

Resolution No.: 20-47 | Investment Policy**Responsible Department:** Finance and Accounting**Effective Date:** November 17, 2020**Supersedes:** December 16, 2014 (Res. 14-78)**Personnel Covered:** All Employees

I. INTRODUCTION

The intent of the Investment Policy of the Phoenix-Mesa Gateway Airport Authority (“PMGAA”) is to define the parameters within which funds are to be managed. In methods, procedures and practices, the policy formalizes the framework for PMGAA’s investment activities that must be exercised to ensure effective and judicious fiscal and investment management of PMGAA’s funds. The guidelines are intended to be broad enough to allow the Chief Financial Officer (“CFO”) and Accounting Director to function properly within their parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

II. GOVERNING AUTHORITY

The investment program shall be operated in conformance with federal, state, and other legal requirements, including Arizona Revised Statutes §35-323.

III. SCOPE

This Investment Policy applies to all monies invested by PMGAA.

IV. OBJECTIVES

The primary objectives, in order of priority, of PMGAA’s investment activities shall be:

- A. **Safety** – Safety of principal is the foremost objective of the investment programs. Investments shall be undertaken in a manner that seeks to ensure preservation of principal in the overall portfolio.
- B. **Liquidity** – The investment portfolio shall remain sufficiently liquid to meet all operating and capital requirements that may be reasonably anticipated.
- C. **Return on Investment** – The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints of safety and liquidity needs.

V. STANDARDS OF CARE

- A. **Prudence** – The standard of prudence to be used by investment officials shall be the “prudent person” standard and shall be applied in the context of managing an overall

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portfolio. Investment officers acting in accordance with written procedures, this Investment Policy, and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The "prudent person" standard states that,

“Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

- B. Ethics and Conflicts of Interest** – Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the Executive Director/CEO. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of PMGAA.

C. Delegation of Authority and Responsibilities

1. Investment Officers

Authority to manage the investment program is granted by the Executive Director/CEO to the Chief Financial Officer (CFO) and Accounting Director (collectively “Investment Officer(s)”) under the general direction of the Executive Director/CEO. The CFO and Accounting Director shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy.

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 supporting procedures.

Policy No.: 20-47 | Investment Policy**2. Investment Committee**

PMGAA may seek to establish an investment committee to provide guidance to Investment Officers.

3. Investment Manager (Adviser)

PMGAA may engage the services of an external investment manager to assist in the management of PMGAA's investment portfolio in a manner consistent with the entity's objectives. Investment managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

VI. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER DEALERS**A. Authorized Financial Institutions, Depositories, and Broker/Dealers.**

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by conducting a process of due diligence. These may include 'primary' dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

1. The Investment Officers shall determine which financial institutions are authorized to provide investment services to PMGAA. Institutions eligible to transact investment business with PMGAA include:
 - Primary government dealers as designated by the Federal Reserve Bank
 - Nationally or state-chartered banks
 - The Federal Reserve Bank
 - Direct issuers of securities eligible for purchase
2. Selection of financial institutions and broker/dealers authorized to engage in transactions with PMGAA shall be at the sole discretion of PMGAA.
3. All broker/dealers who desire to become qualified for investment transactions must supply the following (as appropriate):
 - Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
 - Proof of FINRA certification

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- Proof of state registration
 - Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
 - Certification of having read and understood and agreeing to comply with PMGAA's Investment Policy
 - Evidence of adequate insurance coverage
4. All financial institutions who desire to become depositories must supply the following (as appropriate):
- Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
 - Proof of state registration
 - Evidence of adequate insurance coverage
5. A periodic review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Investment Officers.
6. External investment managers may also use their own list of internally approved broker-dealers subject to approval by PMGAA and its Investment Officers.

B. Minority, Emerging and Community Financial Institutions.

From time to time, the Investment Officers may choose to invest in instruments offered by minority, emerging and community financial institutions. All terms and relationships will be fully disclosed prior to purchase and will be reported to the appropriate entity on a consistent basis and should be consistent with state or local law.

C. Competitive Transactions

1. The Investment Officers shall obtain competitive bid information on all purchases of investment instruments purchased on the secondary market. A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.

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2. If PMGAA is offered a security for which there is no readily available competitive offering on the same specific issue, then the Investment Officers shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price.
3. If PMGAA hires an investment manager to provide investment management services, the adviser must provide documentation of competitive pricing execution on each transaction. The investment manager will retain documentation and provide upon request.

VII. SAFEKEEPING AND CUSTODY**A. Delivery vs. Payment**

All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in PMGAA's safekeeping institution prior to the release of funds.

B. Third-Party Safekeeping

Securities will be held by an independent third-party safekeeping institution selected by PMGAA. All securities will be evidenced by safekeeping receipts in PMGAA's name.

C. Internal Controls

Management shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of PMGAA.

VIII. SUITABLE AND AUTHORIZED INVESTMENTS

- A. PMGAA's eligible investments are governed by Arizona Revised Statutes §35-323 *et seq.* Within the context of these limitations, the investments listed below are authorized. Furthermore, those investments not identified in Arizona Revised Statutes §35-323 *et seq.* are considered to be ineligible. Credit criteria and maximum percentages listed in this section are calculated at the time the security is purchased.

The following investments are permitted:

- A. Insured or collateralized certificates of deposit in eligible depositories.
- B. Deposits in one or more federally insured banks or savings and loan associations placed in accordance with the procedures prescribed in Arizona Revised Statutes §35-323.01.
- C. Interest bearing savings accounts in banks and savings and loan institutions doing business in this state whose accounts are insured by federal deposit insurance for their industry, but only if deposits in excess of the insured amount are secured by the eligible depository to the same extent and in the same manner as required under Arizona Revised Statutes §35-323.
- D. Repurchase agreements with a maximum maturity of one hundred eighty days.
- E. The pooled investment funds established by the state treasurer pursuant to section §35-326.
- F. Obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities.
- G. Bonds, notes or other evidences of indebtedness of this state or any of its counties, incorporated cities or towns, school districts or special taxing districts, including registered warrants that shall bear interest pursuant to Arizona Revised Statutes §11-635.

Eligibility shall be limited to those obligations that maintain a long-term rating of A or a short-term rating in the highest category by a Nationally Recognized Statistical Rating Organization (NRSRO).

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- H. Bonds, notes or evidences of indebtedness of any county, municipal district, municipal utility or special taxing district of any state that are payable from revenues, earnings or a special tax specifically pledged for the payment of the principal and interest on the obligations, and for the payment of which a lawful sinking fund or reserve fund has been established and is being maintained, but only if no default in payment on principal or interest on the obligations to be purchased has occurred within five years of the date of investment, or, if such obligations were issued less than five years before the date of investment, no default in payment of principal or interest has occurred on the obligations to be purchased nor any other obligations of the issuer within five years of the investment.

Eligibility shall be limited to those obligations that maintain a long-term rating of A or a short-term rating in the highest category by a NRSRO.

- I. Bonds, notes or evidences of indebtedness issued by any county improvement district or municipal improvement district of any state to finance local improvements authorized by law, if the principal and interest of the obligations are payable from assessments on real property within the improvement district. An investment shall not be made if:
- The face value of all such obligations, and similar obligations outstanding, exceeds fifty per cent of the market value of the real property, and if improvements on which the bonds or the assessments for the payment of principal and interest on the bonds are liens inferior only to the liens for general ad valorem taxes.
 - A default in payment of principal or interest on the obligations to be purchased has occurred within five years of the date of investment, or, if the obligations were issued less than five years before the date of investment, a default in the payment of principal or interest has occurred on the obligations to be purchased or on any other obligation of the issuer within five years of the investment.

Eligibility shall be limited to those obligations that maintain a long-term rating of A or a short-term rating in the highest category by a NRSRO.

- J. Commercial paper of prime quality that is rated within the top two ratings by a NRSRO. All commercial paper must be issued by corporations organized and doing business in the United States.
- K. Bonds, debentures, notes or other evidences of indebtedness that are denominated in United States dollars and that carry at a minimum an "A" or better rating, at the time of purchase, from at least two NRSROs.

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- L. Negotiable or brokered certificates of deposit issued by a nationally or state chartered bank or savings and loan association.

Eligibility shall be limited to those obligations that maintain a long-term rating of A or a short-term rating in the highest category by a NRSRO.

- M. Securities of or any other interests in any open-end or closed-end management type investment company or investment trust, including exchange traded funds whose underlying investments are invested in securities allowed by state law, registered under the investment company act of 1940 (54 Stat. 789; 15 United States Code sections 80a-1 through 80a-64), as amended.

- B. **Maximum Maturity** – Unless otherwise stated in section VIII(A) above, the maximum maturity of any security is 5 years from the date of purchase.

- C. **Diversification** – It is the policy of PMGAA to diversify the investment portfolio so as to protect Authority monies from material losses due to issuer defaults, market price changes, non-earning assets, technical complications leading to temporary lack of liquidity, risks resulting from an over-concentration of assets in a specific maturity, a specific issuer, a specific geographical distribution, or a specific class of securities.

- D. **Credit Rating Changes** – If the credit rating of a security is subsequently downgraded below the minimum rating level specified in this policy, the Investment Officers shall evaluate the downgrade on a case-by-case basis in order to determine if the security should be held or sold. The Investment Officers will apply the general objectives of safety, liquidity, yield and legality to make the decision.

IX. COLLATERALIZATION

- A. Where allowed by state, law full collateralization is required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit. The State requires all depositories holding public funds to participate in the State managed pooled collateral program. The State will monitor collateral for public funds to ensure the proper level of collateral is maintained by participant depositories. PMGAA will check to ensure that any depository it utilizes is a State collateral pool participant.

- B. Acceptable collateral for repurchase agreements shall include only:

- 1. Obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities.

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2. Obligations of the State of Arizona and any of its cities, counties, or authorities rated at least AA by two NRSROs.

X. REPORTING**A. Monthly Performance Analysis**

The following report shall be provided in the monthly report to the CFO:

1. Month-end Investment Summary

The month-end investments will be summarized by type of investment. The report will include a summary of book and market values of the holdings of PMGAA. The report will summarize:

- a. Earned investment yield for the period and comparison to prior year.
- b. Interest earned for period, year to date and comparison to the prior year.
- c. Investments by fund and investment diversification.

B. Annual Reporting

The annual audited financial report shall be submitted to the Board of Directors pursuant to federal and state requirements and laws.

XII. POLICY CONSIDERATIONS

- A. Any deviation from the preceding policy shall require the prior specific written authorization of Executive Director/CEO or CFO.