterly reports that provide additional detail on the investment strategy and outlook, and performance attribution for the prior quarter. Quarterly reports must state whether the portfolio is in compliance with this IP, and note the steps being taken to correct any failures to comply.

Compliance requirements of particular interest include duration, quality ratings, and the use of derivatives.

- 5.2.4 Promptly inform the Investment Officer in writing regarding all material matters and changes within the investment management firm pertaining to the investment of Fund assets, including, but not limited to:
- a. Investment strategy
 - b. Portfolio structure
 - c. Tactical approaches
 - d. Ownership
 - e. Organizational structure
 - f. Financial condition
 - g. Professional staff
 - h. Recommendations for guideline changes
 - i. All material, legal, SEC, and other regulatory agency proceedings affecting the firm
 - j. Significant account losses
 - k. Significant growth of new business
- 5.2.5 Promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Funds set forth herein. Each investment manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto.
- 5.2.6 Utilize the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like investment programs with like aims in accordance and compliance with all applicable laws, rules, and regulations from local, state, federal, and international political entities.
- 5.2.7 Adopt a brokerage policy that ensures that all transactions effected for the Funds are "subject to the best price and execution."

- 5.2.8 Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire IP set forth herein, and as modified in the future.
- 5.2.9 Provide on an annual basis a disclosure concerning whether the firm makes use of soft dollars. If the firm does use soft dollars, the report shall disclose how the soft dollar benefits are utilized.
- 5.2.10 The market value of all investments shall be calculated at least monthly and a statement of the market value of the portfolio shall be issued at least monthly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools." In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

5.3 Duties and Responsibilities of the Investment Officer

The Investment Officer shall:

- 5.3.1 Invest the assets of the Funds in accordance with this IP and the Cordova Municipal Code and Charter.
- 5.3.2 Coordinate the presentation of information from the investment manager and/or investment consultant to the City Council.
- 5.3.3 Administer investment consultant, investment manager, and custodian contracts.

5.4 Duties and Responsibilities of the Custodian

The Custodian shall:

- 5.4.1 Provide safekeeping and custody of securities purchased by investment managers on behalf of the Funds.
- 5.4.2 Provide for timely settlement of securities transactions.
- 5.4.3 Maintain short-term investment vehicles for investment of cash not invested by investment managers.
- 5.4.4 Check all manager accounts daily to make sure all available cash is invested.
- 5.4.5 Collect interest, dividend, and principal payments on a timely basis.

- 5.4.6 Process corporate actions.
- 5.4.7 Price all securities on a daily basis.
- 5.4.8 Provide monthly, quarterly, and annual reports.
- 5.4.9 Provide securities lending services.

5.5 Duties and Responsibilities of the Investment Consultant

The Investment Consultant, if one is utilized by the City, shall provide general consulting services in connection with the investment of Fund assets. As directed, the Consultant will:

- 5.5.1 Review this IP to assure it is consistent with each Fund's goals and objectives.
- 5.5.2 Conduct and review an asset allocation study to establish the classes of assets, the strategy and style to be used within each class of assets, levels of risk, acceptable risk tolerance, and predicted rates of return that will meet each Fund's goals and objectives.
- 5.5.3 Recommend investment manager performance standards and guidelines to monitor and measure investment managers.
- 5.5.4 Provide guidelines as to the selection of investment managers and custodians for the Funds.
- 5.5.5 Conduct a quarterly analysis of, and report the performance of, the investment manager(s).

6. Authorized Investments

Subject to the asset allocation policy applicable to each Fund, in order to provide both security and flexibility for the investment of the Funds and to provide the greatest interest revenue consistent with safety, only the following investments of the City's funds will be authorized:

6.1 Cash Equivalents

- 6.1.1 Treasury bills
- 6.1.2 Discount Notes
- 6.1.3 Certificates of Deposit (to the extent guaranteed as to the payment of principal and interest by any agency or instrumentality of the United States)

6.1.4 Money Market Funds, taxable or tax-exempt

6.2 Fixed Income Securities

6.2.1 U.S. government and agency securities and instrumentalities of Government Sponsored Corporations

6.2.2 Investment grade corporate obligations or corporate obligations guaranteed by the FDIC through its Temporary Liquidity Guaranty Program

6.2.3 Securitized assets, including MBS/ABS/CMBS (Mortgage Backed Securities/Asset Backed Securities/Commercial Mortgage Backed Securities)

6.2.4 State and local governments

6.2.5 Yankee Bonds

6.2.6 Cash Covered TBA (to be announced) rolls

6.2.7 Mortgage Pass Thru's

6.2.8 Investments through Alaska Municipal League Investment Pool, Inc., an investment pool and nonprofit corporation established under AS 37.23

6.2.9 Repurchase agreements which shall be consistent with GFOA recommended Practices on Repurchase Agreements

6.3 Equity Securities

Equity securities of U.S. and International Corporations. Individual equities are to be traded on one of the national or regional securities exchanges or in the national Over the Counter Market (OTC). Direct individual equity investments shall not exceed five percent (5%) at cost or ten percent (10%) at Market Value of the Fund's aggregate market value. Qualified Equity Securities are:

6.3.1 Common Stocks

6.3.2 Convertible Notes and Bonds

6.3.3 Convertible Preferred Stocks

6.3.4 American Depository Receipts (ADRs) of Non-U.S. Companies

6.3.5 Stocks of Non-U.S. Companies (Ordinary Shares)

6.3.6 REITS — Real Estate Investment Trusts

6.3.7 Exchange Traded Funds

6.4 Alternative Investments

Alternative Investments constitute capital investment that is not attributable to the traditional asset classes such as equities, bonds and money market products. They show little correlation with the equity and bond markets and therefore aid in overall portfolio diversification and risk management.

6.5 Mutual Funds

A Fund may be invested in mutual funds whose holdings consist entirely of investments that are authorized investments for that Fund.

7. Prohibited Assets and Transactions

7.1 Prohibited Assets

Assets that fail to comply with the Prudent Investor Act are prohibited under this IP. Such prohibited assets shall include, but are not limited to direct investment in:

7.1.1 Options

7.1.2 Limited Partnerships

7.1.3 Venture-Capital Investments

7.1.4 Real Estate Properties

7.1.5 Interest-Only ("IO"), Principal-Only ("PO"), and Residual Tranche CMOs (Collateralized Mortgage Obligations)

7.1.6 Derivatives, except those included in the Allowable Assets listed in this policy

7.2 Prohibited Transactions

Prohibited transactions shall include, but are not limited to the following:

7.2.1 Short Selling of individual securities held as direct investment

7.2.2 Margin Transactions

7.2.3 Uncovered TBA rolls

8. Specific Requirements for Funds other than the Permanent Fund

8.1 Purpose

Capital project accounts are established from time to time to hold funds that will be expended for City capital projects. The purpose of the Central Treasury account is to provide funding for City operations, to provide for a proper matching of revenues with operating expenses within a fiscal year, and to provide a reserve for extraordinary expenses.

8.2 Asset Allocation

Assets in Funds other than the Permanent Fund shall be allocated only between fixed income and cash equivalents. The Investment Officer will review and adopt an asset allocation policy for investment of assets in each Fund on an annual basis. This policy shall comply with all the requirements of this IP and shall be authorized by the City Council via resolution.

8.3 Index Benchmark

The index benchmark for fixed income and cash equivalents shall be the Merrill Lynch 1-3 Year Treasury Bond Index

8.4 Guidelines for Fixed Income Investments and Cash Equivalents

- 8.4.1 Investment grade corporate securities and Yankee Bonds must be rated BBB-/Baa3 or better by Standard & Poor's, Moody's Investors Services ("Moody's"), Fitch, or another nationally recognized statistical ratings organization ("NSRO"). State and local government obligations must have an underlying rating of at least A-/A3. Securitized Assets must be rated AAA/Aaa by Standard & Poor's, Moody's, Fitch, or NSRO. Money Market Funds shall contain securities having a rating of at least A-1/P-1. Ratings under this subparagraph 8.4.1 apply at the time of purchase.
- 8.4.2 In the event of a downgrade in the rating of a security held by the Fund, the Investment Officer may hold the security if it is rated BBB-/Baa3 or higher. In the event only one of the ratings of a security is downgraded below BBB-/Baa3, the higher rating of Standard & Poor's, Moody's, or Fitch shall govern.
- 8.4.3 Fixed income maturity/duration/quality restrictions are as follows:
 - a. Maximum maturity/average life for any single security is 30/5 years.

- b. Effective portfolio duration may not exceed 125% of the duration of the Merrill Lynch 1-3 Year Treasury Bond Market Index.
- c. Average portfolio quality should be at least AA/Aa2.

8.5 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 (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same day liquidity for short-term funds.

9. Specific Requirements for the Permanent Fund

9.1 Purpose

Pursuant to CMC 5.44.020, the purpose of the Permanent Fund (also known as the General Reserve Fund) is to provide a continuing source of funding for the capital and operating expenses of the City, to assist in minimizing the tax burden to the citizens of Cordova, and preserve in trust assets of the City for the benefit of present and future generations of Cordova residents.

9.2 Asset Allocation

Assets in the Permanent Fund shall be allocated among equity, fixed income, cash equivalents and alternative investments. The Investment Officer will review and adopt an asset allocation policy for investment of Permanent Fund assets on an annual basis. This policy shall comply with all the requirements of this IP and shall be authorized by the City Council via resolution.

9.3 Index Benchmark

The index benchmark for fixed income and cash equivalents shall be the Barclay's Intermediate Government/Credit Index.

9.4 Guidelines for Fixed Income Investments and Cash Equivalents

- 9.4.1 Corporate securities and Yankee Bonds held as direct investments must be rated BBB-/Baa3 or better by Standard & Poor's, Moody's Investors Services ("Moody's"), Fitch, or another nationally recognized statistical ratings organization ("NSRO"). State and local government obligations held as direct investments must have an underlying rating of at least A-/A3. Securitized Assets held as

direct investments must be rated AAA/Aaa by Standard & Poor's, Moody's, Fitch, or NSRO. Securities in a suitably diversified bond mutual fund need not meet these rating requirements. Money Market Funds shall contain securities having a rating of at least A-1/P-1. Ratings under this subparagraph 9.4.1 apply at the time of purchase.

9.4.2 In the event of a downgrade in the rating of a security held by the Fund, the Investment Officer may hold the security if it is rated BBB-/Baa3 or higher. In the event only one of the ratings of a security is downgraded below BBB-/Baa3, the higher rating of Standard & Poor's, Moody's, or Fitch shall govern.

9.4.3 Fixed income maturity/duration/quality restrictions are as follows:

- a. Maximum maturity/average life for any single security is 30/10 years.
- b. Effective portfolio duration may not exceed 125% of the duration of the Barclay's Intermediate Government/Credit Index.
- c. Average portfolio quality should be at least A+/A1.