

Investment Policy Statement



SAINT PAUL
MINNESOTA

City of Saint Paul, Minnesota
The Office of Financial Services (OFS)
July 2025

Investment Policy Statement

City Council adopted July 23, 2025

I. Introduction and Objective

It is the policy of the City of Saint Paul (the "City") that the administration and investment of public funds require the public's highest trust. The Investment Policy Statement (the "IPS" or the "Policy") of the City defines the parameters under which funds are invested. The IPS establishes the framework for the City's administrative duties related to the investment program to ensure effective and judicious investment of the City's funds. The Policy is intended to be broad enough to allow investment officer(s) to function properly within the parameters of the responsibility and authority, flexible enough to address changing market and financial conditions, and specific enough to safeguard the City's cash and investable assets. The earnings from investments will be used in a manner that best serves the interests of the City and its various specialized funds.

The Investment Policy Statement will be reviewed by the City's Treasurer at least annually, and any recommended changes shall be taken to the City Council for review and adoption. No changes may be made until the Policy is reviewed and amended by the City Council.

II. Governing Authority

The Policy and investment program shall be administered in conformance with applicable state and federal statutes, the City's charter and ordinances, and specifically Minnesota Statutes Chapter 118A (and any other statutory references herein). The City's internal controls and procedures for deposits and investments support all requirements of this Policy.

III. Scope

This Policy shall cover all funds, regardless of source, that are under the direct purview of the City's Office of Financial Services ("OFS"). Assets held by trustees, fiscal agents, or other designated third parties for specifically designated programs may be regulated by other policies or governing guidelines.

This Policy excludes funds maintained under trust or escrow agreements, pension or retirement funds, and employee health savings accounts (held by third party administrators).

IV. Portfolio Objectives and Strategy

The primary objectives in priority order of the City's investment activities will be:

1. Safety of Principal

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure safety of the City's investable funds that fall under purview of this Policy.

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all cash flow requirements that may be reasonably anticipated. Liquidity can be achieved by matching maturities with forecasted cash flow requirements and maintaining a portion of the investable assets in cash or cash-like instruments for immediate liquidity.

3. Yield

The investment portfolio shall be designed with the objective of attaining a reasonable market rate of return throughout budgetary and economic cycles, taking into account the nature of funds being invested and the previously stated priorities of safety and liquidity.

4. Sustainability

Wherever explicit direction is given and documented, investment decisions shall take into account environmental, social and governance ("ESG") factors along with an Impact Investing framework that seeks to achieve positive outcomes coincident with a market rate investment return.

Local Considerations

Subject to the above portfolio objectives, the City will encourage qualified local financial institutions within the City to participate in any request for proposals (RFP) process to provide professional services and investments necessary for the administration of the investment program.

Portfolio Strategy

The City shall pursue a prudent portfolio management strategy that takes into consideration the source of funds and the established prioritization parameters. The City's total portfolio is generally segmented into four sub-portfolios described as follows:

- (1) Operational Portfolio: This portfolio provides liquidity for operating expenses and other expenditures throughout the fiscal year, and longer if conditions warrant. Portfolio managers must adhere to maturity and

duration parameters established, and revised periodically, by the City's OFS. To monitor performance and risk in the portfolio, appropriate benchmarks will be assigned by the City's OFS.

- (2) Bond Proceeds Portfolio(s): The strategy for the City's bond proceeds portfolios is to invest the funds in a manner that matches the anticipated expenditure schedule for the specific project(s) the proceeds are funding. Portfolio managers must adhere to maturity and duration parameters established for each project, which may be revised periodically, and also any parameters dictated by the City's OFS.

Proceeds of any bonds issued under MN Statutes, Section 475, for the express purpose of refunding prior debt obligations where such proceeds are held by an escrow agent under an escrow agreement shall be invested in accordance with Section 475.67, Subd. 8.

- (3) Core Portfolio: The strategy for the core portfolio is to proactively manage the City's funds with a longer maturity schedule than other portfolios. The longer time horizon may result in unrealized losses noted on the City's annual financial statements. However, realized losses, are allowed if they will provide a net gain to the portfolio over a reasonable period of time. Portfolio managers must adhere to maturity and duration parameters established to monitor performance and risk in the portfolio. Appropriate benchmarks will be assigned by the City's OFS.
- (4) Debt Service Reserve Funds: Investment of borrowed proceeds funding a Debt Service Reserve Fund will take into account anticipated needs. Portfolio managers must adhere to maturity and duration parameters established, and revised periodically, by the applicable bond documents and the City's OFS.

The strategy for each of these segments incorporates the specific uses and the unique characteristics of the funds in each sub-portfolio. For all City portfolios under this section of the Investment Policy, the strategy is designed to safeguard principal and maximize earnings within designated risk and term parameters.

V. Authorized Investments and Diversification

The City will be permitted by this policy to invest funds in security types that are permitted by Minnesota Statute, Chapter 118A.

VI. Additional Investment Authority

So long as the City is a qualifying government pursuant to Minnesota Statute 118A.09, Subd. 1, the City may exercise additional investment authority per this policy and Minnesota Statute.

Per Minnesota Statute 118A.09, the City may invest up to 15 percent of the sum of unassigned cash, cash equivalents, deposits, and investments in:

- An index mutual fund based in the United States and indexed to a broad market United States equity index, on the condition that index mutual fund investments must be made directly with the main sales office of the fund; or
- With the Minnesota State Board of Investment subject to such terms and minimum amounts as may be adopted by the City Council.

Before investing pursuant to this section, the City must adopt a resolution that includes the following statements:

- The City understands that investments have a risk of loss.
- The City understands the type of funds that are being invested and the specific investment itself,
- The City certifies that all funds designated for investment through the Minnesota State Board of Investment meet the requirements of this section and the policies and procedures established by the State Board of Investment.

VII. Environmental, Social and Governance (“ESG”) and Impact Investment Authority

The City may incorporate ESG and/or Impact Investing as a component of its investment strategy where such investments are consistent with the City’s financial objectives. ESG investing incorporates analysis of non-financial environmental, social, and governance factors into investment decisions alongside more traditional financial criteria, whereas Impact Investing refers to investments made with the intention of generating positive and measurable social and environmental impact that coincides with a financial return.

Impact Investments will be evaluated based on their alignment with the City’s key strategic objectives and their demands on the City’s administrative resources.

VIII. Standards of Care

The standard of care to be used by all City investment officials, or their agents, shall be the “Uniform Prudent Investor act” and shall be applied in the context of managing an overall portfolio. Investment officials acting in accordance with written

procedures and this investment policy and exercising proper 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.

External investment managers contracted by the City are held to the "Prudent Expert Standard" which considers an expected level of required expertise and experience.

Additionally, 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 investment officials shall disclose any material interests in financial (or other) institutions with which they conduct business, in accordance with applicable laws and any other City requirements. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

IX. Delegation of Authority and Responsibility

Director of The Office of Financial Services

Authority to manage the investment program is granted to the Director of OFS by the City Council pursuant to the City Charter and Saint Paul Administrative Code. The Director of OFS further delegates Authority to manage the investment program to the City's Treasurer and the Treasurer's Designee, as defined below. The Director of OFS, Treasurer, and Treasurer's Designee shall retain fiduciary responsibility for the City's investment portfolio(s).

Treasurer

The Treasurer shall assume the duties of primary Investment Officer (IO) and act in accordance with this Policy and the established controls and procedures for the deposit and investment of City funds. The Treasurer shall further delegate investment responsibilities to the Treasurer's Designee.

Treasurer's Designee (City Investment Manager)

The City's Treasurer may choose to appoint a designee, the City Investment Manager, to provide daily oversight of the City's investment program and assume the primary responsibility of investing funds that are not under the purview of an external investment advisor. The Treasurer's designee will provide monthly and quarterly reports (as deemed necessary) to the City's Treasurer and Director of OFS.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this Policy and the City's supporting procedures.

City Council

The City Council retains overall fiduciary responsibility for the City's investment portfolio(s). Upon request, the Council will receive and review quarterly reports and review and adopt the Investment Policy, as amended from time-to-time.

Investment Managers

The City may utilize SEC-registered investment advisory firms to invest all or some of the portfolio. These firms shall be selected through a competitive request for proposals (RFP) process in accordance with the City's procurement policies. The selected advisory firms will operate within the constraints of this Investment Policy and an executed Investment Advisory Agreement (IAA). The City's external investment advisory firms shall purchase and sell investment securities on a best execution basis and in accordance with Minnesota Statute 118A and any other applicable legal or statutory requirements, this Investment Policy, and the IAA. The external advisors may be assigned differing strategies, constraints, and assets to manage at the discretion of the CFO and the Investment Officer. These advisors must be registered under the Investment Advisers Act of 1940 and be licensed and registered to do business in Minnesota and registered as an investment advisor through IARD¹ in Minnesota. All external investment advisory firms must be provided a copy of the City's current Investment Policy Statement and certify to a review of the Policy.¹

X. Financial Counterparties

Authorized Broker/Dealers

The City may purchase securities directly through Financial Industry Regulatory Authority (FINRA) registered broker/dealers or purchase time and demand deposits through Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA) financial institutions. Each authorized broker/dealer must be provided the City's Investment Policy annually and certify receipt and review in accordance with Minnesota law. Such firms shall be authorized to provide investment services in the State of Minnesota. All authorized broker/dealers must

¹ All institutional investment advisers are registered and regulated by the Securities and Exchange Commission (SEC). The IARD (Investment Adviser Registration Depository) is an online system for advisers and investors who want to check the registrations and history on advisers. All advisory information is updated annually.

provide the City's OFS with their FINRA certification and CRD number. The list of all authorized firms/broker/dealers will be reviewed at least annually by the City's Treasurer and Treasurer's Designee.

Qualified external investment advisors assisting the City in the management of its overall portfolio may purchase and sell investment securities in accordance with this policy and are delegated authority to utilize their own approved list of broker/dealers and security issuers; however, the list shall fully comply with the criteria maintained in this policy.

Eligible Depositories

Pursuant to Minnesota Statutes, Section 118A.02, the City Council shall designate one or more depositories eligible to receive and maintain deposit of City funds. A depository must be a member of the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA) and shall collateralize all time and demand deposits daily in excess of FDIC/NCUA-insurance coverage to 110% in accordance with Minnesota Statutes (Section 118A.03 as amended) and Section XII of this Investment Policy.

XI. Safekeeping and Custody

Custodial Bank

The City will hold all eligible securities with an independent, third-party custodial bank (custodian) selected by the City through a competitive RFP in accordance with the City's procurement policies and practices. By utilizing a third-party custodial bank, the City is engaging a provider that will act as a fiduciary on behalf of the City. The custodial bank will keep the City's assets separate from its own assets, protecting the City's assets from the claims of creditors.

The custodian may be the City's designated banking services depository. Securities purchased by the City's external investment advisors or by the City shall be held and designated for the City with the custodian.

In addition to the City's selected custodial bank(s), eligible investments may also be custodied at the Federal Reserve Bank.

Delivery vs. Payment (DVP)

All trades of marketable securities will be executed by delivery vs. payment to ensure that securities are deposited in an eligible custody account prior to the release of funds, ensuring that the City retains control of its funds at all times. The City may also invest funds with qualified investment providers, who hold securities in custody on behalf of the City.

The designated safekeeping agent (custodian) will provide a safekeeping receipt for each City-owned security as well as a monthly report of all City holdings under its custody for the stated period. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No. 70, or SAS 70).

XII. Collateralization

To the extent funds deposited with the City's custodian or any depository institution exceed available federal deposit insurance, the City will require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the State of Minnesota.

In lieu of a surety bond, the following are allowable forms of collateral:

1. U.S. government treasury bills, treasury notes, treasury bonds.
2. Issues of U.S. government agencies and instrumentalities chartered by an act of Congress.
3. General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service.
4. General obligation securities of the City may be pledged as collateral.
5. Irrevocable standby letters of credit issued by Federal Home Loan Banks for the benefit of the City accompanied by written evidence that the bank's public debt is rated "AA" or better by a national bond rating service.
6. Time deposits that are fully insured by any federal agency.

The amount of collateral on hand must be margined to 110% of deposited funds plus accrued interest and marked-to-market at least weekly.

Acceptable collateral which is pledged to the City under a repurchase agreement shall meet the requirements of MN Statutes 118A.05:

1. Be margined at 102% and marked-to-market daily by the custodian
2. Be held by an independent financial institution outside the holding company of the counterparty and approved by the City
3. Include only the acceptable forms of collateral for time and demand deposits.

XIII. Internal Controls

The Treasurer's designee shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed annually by the Director of OFS, the City's Treasurer, and with the City's independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud,

employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

The internal controls shall address the following points at a minimum:

- Control of collusion by independent account reconciliations
- Separation of transaction authority and transactions processing
- Custody and safekeeping
- Clear delegation of authority
- Documentation of all transactions
- Dual authorizations of wire transactions and transfers
- Staff training
- Review, maintenance and monitoring of security procedures

Downgrades / Credit Impairment

If the credit rating of a security owned by the City is downgraded below the minimum rating level required by state statute or this Policy, the City's external investment advisor(s) should inform the City's Investment Officer of the downgrade action and within three business days provide an evaluation of action to be taken based on the conditions affecting the rating, possible loss of principal, and liquidation options available. The external investment advisor(s), with the City's Investment Officer, will apply the general objectives of safety, liquidity, yield, and legality to make a decision on liquidation alternatives. In the absence of an external investment advisor, the City Investment Officer shall provide a recommendation to the CFO within three business days of the original rating action.

Monitoring FDIC & NCUA Insurance Status

The City and its external investment managers holding FDIC or NCUA-insured Certificates of Deposit (CDs) shall monitor the status and ownership of all banks and credit unions issuing brokered and negotiated CDs owned by the City based upon information from the FDIC and NCUA. If any bank or credit union has been acquired or merged with another bank in which brokered CDs are also owned, the City or its investment advisor shall immediately liquidate any brokered CD which places the City above the FDIC or NCUA insurance level. CDs may be held in amounts in excess of FDIC insurance if the CDs are collateralized by eligible collateral or irrevocable standby letters of credit issued by Federal Home Loan Banks to the City.

XIV. Reporting

The City's external investment advisors shall provide the City monthly reports on their managed portfolios. The reports are prepared in accordance with the City's

specifications and are available in the month following the reporting period, no later than a date agreed to by the City and its external investment advisor.