

Resolution No.: 14-78 | Investment Policy**Responsible Department:** Administration / Finance & Accounting**Effective Date:** December 16, 2014**Supersedes:** June 18, 2012 (Res. 12-42)**Personnel Covered:** All Employees

POLICY STATEMENT

The Phoenix-Mesa Gateway Airport Authority (“PMGAA” or “Authority”) wishes to define and implement a policy governing the daily investment of all monies invested by PMGAA, consistent with the Government Finance Officers Association’s best practices and in accordance with all appropriate federal and state guidelines including, but not limited to, Arizona Revised Statutes (A.R.S.) Section 28-8522 defining the Authority as: 1) A special purpose district for purposes of Article IX, Section 19, Constitution of Arizona; 2) A tax levying public improvement district for purposes of Article XIII, Section 7, Constitution of Arizona, and 3) A municipal corporation for all purposes, including the purposes of Title 35, Chapter 3, Articles 3.2, 3.3, 4, 5 and 7, and Arizona Revised Statutes Title 35, Chapter 2 titled “Handling of Public Funds”, under which the definition and investment of Public Monies are defined.

PURPOSE & SCOPE

This policy applies to the investment of all funds, excluding the investment of employees' retirement and deferred compensation funds and proceeds from bond issues. Employees' retirement funds are administered and invested by a separate fiduciary, the Arizona State Retirement System. Deferred compensation investments are managed by a qualified contracted firm subject to Board of Directors approval. The investment of proceeds from each bond issue is covered by a separate investment policy (per bond issue), and are typically outlined and governed by each bond issue's Trust Agreement, as well as the relationship between the Authority and Trustee.

DELEGATION OF AUTHORITY

The authority to manage the Authority's investment program is granted by the Executive Director/CEO to the Chief Financial Officer (CFO) and the CFO's appropriate staff members. The CFO and designated staff member will carry out an investment program that is consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the CFO.

Policy No.: 14-78 | Investment Policy**INVESTMENT OBJECTIVES**

The Authority's primary investment objectives are as follows, in order of priority:

- A. **Safety:** Preservation of capital and the applicable and appropriate collateralization of investments are of paramount importance. Adhering to proper security selection, portfolio diversification and maturity limitations will help achieve safety of principal for the Authority.
- B. **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 consistent with cash outflow requirements. In order to make certain that cash outflow demands are consistently met in a timely manner, the Authority will ensure that at least 50% of its investments are made into "Authorized Investments" (as defined below) that can be redeemed and/or cashed out on a no-more-than one business day basis.
- C. Alternatively, the Authority's remaining investments may be made into "Authorized Investments" (as defined below) that are considered medium-term, requiring no more than 30 days to cash out or redeem from the date of notice to do so.
- D. **Yield:** The investment portfolio shall be designed with the objective of attaining a market rate of return while taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

COLLATERALIZATION

The Authority's CFO and his or her investment designee will act according to the "prudent person" standard in seeking the highest level of collateralization and securitization possible regarding all Authority investments governed by this policy. Where possible and allowable by state law and in accordance with the Government Finance Officers Association (GFOA) Recommended Practices on the Collateralization of Public Deposits, full insurance (i.e., FDIC where applicable) and/or collateralization will be required on all non-interest bearing demand deposits, interest bearing demand deposits, and interest bearing savings accounts including, but not limited to, checking accounts and non-negotiable certificates of deposit.

Policy No.: 14-78 | Investment Policy**DIVERSIFICATION**

It is the Authority's policy to diversify its investment portfolios. To eliminate risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all of the Authority's investments funds shall be diversified by maturity, issuer, and class of security. Diversification strategies shall be determined and revised periodically by the CFO, and reviewed and approved by the Executive Director/CEO.

STANDARDS OF CARE**I. Prudence**

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing investments of an overall portfolio. Investment officers acting in accordance with written procedures and the Authority's investment policy 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 the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The "prudent person" standard states that, "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."

II. 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 and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Authority.

AUTHORIZED AND UNAUTHORIZED INVESTMENTS

Authorized investments are outlined in the A.R.S. and GFOA's Sample Investment Policy.

Policy No.: 14-78 | Investment Policy**I. Authorized Investments**

Suitable and authorized investment types will be consistent with A.R.S. and GFOA guidelines. This policy permits the following types of investments:

- A. U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available;
- B. U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- C. Certificates of deposit and other evidences of deposit at financial institutions that are insured by the FDIC;
- D. Certificate of Deposit Account Registry Service (CDARS) that are insured by the FDIC;
- E. Bankers' acceptances;
- F. Non-interest bearing deposits that are fully insured by the FDIC;
- G. Interest bearing savings accounts that are backed by the full faith of the Servicing Bank and in case of a default by the Servicing Bank are insured by the FDIC and further collateralized by a Public Funds Collateralization Program mainly secured by U.S. Treasury obligations, U.S. Government Agency obligations;
- H. Commercial paper, rated P-1 by Moody's or A-1 or better by Standard & Poor's;
- I. Investment-grade obligations of state, provincial and local governments and public authorities;
- J. Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities; and
- K. Local government investment pools (LGIPs) either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation, whose investment criteria meet the investment criteria of the Authority

II. Unauthorized Investments

The following are Unauthorized Investments and include, but are not limited to, the following:

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- A. Corporate stocks;
- B. Corporate bonds;
- C. Interests, debt, subordinated debt and/or convertible debt in a limited liability company of any size or type;
- D. Any type of derivatives including, but not limited to, futures contracts, options of any type (puts, calls, etc.), swaps, collars, etc.;
- E. Investments in commodities;
- F. Real estate;
- G. Limited partnerships;
- H. Negotiable Certificates of Deposit;
- I. “Interest Only” and/or “Principal Only” mortgage backed securities; and
- J. Shares, interests, debt, subordinated debt or convertible debt of any start-up or early stage companies.

AUTHORIZED FINANCIAL INSTITUTIONS AND BROKER/DEALERS

The main parameters defining a Servicing Bank/Authorized Financial Institution and Broker/Dealers are defined by A.R.S. Title 35 - Public Finances and/or the GFOA.

An Authorized Financial Institution and/or Servicing Bank and/or Broker/Dealer is defined as any that qualifies to become an eligible depository for the deposits of public monies that has: 1) A total capital structure of \$10 million or more and at least five (5) years of operation, 2) Resources of \$100 million or more, and 3) Is otherwise in a sound condition. If the aforementioned parameters are met, an Authorized Financial Institution/Servicing Bank and/or Broker/Dealer is eligible to be the Authorized Financial Institution/Servicing Bank and/or Broker/Dealer for the deposits of the Authority’s invested monies. This definition and section does not require the Authority to utilize the services of any specific Authorized Financial Institution/Servicing Bank or Broker/Dealer.

Additionally, per the GFOA’s guidelines, all financial institutions desiring to become qualified for investment transactions from the Authority must have the following

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- A. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines;
- B. Proof of National Association of Securities Dealers (NASD) certification;
- C. Proof of state registration;
- D. Certification of having read and understood and agreeing to comply with the Authority's investment policy; and
- E. Evidence of adequate insurance coverage.

REPORTING

The CFO shall report the status of the Authority's investments at least quarterly as part of the Executive Director's Office written month-end reporting process to both Senior Staff and the Phoenix-Mesa Gateway Airport Authority Board of Directors. The following information shall be included in this report:

- A. Total amount of cash invested at beginning of period;
- B. Allocation of cash invested among Authorized Investments during period reported upon;
- C. Yield per Authorized Investment; and
- D. Total amount of cash invested at end of period.

Additionally, the CFO and designee shall make certain that investment performance and reporting for the fiscal year are adequately discussed in the Management Discussion & Analysis Section and/or Footnotes of the Authority's annual report.