

**CITY AND COUNTY OF DENVER**

**DEPARTMENT OF FINANCE – CASH, RISK & CAPITAL FUNDING**

**INVESTMENT POLICY**



Adopted January 1, 2014  
Amended September 30, 2021

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## **A. POLICY**

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It is the policy of the City & County of Denver to invest its funds with the goal of obtaining the highest investment return consistent with the preservation of principal and provision of the liquidity necessary for daily cash flow demands. All such investment activity shall conform to Section 2.5.3(c) of the Charter of the City and County of Denver, and Section 20-21 of the Denver Revised Municipal Code, attached as the A exhibits. It is also the policy of the City and County of Denver to ensure that proceeds of tax-exempt bond issues are invested in accordance with Internal Revenue Service (IRS) requirements, including federal arbitrage rebate requirements as specified in the Internal Revenue Code.

## **B. SCOPE**

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This Investment Policy applies to all investment activity of the City and County of Denver under the control of the Manager of Finance, including investments of certain monies held in the following fund types:

General Fund,  
Special Revenue Funds,  
Debt Service Funds,  
Capital Projects Funds,  
Enterprise Funds, and  
Trust and Agency Funds

as presented and accounted for in the City and County of Denver's Comprehensive Annual Financial Report (CAFR). Other monies that may from time to time be delegated to the Manager of Finance for investment shall also be administered in accordance with this Investment Policy. Investment activities of the Denver Water Board and the Denver Employee's Retirement Plan exist separately and are not governed by this Policy.

## **C. PRUDENCE**

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Investments shall be made with judgment and care, under prevailing circumstances, which a person of prudence, discretion and intelligence exercises in the management of their own affairs, not for speculation, but for investment, considering the safety of principal as well as the income to be derived.

The standard of prudence to be used by City and County of Denver investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officials acting in accordance with this Investment

Policy, its companion Investment Guidelines and Procedures, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes.

## **D. INVESTMENT OBJECTIVES**

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The City and County of Denver funds shall be invested in a manner designed to accomplish the following objectives, which are listed in order of priority:

1. SAFETY -- Safety of principal is the foremost objective of this Investment Policy. Investments shall be undertaken in a manner that seeks to ensure the preservation of principal.
2. LIQUIDITY -- Investments will remain sufficiently liquid to enable the City to meet all needs for cash which might reasonably be anticipated. Adequate, but not excessive, liquidity shall be the objective.
3. YIELD -- Investments shall be managed with the objective of attaining the highest total rate of return consistent with the safety of principal and liquidity objectives.

These investment objectives will be applied independently to each investment portfolio of the City and County of Denver.

## **E. RISKS**

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Investments shall be managed in accordance with Modern Portfolio Theory management principles to compensate for actual or anticipated changes in market interest rates.

To the extent possible, investment maturity will be matched with anticipated cash flow requirements of each investment portfolio. Additionally, to the extent possible, investments will be diversified by security type and institution. This diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Deviations from expectations shall be reported in a timely fashion and appropriate action taken to control adverse developments.

## **F. DELEGATION OF AUTHORITY**

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Authority to manage the City and County of Denver's investments is derived from Section 2.5.3(c) of the Charter of the City and County of Denver, attached as Exhibit A-1,

and from Section 20-21 of the Denver Revised Municipal Code, attached as Exhibit A-2. Management responsibility for the investment program resides with the Manager of Finance, who shall establish written procedures for the operation of the investment program consistent with this Investment Policy. Such procedures shall include explicit delegation of authority to employees, see Exhibit B, responsible for investment transactions and shall establish a system of controls to regulate the activities of employees who are involved in the execution of investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Manager of Finance.

## **G. MITIGATING CREDIT RISK IN THE PORTFOLIO**

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Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The City and County of Denver will mitigate credit risk by adopting the following strategies:

1. No more than 5% of the total portfolio may be invested in securities of any single issuer, other than the US Government, its agencies and enterprises, supranationals, local agency government investment pools, money market funds and repurchase agreements;
2. The City and County of Denver may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the credit quality, liquidity or yield of the portfolio in response to market conditions or risk preferences;
3. If securities owned by the City and County of Denver are downgraded by a NRSRO to a level below the credit rating required by this Investment Policy, it will be the policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio. The decision will be based on its current maturity, the economic outlook for the issuer, and other relevant factors. The Manager of Finance will be notified of any such downgrades and the decision made by the City's Investment Team.

## **H. INVESTMENT DIVERSIFICATION**

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The City and County of Denver's investment portfolios will be adequately diversified to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolios will be managed to be flexible depending upon the outlook for the economy, the securities markets and the City and County of Denver's anticipated cash flow needs.

The City and County of Denver manages two active portfolios with a liquidity component and underlying strategies in each, plus two specialty portfolios. The active portfolios include;

1. **Liquidity Component** – comprised of assets held in the following two portfolios that have a maturity of one day to one year to provide operational funding needs.
2. **Consolidated Portfolio** – pooled securities managed for the General, Special Revenue, Debt Service, Capital Projects, Enterprise, Trust, and Agency Funds. Underlying strategies include a liquidity component referenced in H.1., a 1-5 year component comprised of assets that have final maturities or average lives of no more than 5 years and 90 days, and a 1-10 year component comprised of assets that have final maturities of no more than 10 years unless otherwise specified in this policy.
3. **Airport Reserve Portfolio** – Assets segregated to comply with requirements contained in the Denver International Airport (DIA) Master Bond Ordinance. Underlying strategies include a liquidity component referenced in H.1. and a 1-10 year component comprised of assets that have final maturities of no more than 10 years unless otherwise specified in this policy.

Portfolio and strategy benchmarks are comprised of blended Intercontinental Exchange Bank of America Merrill Lynch Indices constructed with duration and asset allocation constraints.

## **I. COLLATERALIZATION**

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Collateralization will be required on three types of investments: uninsured certificates of deposit, repurchase agreements and security lending agreements.

1. Uninsured Certificates of Deposit  
Uninsured certificates of deposit (CD) with Denver banks shall be collateralized in accordance with the State's Public Deposit Protection Act (PDPA). The PDPA requires at least 102% collateralization of funds based upon the highest daily amount of public funds on deposit in the prior month. Compliance with the Act is monitored by the State Division of Banking. Additionally, CD's are insured by their respective Federal regulatory agencies up to statutory limits. Under no circumstances shall the City invest in certificates of deposit with local institutions which are not Eligible Public Depositories as defined under Colorado law (and therefore are not required to collateralize public deposits in accordance with PDPA).
2. Repurchase Agreements and Security Lending Agreements  
At inception, repurchase agreements and security lending agreements shall be collateralized at no less than 102% of the principal amount of the investment plus accrued interest by obligations of the United States Government, United States Government agencies and United States Government sponsored corporations. All such collateral shall have a maximum maturity of thirty years. Collateral will be marked to market at any time in accordance with the agreement, but no less frequently than weekly. Additional collateral will be

required upon market valuations below 101%, as measured by the cumulative market value of all collateral held against all money invested under Repurchase and Security Lending agreements on a dealer by dealer basis.

## **J. CUSTODY**

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1. All securities, with the exception of Money Market Mutual Funds, Local Government Investment Pools, & Certificates of Deposit, are to be held at the contracted custodial bank selected by the Manager of Finance in the name of the City and County of Denver.
2. All securities are to be settled (purchased/redeemed) on a delivery versus payment (DVP) basis.

## **K. SECURITY SELECTION AND ELIGIBLE DEALERS**

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Investments acquired by city investment staff will be selected competitively by any method determined to be in the best interests of the City. These may include processes using available electronic screening or trading resources and may also include analytical evaluations which effectively results in a competitive selection, taking into account current market conditions and the specific products being acquired. Price of execution will be the primary determinant of selection. However, given equal prices, preference will be given to the dealer who added value to the City through the initiation of a trade idea, if applicable, or to any eligible firms who has provided high quality service and aggressive rates on day-to-day investments of the City over the long term. Trades with approved broker-dealers will be restricted to each brokerage firm's net capital for non-U.S. government securities.

Eligible dealers for the City's fixed income transactions shall include primary dealers and other qualified dealers based on a competitive selection and review process. Minimum criteria for consideration shall include a minimum net capital in excess of \$100 million for primary dealers, other qualified dealers must have no less than \$5 million net capital, and both primary and other qualified dealers must have an institutional sales office that has been in place for a minimum of 5 years with adequate staffing to provide backup sales coverage. Firms with a local Denver sales office may receive preference. The City expects to maintain an approved broker-dealer list that includes 3-5 non-primary brokers that encourages individuals with diverse backgrounds in accordance with Executive Order No. 101. Contracted investment managers may qualify brokers using the investment manager's internal selection process that meets the objectives of this section.

## **L. INVESTMENT ADVISORY COMMITTEE**

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Pursuant to Section 20-21 D. of the Revised Municipal Code of the City and County of Denver, the Manager of Finance shall appoint an Investment Advisory Committee to advise the Manager regarding departmental investment activities. Members of the Committee must certify that they have no conflict of interest with the City's investment activities, including but not limited to having an interest in: the sales of securities to the City; the structuring and/or acquisition of securities for an escrow for the refunding of outstanding City obligations; or a service which provides ratings related to investments. Members shall serve without compensation for two-year terms, subject to reappointment by the Manager of Finance without limitation. The duties and responsibilities of the Investment Advisory Committee include but are not limited to:

1. Review the City's Investment Policy, proposed Policy changes and portfolio performance standards; and
2. Provide an independent third-party review of investment results against policy objectives and market conditions; and
3. Provide recommendations during turbulent or unusual market events; and
4. Provide other assistance to the Manager upon request.

## **M. INVESTMENT ADVISOR OR CONSULTANT (ADVISOR)**

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The Manager of Finance may appoint an independent Advisor to advise the City and County of Denver on investment activities. The Advisor shall serve at the Manager of Finance's discretion. It is expected that any Advisor is to be selected through a competitive process, unless the Manager determines that the circumstances of such an appointment warrant an alternative method. If such an appointment is made absent a competitive process, it is further expected that such appointment will be for a clear and compelling rationale, e.g. a narrowly defined scope of work on a limited scope engagement and/or a limited duration of not greater than 12 months. The duties and responsibilities of the Advisor may include:

1. Providing advice and analysis on the City and County of Denver's Investment Policy, portfolio management techniques, portfolio structures or new investment securities and products;
2. Management of portfolio assets as assigned by the Manager of Finance;
3. Assistance in developing or improving and implementing cash flow modeling;
4. Providing advice on investment benchmarking and performance reporting;

5. Evaluation of the capabilities and usage of software utilized in management of and accounting for the investments;
6. Assisting in any investment related presentations to City Council; and
7. Providing analysis, advice and assistance on other investment-related matters.

## **N. ADDITIONS AND CHANGES**

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This Investment Policy may be changed under the direction of the Manager of Finance as conditions warrant. All additions and changes to this Investment Policy must comply with Section 2.5.3(c) of the Charter and Section 20-21 of the Denver Revised Municipal Code. The IAC shall be advised of any changes either prior to or subsequent to the effective date of the change. The Investment Policy shall be reviewed no less than once a year.

## **O. ETHICS AND CONFLICTS OF INTEREST**

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Employees involved in the investment process shall not engage in personal business activity that could conflict with the proper management of the portfolio or which could affect their ability to make impartial investment decisions. Employees shall subordinate their personal investment transactions to those of the City and County of Denver, particularly with regard to the timing of purchases and sales. Employees shall disclose to the Manager of Finance any material financial interests in financial institutions that conduct business with the City, and any significant personal financial/investment positions that could be related to the performance of the City and County of Denver's portfolio.

## **P. SOCIAL RESPONSIBILITY**

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The City and County of Denver will make its best efforts to participate in securities issued by firms that are inclusive of environmental, social, and governance (ESG) factors, and meet Investment Policy objectives.

Best efforts will be made, with the resources available, to ensure that Denver does not participate in an ownership or capital-providing capacity with entities that;

1. Directly or indirectly participate in or support activities that do not have respect for human rights around the world; or
2. Are conducting business with a terrorist-sponsoring State

## **Q. PERFORMANCE STANDARDS**

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The portfolio will be managed to obtain a market rate of return or higher compared to indices selected by the Manager of Finance, taking into account the objectives of this Investment Policy.

## **R. PROCEDURES**

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Specific securities transaction procedures shall be established by the Department of Finance.

## **S. COMPLIANCE**

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Compliance measurement for the Consolidated, Airport Reserve and Specialty portfolios is to be measured separately unless otherwise indicated in this policy.

## **T. AUTHORIZED INVESTMENTS**

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The following list of authorized securities shall be strictly interpreted and applied at the time of purchase. This list and the constraints therein are applied to the City's Consolidated and Airport Reserve Portfolios. The Consolidated, Airport Reserve and Specialty portfolios identified by name in this policy will adhere to the credit ratings requirements of the authorized investments listed in this section. The City operates two specialty portfolios that have different objectives with different diversification requirements. These differences are explained in section U. Any deviation from this list must be pre-approved by the Manager of Finance in writing.

In the event a discrepancy is found within this policy or with the Charter, the Manager of Finance will review the policy and make the determination of a security's eligibility and document their conclusion.

The Manager of Finance shall have the authorization to waive the stated portfolio constraints when such action is deemed to be necessary or desirable and in the best interest of the City and County of Denver. Any such waiver shall be proposed by staff responsible for the City's investment administration. A memorandum will be prepared to convey a recommendation to the Manager of Finance. The Investment Advisory Committee (IAC) shall be advised of any waivers either prior to or subsequent to the effective date of the waiver.

For the purpose of this document Nationally Recognized Statistical Rating Organization (NRSRO) are defined as Moody's, Standard & Poor's and Fitch Rating Agencies.

All investments must be U.S. dollar-denominated.

Section 2.5.3(c) of the Charter of the City and County of Denver authorizes the Manager of Finance to invest in the following securities:

### U.S. Treasury and other government obligations

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For which the full faith and credit of the United States are pledged for the payment of principal and interest

1. The maturity does not exceed 10 years from date of settlement;
2. Up to 100% of a portfolio may be invested in U.S. Treasury securities.

### U.S. Federal Agency or U.S. government-sponsored obligations

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For the purposes of this portfolio, investments of senior enterprise obligations, participations, or other instruments that include those issued by or fully guaranteed as to principal and interest by United States agencies or United States government-sponsored enterprises;

1. The maturity does not exceed 10 years from date of settlement;
2. No more than 80% of the total portfolio may be invested in U.S. Federal Agency securities;
3. No more than 25% per Farm Credit Obligations, Federal Home Loan Mortgage Obligations, Federal National Mortgage Association Obligations, Federal Home Loan Bank Obligations, Tennessee Valley Authority Obligations;
4. No more than 10% of the total portfolio may be invested per United States Agency for International Development Obligations.

### Supranational obligations

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1. The maximum maturity does not exceed 10 years from the date of settlement;
2. No more than 20% of the total portfolio may be invested in supranational bonds;
3. No more than 10% of the total portfolio may be invested per issuer;
4. Senior obligations where the issuer is rated AAA, or the equivalent, by at least two NRSROs;
5. The credit rating must not have a negative credit watch by any NRSRO.

## Municipal obligations

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1. The maximum maturity does not exceed 10 years from the date of settlement;
2. No more than 15% of the total portfolio may be invested in municipal bonds;
3. No more than 5% of the total portfolio may be invested per issuer;
4. Are issued by institutions with debt obligations rated A+ or higher, or the equivalent, by at least two NRSROs;
5. The credit rating must not have a negative credit watch by any NRSRO.

## Corporate Debt obligations

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1. The maximum maturity of any corporate security does not exceed 10 years from the date of settlement;
2. The maximum weighted average maturity of corporate debt obligations does not exceed 5 years;
3. No more than 20% of the total portfolio may be invested in corporate debt obligations;
4. No more than 5% of the total portfolio may be invested per issuer;
5. Corporate securities must be rated A- or higher, or the equivalent, by at least two NRSROs;
6. Corporate securities rated within the single A category, or the equivalent, may not be on negative credit watch at the time of purchase by any of the qualifying NRSRO's. Corporate securities rated AA or higher, or the equivalent, may not be on negative credit watch at the time of purchase by two or more of the qualifying NRSRO's;
7. Issued in US dollars;
8. Corporate related debt obligations combined may not exceed 50% of the total portfolio (Includes Corporate medium term obligations, Bankers' Acceptances, Commercial Paper, and Certificates of Deposit).

## Asset-Backed Securities

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1. The maximum maturity does not exceed 10 years from the date of settlement;

2. Average life does not exceed 10 years using cash flows modeled at zero percent prepayment speed assumption by the Bloomberg mortgage analytics system;
3. No more than 15% of the total portfolio may be invested in asset-backed securities;
4. No more than 5% of the total portfolio may be invested per issuer;
5. Asset-backed securities must be rated AA- or higher, or the equivalent, by at least two NRSRO;
6. Asset-backed securities, mortgage pass-through securities, and collateralized mortgage obligations combined may not exceed 20% of the portfolio.

### Mortgage Pass-Through Securities

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1. The maximum maturity does not exceed 31 years from the date of settlement;
2. Average life does not exceed 20 years using cash flows modeled at zero percent prepayment speed assumption by the Bloomberg mortgage analytics system;
3. No more than 15% of the total portfolio may be invested in mortgage pass-through securities;
4. No more than 5% of the total portfolio may be invested per issuer;
5. Issued by a United States federal agency or United States government-sponsored enterprise obligations, participations, or other instruments that include those issued by or fully guaranteed as to principal and interest by United States federal agencies or United States government-sponsored enterprises;
6. Mortgage pass-through securities, collateralized mortgage obligations, and asset-backed securities combined may not exceed 20% of the portfolio.

### Collateralized Mortgage Obligations (CMO)

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1. The maximum maturity does not exceed 31 years from the date of settlement;
2. Average life does not exceed 10 years using cash flows modeled at zero percent prepayment speed assumption by the Bloomberg mortgage analytics system;
3. No more than 15% of the total portfolio may be invested in collateralized mortgage obligations (CMO);

4. No more than 5% of the total portfolio may be invested per issuer;
5. Issued by a United States agency or United States government-sponsored enterprise obligations, participations, or other instruments that include those issued by or fully guaranteed as to principal and interest by United States federal agencies or United States government-sponsored enterprises;
6. The collateral must be issued by a United States agency or United States government-sponsored enterprise obligations, participations, or other instruments that include those issued by or fully guaranteed as to principal and interest by United States agencies or United States government-sponsored enterprises;
7. Collateralized mortgage obligations, mortgage pass-through securities, and asset-backed securities combined may not exceed 20% of the portfolio.

## Bankers' Acceptances

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1. The maximum maturity does not exceed 180 days from the date of settlement;
2. No more than 30% of the portfolio may be invested in Bankers' Acceptances;
3. No more than 5% of the total portfolio may be invested per issuer;
4. Bankers' acceptances must carry short-term ratings of A-1 or higher, or the equivalent, by at least two NRSROs, and if available, long-term ratings of A or higher, or the equivalent, by at least two NRSROs at the issuer level;
5. Bankers' Acceptances may not be on negative credit watch at the time of purchase if the rating is A/A-1 or the equivalent by any of the qualifying NRSROs;
6. Corporate related debt obligations may not exceed 50% of the total portfolio (Includes Corporate Debt Obligations, Bankers' Acceptances, Commercial Paper, and Certificates of Deposit).

## Commercial Paper

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1. The maximum maturity does not exceed 270 days from the date of settlement;
2. No more than 30% of the portfolio may be invested in Commercial Paper;
3. No more than 5% of the total portfolio may be invested per issuer;

4. Commercial paper securities must carry short-term ratings of A-1 or higher, or the equivalent, by at least two NRSROs, and if available, long-term ratings of A or higher, or the equivalent, by at least two NRSROs at the issuer level;
5. Commercial paper securities may not be on negative credit watch at the time of purchase if the rating is A-1 or its equivalent by any of the qualifying NRSROs;
6. Corporate related debt obligations may not exceed 50% of the total portfolio (Includes Corporate Debt obligations, Bankers' Acceptances and Commercial Paper, and Certificates of Deposit).

### Negotiable Certificates of Deposit (NCDs)

Issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank, provided that:

1. The maximum maturity does not exceed 5 years from the date of settlement;
2. No more than 30% of the total portfolio may be invested in NCDs;
3. No more than 5% of the total portfolio may be invested per issuer;
4. The amount of the NCD insured up to the FDIC limit does not require any credit ratings; Any amount above the FDIC insured limit must be issued by institutions which carry short-term ratings of A-1 or higher, or the equivalent, by at least two NRSROs, and if available, long-term ratings of A or higher, or the equivalent, by at least two NRSROs;
5. The credit rating must not have a negative credit watch by any NRSRO.
6. Corporate related debt obligations may not exceed 50% of the total portfolio (Includes Corporate Debt Obligations, Bankers' Acceptances, Commercial Paper, and Certificates of Deposit).

### Certificates of Deposit issued by state or federally chartered banks

1. The maximum maturity does not exceed 2 years from the date of settlement;
2. No more than 15% of the total portfolio may be invested in certificates of deposit;
3. No more than 5% of the total portfolio may be invested per issuer;
4. Institution maintains a branch office located in Denver, CO;
5. Colorado Designated Public Depository Protection Act (PDPA) Bank certified by the appropriate State regulatory agency;

6. Must be collateralized under PDPA guidelines under State Statute 11-10.5-101/112;
7. Institutions must maintain a minimum equity of \$100,000,000;
8. Institution must maintain a minimum Tier 1 capital ratio of 5%;
9. Any institution that records a negative return on equity for two consecutive quarters will be disqualified from bidding for deposits;

### Repurchase Agreements

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1. The maturity does not exceed 1 year from the date of settlement;
2. No more than 50% of the total portfolio may be invested in Repurchase Agreements;
3. No more than 25% of the total portfolio may be invested per issuer;
4. May be executed only with primary dealers and national banks with a minimum long-term rating of Aa3, or AA- as assigned by Moody's Investors Services, Inc. Fitch Ratings Service, or Standard & Poor's Corporation, respectively;
5. Must comply with the collateralized provisions stated in Section I.2 of the Investment Policy.

### Securities Lending

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1. The maturity does not exceed 1 year from the date of settlement;
2. No more than 30% of the total portfolio may be invested in securities lending agreements;
3. May be executed only with primary dealers and national banks with a minimum long-term rating of Aa3 or AA- as assigned by Moody's Investors Services, Inc., Fitch Ratings Service, or Standard and Poor's Corporation, respectively;
4. Must comply with the collateralized provisions stated in Section I.2 of the Investment Policy.

## Local Government Investment Pools

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1. No more than 25% of the total portfolio may be invested in local government investment pools;
2. No more than 10% of the total portfolio may be invested per local government investment pool;
3. The Fund shall be rated AAA, or the equivalent, by at least one NRSRO and must consist of securities that are eligible investments for the City;
4. The Funds are in conformity with the Local Government Pooling Act (Part 7, Article 75, Title 24, Colorado Revised Statutes) with an office located within Colorado.

## Money Market Mutual Funds

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1. No more than 25% of the total portfolio may be invested in money market funds;
2. No more than 10% of the total portfolio may be invested per money market mutual fund family;
3. The fund shall either have over \$1 billion in assets or be rated AAA, or the equivalent, by at least two NRSROs and must consist of securities that are eligible investments for the city;
4. Registered with the Securities and Exchange Commission under the Investment Company Act of 1940;
5. The fund does not charge a sales or load fee;
6. The prospectus of the fund must include a statement that they will seek to maintain a constant share price;
7. Must be offered by eligible Primary Dealers, a depository bank of the City, a Local Government Investment Pool Trust Fund organized in conformity with the Investment Funds – Local Government Pooling Act (Part 7, Article 75, Title 24, Colorado Revised Statutes) with an office located within Colorado, or a fund with at least one billion in assets.

## Forward Purchase Agreements

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1. Maximum maturity of the City's municipal bond issue to which the investment corresponds;
2. No more than 15% of the total portfolio may be invested in forward purchase agreements;
3. No more than 10% of the total portfolio may be invested per issuer;
- a. Must be offered by eligible Primary Dealers having minimum ratings of A, A2 or A as assigned by Standard & Poor's Corporation ("S&P"), Moody's Investors Service ("Moody's") or Fitch ("Fitch"), respectively or eligible Non-Primary Dealers having minimum ratings of AA, Aa2 or AA as assigned by S&P, Moody's or Fitch, respectively.
4. Agreement shall be structured with downgrade language which will allow the City to terminate the agreement in the event that the Provider's long-term credit rating(s) falls to a level which would cause an adverse impact on the ratings of the City bonds to which the FPA agreement relates.

## Debt Service Reserve Fund Put Agreements

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1. Maximum maturity of the City's municipal bond issue to which the investment corresponds;
2. No more than 15% of the total portfolio may be invested in debt service reserve fund put agreements;
3. No more than 10% of the total portfolio may be invested per issuer;
4. Must be offered by eligible Primary Dealers having minimum ratings of A, A2 or A as assigned by Standard & Poor's Corporation ("S&P"), Moody's Investors Service ("Moody's") or Fitch ("Fitch"), respectively or eligible non-Primary Dealers having minimum ratings of AA, Aa2 or AA as assigned by S&P, Moody's or Fitch, respectively.
5. Agreement shall be structured with downgrade language which will allow the City to terminate the agreement in the event that the Provider's long-term credit rating(s) falls to a level which would cause an adverse impact on the ratings of the City bonds to which the DSRFP agreement relates.

## Reverse Repurchase Agreements, Covered Bonds, and Sovereign Debt

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1. Although these securities are allowable investments for the State Treasurer the City has not designated them permissible investments.

## **U. AUTHORIZED INVESTMENTS (SPECIALTY PORTFOLIOS)**

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The City and County of Denver also manages two portfolios that have been designated as specialty portfolios due to the specific purposes for which they were established. These portfolios are subject to diversification requirements based upon the portfolios' purposes. The Consolidated, Airport Reserve and Specialty portfolios identified by name in this policy will adhere to the credit ratings requirements of the securities listed in Section T Authorized Investments.

### Workers Compensation Portfolio

This portfolio is structured to match the long-term liability of the City's Workers Compensation Program claims. The City and County of Denver may invest to the following maximum limits in this portfolio:

Security	Maximum % of Portfolio	Maximum Maturity	Minimum Credit Rating***	Maximum per Issuer as % of Portfolio
<b>US Treasury Securities</b>	100%	30 Years	n/a	n/a
<b>US Federal Agency Securities</b>	80%	30 Years	n/a	25%
<b>Supranational Obligations</b>	20%	30 Years	Aaa/AAA (2 NRSROs)	10%
<b>Municipal Obligations</b>	25%	30 Years	A1/A+ (2 NRSROs)	5%
<b>Corporate Debt Obligations</b>	20%*	5 Years	A3/A- (2 NRSROs)	5%
<b>Asset-Backed Securities</b>	15%**	10 Years	Aa3 or AA- (2 NRSROs)	5%
<b>Agency Mortgage Pass-Through Securities</b>	15%**	31 Years/20 Year Max. Average Life	n/a	5%
<b>Agency Collateralized Mortgage Obligations</b>	15%**	10 Years/10 Year Max. Average Life	n/a	10%
<b>Bankers' Acceptances</b>	50%*	366 Days	A-1/P-1, A2/A if available by 2 NRSROs	5%
<b>Commercial Paper</b>	50%*	366 Days	A-1/P-1, A2/A if available by 2 NRSROs	5%
<b>Certificates of Deposit</b>	15%*	2 Years	n/a	5%
<b>Repurchase Agreements</b>	50%	1 Year	Aa3 or AA-	25%
<b>Securities Lending</b>	30%	1 Year	Aa3 or AA-	30%
<b>Local Government Investment Pools</b>	25%	n/a	n/a	10%
<b>Money Market Mutual Funds</b>	25%	n/a	Aaa-mf/ AAAm by 2 NRSROs	10%

\* Combination of asset classes cannot exceed 50%.

\*\* Combination of asset classes cannot exceed 20%

\*\*\* US Agency for International Development maximum per portfolio is 10%

\*\*\*\* Securities with the minimum allowable credit rating by any NRSRO shall not be purchased if the security is also on negative watch. For example, a corporate security rated A- by S&P on negative watch is not eligible for purchase.

### Cableland Mayor's Residence Foundation Portfolio

The portfolio was established by an endowment to the City by Bill Daniels to generate income to be applied towards the ongoing maintenance of the Mayor's Residence, which was formerly the Bill Daniels Cableland mansion. The City and County of Denver may invest to the following maximum limits in this portfolio:

Security	Maximum % of Portfolio	Maximum Maturity	Minimum Credit Rating***	Maximum per Issuer as % of Portfolio
US Treasury Securities	100%	30 Years	n/a	n/a
US Federal Agency Securities	80%	30 Years	n/a	25%
Supranational Obligations	20%	30 Years	Aaa/AAA (2 NRSROs)	10%
Municipal Obligations	90%	30 Years	A1/A+ (2 NRSROs)	5%
Corporate Debt Obligations	20%*	5 Years	A3/A- (2 NRSROs)	5%
Asset-Backed Securities	15%**	10 Years	Aa3 or AA- (2 NRSROs)	5%
Agency Mortgage Pass-Through Securities	15%**	31 Years/20 Year Max. Average Life	n/a	5%
Agency Collateralized Mortgage Obligations	15%**	10 Years/10 Year Max. Average Life	n/a	10%
Bankers' Acceptances	50%*	366 Days	A-1/P-1, A2/A if available by 2 NRSROs	5%
Commercial Paper	50%*	366 Days	A-1/P-1, A2/A if available by 2 NRSROs	5%
Certificates of Deposit	15%*	2 Years	n/a	5%
Repurchase Agreements	50%	1 Year	Aa3 or AA-	25%
Securities Lending	30%	1 Year	Aa3 or AA-	30%
Local Government Investment Pools	25%	n/a	n/a	10%
Money Market Mutual Funds	25%	n/a	Aaa-mf/ AAAm by 2 NRSROs	10%

\* Combination of asset classes cannot exceed 50%.

\*\* Combination of asset classes cannot exceed 20%

\*\*\* US Agency for International Development maximum per portfolio is 10%

\*\*\*\* Securities with the minimum allowable credit rating by any NRSRO shall not be purchased if the security is also on negative watch. For example, a corporate security rated A- by S&P on negative watch is not eligible for purchase.

I approve the City and County of Denver's Investment Policy as written.

Brendan J. Hanlon  
Manager of Finance

\_\_\_\_\_ Date \_\_\_\_\_

**§ 2.5.3 Powers and duties of the Manager of Finance.**

(C) *Bank Depository; Investment of funds.* The Manager of Finance shall, with the approval of the Mayor, select one or more banking or savings and loan institutions for deposit of public funds. Before any deposit shall be made, the bank or savings and loan institution shall pledge sufficient collateral as required by law. The Manager is authorized to invest the funds in his or her custody or possession in the following securities: obligations of the United States Government, obligations of the United States Government agencies and United States Government sponsored corporations, prime bankers acceptances, prime commercial paper, certificates of deposit issued by banks and savings and loan institutions, repurchase agreements, security lending agreements, highly rated municipal securities, money market funds that purchase only the types of securities specified herein, any investment type in which the Colorado state treasurer is allowed to invest state moneys if otherwise compliant with the Department's investment policy, and other similar securities as may be authorized by ordinance.

INVESTMENT OF FUNDS

- A. Subject to the restrictions of the Charter and as authorized additionally by this section of the Code, the Manager of Finance is hereby empowered to invest the moneys credited to any fund without appropriation, buying and selling at the Manager of Finance's discretion, provided that the return from the investments be credited to the fund in proportion to the amount from such fund so invested, subject, however, to paragraph (b) below.
- B. The Manager of Finance, in order to account for services rendered and expenses incurred in the administration, management and investment of the nonsubsidized enterprise funds shall transfer, and is authorized hereby to transfer, as an investment fee from earnings for each such fund to Fund No. 0100, the General Fund, an amount in the Manager of Finance's discretion which shall be no higher than the fee commonly charged by private investment advisers, but based upon the same factor for each fund or account, of not greater than the amount obtained by multiplying the average monthly balance available for investment in 1984 and subsequent years in each such fund from all sources by the factor 0.00375; and said amounts thus transferred upon the directive of the Manager of Finance as applicable to each fund shall be so noted upon the books of account and appropriate fiscal records of the City by the Manager of Finance.
- C. Subject to the restrictions of paragraphs (a) and (b) above, investments by the Manager of Finance may, in addition to those specifically listed in the Charter, include investments in Debt Service Reserve Fund PUT Agreements (PUT) and Forward Purchase Agreements.
- D. The Manager of Finance shall appoint an investment committee to advise the manager regarding departmental investment activities.

## EXHIBIT A-3: SUMMARY OF AUTHORIZED INVESTMENTS

The table below summarizes the authorized investments. The table is meant for summary purposes only. All investments are to be evaluated for inclusion into the investment portfolio using all elements contained in the investment policy pertaining to investments. In the event of a discrepancy the Manager of Finance with review the policy and make the determination of a security's eligibility and document their conclusion.

Security	Maximum % of Portfolio	Maximum Maturity	Maximum per Issuer as % of Portfolio
<b>US Treasury Securities</b>	100%	10 Years	n/a
<b>US Federal Agency Securities ***</b>	80%	10 Years	25%
<b>Supranational Obligations</b>	20%	10 Years	10%
<b>Municipals Obligations</b>	15%	10 Years	5%
<b>Corporate Debt Obligations*</b>	20%	10 Years	5%
<b>Asset-Backed Securities**</b>	15%	10 Years	5%
<b>Mortgage Pass-Through Securities**</b>	15%	31 Years	5%
<b>Collateralized Mortgage Obligations**</b>	15%	31 Years	10%
<b>Bankers' Acceptances*</b>	30%	180 Days	5%
<b>Commercial Paper*</b>	30%	270 Days	5%
<b>Negotiable Certificates of Deposit*</b>	30%	5 Years	5%
<b>Certificates of Deposit*</b>	15%	2 Years	5%
<b>Repurchase Agreements</b>	50%	1 Year	25%
<b>Securities Lending</b>	30%	1 Year	30%
<b>Local Government Investment Pools</b>	25%	n/a	10%
<b>Money Market Funds</b>	25%	n/a	10%
<b>Forward Purchase Agreements</b>	15%	n/a	10%
<b>Debt Service Fund Put Agreements</b>	15%	n/a	10%

\* Combination of asset classes cannot exceed 50%

\*\* Combination of asset classes cannot exceed 20%

\*\*\* US Agency for International Development maximum per portfolio is 10%

## EXHIBIT A-4: PERMISSIBLE INVESTMENTS UNDER THE COLORADO PUBLIC FUNDS STATUTES

Applicable sections of CO Rev Stat § 24-36-113 (2016)

(2) Such moneys may be invested, without limitation, in debt obligations of the United States treasury, any agency of the United States government, or United States government-sponsored corporations.

(2.5) The state treasurer may, in the state treasurer's discretion, invest such moneys in municipal bonds rated in one of the two highest rating categories by a nationally recognized rating organization.

(3) The state treasurer may, in the state treasurer's discretion, invest such moneys in repurchase agreements, in banker's acceptances or bank notes issued by banks rated at least investment grade by a nationally recognized rating organization, in commercial paper of prime quality as so classed by a nationally recognized rating organization, and in money market funds that are registered as an investment company under the federal "Investment Company Act of 1940", as amended.

(3.5) The state treasurer may, in the state treasurer's discretion, invest such moneys in corporate debt obligations rated at least investment grade by a nationally recognized rating organization.

(3.6) The state treasurer may, in the state treasurer's discretion, invest such moneys in asset-backed securities and covered bonds rated in one of the two highest rating categories by a nationally recognized rating organization.

(3.7) The state treasurer may, in the state treasurer's discretion, invest such moneys in securities that are issued or guaranteed by the world bank, the inter-American development bank, the Asian development bank, or the African development bank or for which the credit of the world bank, the inter-American development bank, the Asian development bank, or the African development bank is pledged for payment and that are rated in one of the two highest rating categories by a nationally recognized rating organization.

(3.8) The state treasurer may, in the state treasurer's discretion, invest such moneys in mortgage pass-through securities and collateralized mortgage obligations that are issued by any agency of the United States government or a United States government-sponsored corporation or that are rated in one of the two highest rating categories by a nationally recognized rating organization.

(3.9) The state treasurer may, in the state treasurer's discretion, invest such moneys in debt obligations backed by the full faith and credit of the state of Israel that are rated in one of the two highest rating categories by a nationally recognized rating organization.

(4) The state treasurer may make such arrangements for the custody, safekeeping, and registration of all investment securities as will enable the state treasurer to make prompt delivery thereof upon maturity or in the event of sale.

(5) The state treasurer may engage in reverse repurchase agreements and securities lending programs for any securities in the state treasurer's custody and may purchase loans if, in the state treasurer's discretion, the purchase of loans will yield a fair and equitable return to the state.

EXHIBIT B List of Authorized Investment Officials

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**Name/Title**

**Signature**

Margaret Danuser  
Deputy CFO

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Caroline C. Hendrickson  
Director of Cash & Investments

\_\_\_\_\_

Gregory T. King  
Portfolio Administrator

\_\_\_\_\_

Mario Dominguez  
Senior Investment Portfolio Analyst

\_\_\_\_\_

Siye Desta  
Associate Investment Portfolio Analyst

\_\_\_\_\_

Alyssa Garrity  
Cash Administrator

\_\_\_\_\_

I hereby certify that the individuals listed above are authorized to invest funds for the City and County of Denver as specified in this Investment Policy:

Brendan J. Hanlon  
Manager of Finance

\_\_\_\_\_

Date

\_\_\_\_\_

## APPENDIX I GLOSSARY OF TERMS

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**ASSET-BACKED SECURITIES:** Securities supported by pools of installment loans, leases or by pools of revolving lines of credit.

**BANKERS' ACCEPTANCE:** A draft or bill of exchange created as a result of an international trade transaction accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer. A Bankers' Acceptance is an irrevocable primary obligation of the accepting bank and a contingent obligation of the drawer and of any endorser whose names appear upon it.

**BENCHMARK:** A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

**BID:** The price at which a buyer offers to buy a security.

**BOOK VALUE:** The price paid for a particular asset, adjusted for amortization of any premium or accretion of any discount over the term of the investment. The book value is the amount included on the balance sheet.

**BROKER:** A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides. The broker does not own the security position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate issued by a bank.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COLLATERALIZED MORTGAGE OBLIGATIONS (CMO):** Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

**COMMERCIAL PAPER:** A short-term, unsecured promissory note issued by corporations for a maturity specified by the purchaser, from 1 to 366 days and sold primarily on a discount basis. Issues are marketed either through dealers or directly by the issuer. Direct issuers and dealers will generally provide a bid to repurchase these securities on the secondary market.

**CORPORATE MEDIUM TERM NOTES:** Debt securities of corporations with maturities between 1 and 5 years.

**COUPON:** (a) The annual rate of interest that a bond's issuer promises to pay bondholders on the bond's par value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**CREDIT RISK:** The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

CURRENT RETURN: Considers coupon income earned, trading gains and losses actually realized, expenses paid, and miscellaneous income received.

DEALER: A dealer, as opposed to a broker, acts as a principal in the transaction, buying and selling for their own account.

DEBT SERVICE RESERVE FUND PUT AGREEMENT: A Debt Service Reserve Fund Put Agreement is a contract written between the Issuer, the Issuer's trustee, and the Put Agreement provider (a highly rated financial institution or a primary dealer), whereby the Issuer purchases U.S. Government securities (the "Reserve Securities") with debt service reserve fund moneys and has the option to "Put" all or a portion of the reserve Securities to the Provider for the original price paid in the event of a deficiency to make the scheduled debt service payments. Puts allow for investment in high yielding long-term securities while retaining the ability to liquidate the investment without risk of principal loss in the event of a default on the Bonds. In the event the Reserve Securities are liquidated, most DSRF PUT Agreements allow for the fund to be replenished at the Original Price within a specified period of time. Should the Agreement terminate for reasons other than a deficiency, a fee may be assessed by the Provider which would represent a "market" penalty. The Agreement provides that the Issuer pay a semiannual fee to the Provider on the dates that the Reserve Securities pay interest.

DELIVERY VERSUS PAYMENT/RECEIPT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with a simultaneous exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DISCOUNT: The difference between the cost price of a security and its value at maturity when quoted at lower than par value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DERIVATIVE: Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate or index.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full par value, i.e., U.S. Treasury bills.

DIVERSIFICATION: Dividing investments among a variety of securities which offer independent returns.

DURATION: The measure of the price sensitivity of a fixed-income security to an interest rate change of 100 basis points. Calculation is based on the weighted average of the present values for all cash flows. Duration is measured in years.

ELIGIBLE PUBLIC DEPOSITORY: An association which has been designated an eligible public depository by the State of Colorado and is therefore qualified to hold deposits of the City and County of Denver.

**EMPLOYEE:** As used in this document, the term employee means a person directly supervised and compensated by the Department of Finance of the City and County of Denver. Individuals who advise or consult with the Department of Finance or who are employees of firms which advise or consult with the Department of Finance are not employees.

**ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG):** Environmental, social and governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

**EXPORT-IMPORT BANK OF THE UNITED STATES - (Eximbank):** U.S. Government Agency, founded in 1934, wholly owned by the U.S Treasury. The obligations issued directly by Export-Import Bank carry the full faith and credit guarantee of the United States. The purpose of the Eximbank is to aid in financing U.S. exports, which it fulfills by directly financing exports, and by guaranteeing export loans made by the private sector. Eximbank is empowered to borrow and lend; to guarantee and insure loans; and to purchase or guarantee negotiable instruments, evidences of indebtedness and other securities. Although Eximbank has the authority to issue debt, the agency has financed itself internally for the past several years. However, several special-purpose corporations securitize loans that are supported by guarantees from Eximbank. It is through this securitization process that Eximbank guaranteed loans reach the fixed income market. Eximbank fully supports the repayment of loans. As with any other fully supported transaction, there are structural and legal risks to be considered, particularly the risk of a single late payment to investors, which is attributable to the claim filing requirements of an Eximbank guarantee. No issues are currently outstanding.

**FACE VALUE:** The dollar value of a security. For bonds, it is the amount paid to the holder at maturity. Also known as "par value".

**FARM CREDIT OBLIGATIONS:** Securities of the Farm Credit system, which was established under the authority of an act of Congress. The system's obligations are not guaranteed by the U.S. Treasury. However, in 1985 a line of credit to the Treasury was authorized by Congress. There are various maturities ranging from a few days to thirty years.

**FEDERAL AGENCY SECURITIES:** A security issued by a federal agency or federally sponsored corporation. Most obligations of Government Sponsored Entities (GSEs) are not guaranteed by the full faith and credit of the US government. The market recognizes an implied guarantee that impacts the pricing. Examples are:

**FDIC:** The Federal Deposit Insurance Corporation provides insurance backed by the full faith and credit of the US government to certain bank deposits and debt obligations.

**FFCB:** The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

**FHLB:** The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

**FHLMC:** Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC also called "FreddieMac" issues discount notes, bonds and mortgage pass-through securities.

**FNMA:** Like FHLB and FreddieMac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as “FannieMae,” issues discount notes, bonds and mortgage pass-through securities.

**GNMA:** The Government National Mortgage Association, known as “GinnieMae,” issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

**PEFCO:** The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

**TVA:** The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio and Mississippi River valleys. TVA currently issues discount notes and bonds.

FEDERAL FUNDS RATE: The interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight.

FEDERAL FINANCING BANK (FFB): The FFB was established by the Federal Financing Bank Act of 1973 to consolidate and reduce the government’s cost of financing a variety of federal agencies or other borrowers whose obligations are guaranteed by the U.S. Government. FFB obligations are general obligations of the U.S. Government, identical in this respect to Treasury obligations. The FFB has no issues outstanding. To date, the Bank has chosen to finance its operations directly through the Treasury. The FFB does have the authority to issue debt in the future.

FEDERAL HOME LOAN BANKS (FHLB): Institutions of the FHLB system as established by Congress that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks to member commercial banks. The obligations of the System are not guaranteed by the U.S. Treasury. The banks operate under federal charter and are supervised by the Federal Home Loan Bank Board, as an independent federal agency. At all times, the District Banks must maintain collateral in an amount equal to the quantity of issued outstanding debt. There are various maturities ranging from a few days to thirty years.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC): The Federal Home Loan Mortgage Corporation was created by Congress in 1970 to encourage the availability of mortgage credit for residential housing by maintaining an active secondary market in conventional mortgages. As the result of the subprime mortgage crisis, in 2008 the Federal Housing Finance Authority was appointed conservator of FHLMC which was reconstituted to and continues to operate. To some extent, the FHLMC (Freddie Mac) duplicates the activities of Fannie Mae. However, as a special feature, it can only purchase mortgages from financial institutions that have their deposits insured by agencies of the federal government. This requirement that it deal only with regulated institutions permits the FHLMC to reduce documentation requirements on mortgage purchases and therefore operate at lower cost. The Corporation’s obligations are not guaranteed by the U.S. Treasury. However, they are obligations of the FHLB system since the FHLMC is owned by the FHLB system. There are various maturities ranging from a few days to thirty years.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (Fannie Mae, formerly FNMA): Fannie Mae is the nation’s largest supplier of funds for home mortgages. The corporation was originally created in 1938 and wholly owned by the U.S. government. Subsequently, it evolved into a private stockholder-owned corporation in 1970. As a result of the subprime crisis, in 2008 the Federal Housing Finance Authority was appointed conservator and reconstituted FNMA to Fannie Mae. The corporation provides a

secondary market for mortgages of primary lending institutions, similar to the FHLMC except that Fannie Mae can purchase mortgages from mortgage banks in addition to federally insured financial institutions. Additionally, Fannie Mae finances a large percentage of the mortgage portfolio it purchases and generates income from this portfolio in the manner of a bank. The corporation's obligations are not guaranteed by the U.S. Treasury. There are various maturities ranging from a few days to thirty years. Fannie Mae's securities are also highly liquid and are widely accepted

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C. and 12 Regional Banks.

FIXED INCOME SECURITY: An investment that provides a return in the form of fixed periodic payments and eventual return of principal at maturity. The payments of a fixed-income security are known in advance.

FORWARD PURCHASE AGREEMENTS (FPA): A Forward Purchase Agreement, in general, represents a forward sale investment vehicle for moneys deposited during the term of the FPA. FPAs have a variety of applications, and may be used for a variety of funds such as:

- Investment of money during lag periods in open market refunding escrows.
- Funding of an entire refunding escrow.
- Investment of debt service reserve funds (rolling T-Bill FPA).

The two principal advantages of FPA's are 1) they are always funded and secured by the delivery of U.S. Government securities on a delivery versus payment basis, thus eliminating counterparty risk, and 2) the use of the FPA allows the Issuer an enhanced rate of return over short-term investment alternatives because they are priced by the investment provider like a longer-term investment as a result of the provider's ability to hedge the investment in the futures market for the life of the contract.

FUND: Independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

INDEX: In the case of financial markets, an index is essentially an imaginary portfolio of securities representing a particular market or a portion of it. The plural of index can be either "indexes" or "indices".

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): A voluntary investment fund open to government entities and certain non-profit organizations in Colorado.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

LONG-TERM: For investing, a security that matures in one year or longer.

MARKET RISK: The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.

MODERN PORTFOLIO THEORY: A theory on how risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk. There are four basic steps involved in portfolio construction: security valuation, asset allocation, portfolio optimization, performance measurements.

MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

MONEY MARKET FUNDS (MMF): MMF is a type of mutual fund with no fixed maturity date that is required by law to invest in low-risk securities. MMF are neither federally insured nor guaranteed by the U.S. Treasury. These funds seek to preserve principal and maintain a constant value of \$1.00 per share. While investor losses are rare, it is possible for a MMF's net asset value to fall below \$1.00. MMF earns dividends that generally reflect short-term interest rates, and the amount of the dividend may be added to the share value.

MONEY MARKET INSTRUMENTS: Forms of debt that mature in less than one year and are very liquid.

MORTGAGE PASS-THROUGH SECURITIES: A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITY: A debt security issued by a state, municipality, county or other government entity, in order to finance its capital expenditures or for other specified purposes. Municipal bonds are exempt from federal taxes and from most state and local taxes, especially if you live in the state the bonds are issued.

MUTUAL FUND: An investment that gives investors access to a well-diversified portfolio of equities, bonds or other securities. Each shareholder participates in the gain or loss of the fund. (See Money Market Fund)

NATIONALLY RECOGNIZED STATISTICAL RATINGS ORGANIZATION (NRSRO): A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's .

NET ASSET VALUE (NAV): The value of a fund's assets. For a mutual fund, the NAV per share usually represents the fund's market price. (See Money Market Fund)

PAR VALUE: The face value of a security.

PUBLIC DEPOSIT PROTECTION ACT CRS 11-10.5:101-112 (PDPA): It requires banks that hold public funds be designated as a public depository pursuant to the provisions of CRS 11-10.5-101-112 a part of which

is to pledge collateral having a market value in excess of 102% of the aggregate uninsured public deposits. The purpose of the Public Deposit Protection Act (PDPA) is to ensure that public funds held on deposit in banks are protected in the event that the bank holding the public deposits becomes insolvent. Not all public funds held by banks are protected under the PDPA. The PDPA protects only public funds placed in bank deposit accounts, which include checking, savings, bank money-market, and certificate of deposit (CD) accounts. A list of Eligible Public Depositories can be accessed via the automated Institution Search Information System at the Department of Regulatory Agencies Division of Banking (DORA).

PORTFOLIO: All securities held in the various investment pools of the City and County of Denver which are under the control of the Manager of Finance and governed by this Investment Policy.

PREMIUM: The difference between the higher price paid for a fixed-income security and the security's par amount at issue.

PRIMARY DEALER: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its oversight.

PRIME: Prime bankers acceptances and prime commercial paper shall be those securities having a minimum short-term rating of A-1, P1, and/or F-1.

PROJECTED CASH FLOWS: Estimates expected cash inflows and outflows for a period of time.

PRUDENT INVESTOR: The investment standard requiring trustees and portfolio managers to make financial decisions in the manner of a prudent investor, e.g., with intelligence and discretion. The prudent investor standard requires care in the selection of investments but does not limit investment alternatives.

PUT OPTION: A contract giving the owner the right (but not the obligation, the option) to sell a specified amount of an underlying asset at a set price within a specified time. The buyer of a put option estimates that the underlying asset will drop below the exercise price before the expiration date. (See Debt Service Reserve Fund Put Agreement)

REPURCHASE AGREEMENT: A financial contract through which a holder of securities sells securities to an investor with an agreement to repurchase them at original cost plus interest on a future date. The repurchase agreement "buyer" in effect "lends" the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this "loan". Repurchase agreements are illiquid, not negotiable, and there is no secondary market. In an emergency, a term repurchase agreement seller may be willing to break an agreement, but is not required to do so. Repurchase agreements are subject to counter party risk which is risk that a seller will be unable to repurchase a security.

SECONDARY MARKET: A market which purchases and sells outstanding securities issues following their initial distribution.

SECURITY: An instrument representing ownership (stocks/equities), a debt agreement (bonds), or the rights to ownership (derivatives). It is assigned a value and traded. Examples of a security include a note, stock, bond, option, or virtually any other financial asset.

SECURITY LENDING: The collateralized lending of securities to a qualified dealer, with a negotiated fee paid to the lender.

SHORT TERM: As an investment, short term is a security that matures in one year or less. In accounting, a short-term asset is expected to be converted into cash in the next year, or a short-term liability is coming due in the next year.

SUPRANATIONAL: A supranational entity is formed by two or more central governments to promote economic development for the member countries. Supranational Institutions finance their activities by issuing bond debt and are usually considered part of the sub-sovereign debt market. Examples of supranational institutions are the World Bank, Asian Development Bank and Inter-American Development Bank.

TENNESSEE VALLEY AUTHORITY (TVA): TVA was established by an act of Congress in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Bonds issued by the TVA are not guaranteed by the United States. The bonds are secured by net power proceeds. Such secured debt of TVA is rated AAA/Aaa by Standard & Poor's and Moody's, respectively. There are maturities extending as long as 50 years.

TREASURY BILLS: Non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most Treasury bills are issued to mature in three months, six months or one year.

TREASURY BOND: Long-term U.S. Treasury securities having initial maturities of more than ten years.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

TREASURY STRIPS: This instrument is composed of coupons stripped from bonds, so that an investor would take delivery of a single coupon or the corpus (principal) of a bond, and pay for it at its present value. Since January 1985, all Treasury note and bond issues with maturities of at least ten years have been transferable in their component pieces by the Federal Reserve wire system, thereby creating a generic, book-entry Treasury zero coupon. The price volatility of Strips is greater than Treasury coupon securities with comparable maturities.

TOTAL RATE OF RETURN: A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAIDs): Guaranteed Notes of the USAID are underwritten pursuant to the Foreign Assistance Act of 1961 in order to carry out economic assistance programs to developing countries. Pursuant to this Act, the USAID is authorized to guarantee up to \$10 billion in principal amount of loans to the State of Israel. These Guaranteed notes (including current coupon and zero coupon notes) are backed by the full faith and credit guarantee of the United States of America, acting through USAID, and also constitute full faith and credit obligations of the State

of Israel. Although the Guaranteed Notes of the USAID are full faith and credit obligations, there may be up to a 3-day delay in payment on the USAIDs in the event of a default of the original issuer of the loans (i.e. Israel). When approved for City investment, there were 7 series outstanding in the aggregate amount of approximately \$12 billion, including both current coupon and zero coupon guaranteed notes, extending to August 15, 2025.

U.S. GOVERNMENT OBLIGATIONS: Direct obligations of the government of the United States. Both principal and interest are unconditionally guaranteed by the United States government. There are regular auctions of Treasury securities with various maturities. The securities are readily available and marketable in the secondary market. Price volatility results from changing market interest rates, which normally increase for securities with longer durations.

WHEN ISSUED TREASURY SECURITIES: New issues of government obligations are offered on a when-issued basis, that is, delivery and payment for securities occur up to 21 days after the date of the transaction. The payment obligation and the yield that will be received on the securities are fixed at the time the buyer enters into the commitment. These securities may be sold before the settlement date, if it is deemed advisable as a matter of investment strategy.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

YIELD TO MATURITY: The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.