

Information Item

Date: February 14, 2023

To: Mayor, Mayor Pro Tempore, and Members of the City Council

From: Ben Rowe, Assistant City Manager
Kelly Latham, Chief Financial Officer

Subject: Overview of the City of Winston-Salem's Cash and Investments at December 31, 2022.

Strategic Focus Area: Service Excellence

Strategic Objective: Maintain the City's Financial Strength

Strategic Plan Action Item: No

Key Work Item: No



The Chief Financial Officer invests cash and investments of the City of Winston-Salem in accordance with the Investment Policy adopted by City Council. Included in this item is a listing of cash and investments by financial institution, cash and investments by fund, and the Investment Policy.

The City's primary banking relationship is with Truist Bank. The Chief Financial Officer and employees designated by the Chief Financial Officer are authorized to purchase fixed income investments from financial institutions and broker/dealers (internally managed investments). The City Manager and Chief Financial Officer are authorized to use investment consultants to assist in the selection of external asset managers (externally managed investments). Alex.Brown was hired in 1989 as the investment consultant. City Council authorized renewal of the contract with Alex. Brown in 2022.

Alex.Brown has a proven commitment to diversity by evaluating and recommending investment managers owned by minority owned businesses. The City has 31% of our active managers as minority owned businesses.

A summary of returns for the last four calendar years is presented in the below table.

<u>Calendar Year</u>	<u>Equity Performance</u>	<u>Fixed Income Performance</u>	<u>Internally Managed Funds</u>	<u>Overall Rate of Return</u>
2019	29.98%	6.74%	2.12%	14.87%
2020	14.68%	6.44%	0.66%	8.40%
2021	22.81%	0.97%	0.29%	8.71%
2022	-18.14%	-7.70%	0.99%	-9.10%

City of Winston-Salem
Cash and Investments
As of December 31, 2022

		Calendar YTD	
		Rate of Return	MWBE
Cash			
Bank of America Merrill Lynch	460,770		
Mechanics & Farmers	2,124,872		M
North Carolina Capital Management Trust - Govt	177,946,458		
Pinnacle	21,083,234		
Truist	19,321,861		
Wells Fargo	6,226,080		
Total	\$ 227,163,275	1.16%	
Bond Proceeds			
Bank of New York Mellon	281,353		
North Carolina Capital Management Trust - Govt	83,451,334		
Truist	2,535,739		
US Bank	110		
Total	\$ 86,268,536	1.25%	
Investments-Internally Managed Fixed Income			
US Bank	\$ 107,608,060	0.26%	
Investments-Externally Managed Fixed Income			
Advent Capital Management	13,329,355	-9.59%	M
Belle Haven	21,920,938	-10.69%	
Federated Conservative	10,276,169	-5.27%	
Federated Flexible	23,464,639	-12.64%	
Garcia Hamilton & Associates	29,853,852	-2.29%	M
Invesco	9,755,558	-15.52%	
US Bank	8,215,848	0.85%	
Wells Capital Management	22,817,819	-7.31%	
Total	\$ 139,634,178	-7.60%	
Investments-Externally Managed Equities			
Douglas C. Lane & Associates, Inc.	33,850,500	-20.15%	
EARNEST Partners	28,993,268	-14.54%	M
Nuance Investments	13,701,848	-4.23%	
O'Shaughnessy Asset Management	7,278,165	-2.27%	
Russell 1000 Growth Fund	41,290,496	-28.15%	
Russell 1000 Value Fund	27,604,834	-7.72%	
Schafer Cullen	25,220,144	-3.51%	
Systematic Financial Management, L.P.	34,865,554	-8.18%	
Thornburg Investment Management	15,890,944	-19.27%	
Vanguard Index Fund	29,195,694	-18.08%	
WCM Investment Management	25,915,824	-28.29%	
Weatherbie Capital	14,548,631	-37.38%	W
Xponance	17,423,623	-19.91%	M
Total	\$ 315,779,525	-18.14%	
Total Cash and Investments	\$ 876,453,574		

**Cash and Investments by Fund
December 31, 2022**

	Cash	Bond Proceeds	Externally Managed		Total Cash and Investments
			Fixed Income	Equities	
General Governmental Funds					
General Fund	\$ 88,666,974				\$ 88,666,974
Grants	2,773,208				2,773,208
Urban Action Development Loan Fund	193,603				193,603
Housing Finance Assistance Fund	3,877,430				3,877,430
Economic Development Loan Fund	3,153,106				3,153,106
Economic Development Projects Fund	8,474,117				8,474,117
Rental Rehabilitation Fund	904,713				904,713
Police Forfeiture Funds	752,247				752,247
Occupancy Tax Fund	594,203				594,203
Gasoline Tax Fund	14,646,057				14,646,057
Emergency Telephone System Fund	1,726,202				1,726,202
Foreclosed Property Fund	(175,987)				(175,987)
National Opioid Settlement Fund	395,126				395,126
Downtown Business Improvement District	(12,293)				(12,293)
American Rescue Plan Fund	18,007,839				18,007,839
Debt Service Fund	64,734,540				64,734,540
Capital Projects Fund	5,597,740	42,557,048	3,691,195	667,321	52,513,304
Cemetery Perpetual Care Fund	70,220		719,662	3,661,599	4,451,481
Enterprise Funds					
Solid Waste Disposal Fund	21,669,893		19,035,010	17,427,252	58,132,156
Water & Sewer Fund	46,049,919	43,711,378	47,536,301	42,777,184	180,074,782
Parking Fund	1,218,944				1,218,944
Public Facilities Management Funds	2,692,962				2,692,962
Stormwater Management Fund	8,549,611	110	10,655,524	9,005,873	28,211,117
Winston-Salem Transit Authority	3,646,653				3,646,653
Internal Service Funds					
Central Warehouse Fund	35,847				35,847
Fleet Services Fund	(337,533)				(337,533)
Information Services Fund	861,135				861,135
Risk Management Reserve Fund	21,556,909			26,788,775	48,345,684
Workers' Compensation Fund	5,873,300		4,304,671	-	10,177,971
Health Benefit Fund	2,639,756		4,843,704	855,891	8,339,350
Dental & Flexible Spending Fund	4,535,485				4,535,485
Employee Benefit Fund	982,939		5,381,969	1,253,009	7,617,916
Trust Funds					
Winston-Salem Police Officers' Retirement Fund	(161,355)		30,957,066	147,180,942	177,976,652
Winston-Salem Police Separation Allowance Fund	(44,430)		2,434,334	9,464,639	11,854,543
Post Employment Benefits Fund	622,260		10,074,743	56,697,040	67,394,042
Total Cash and Investments	\$ 334,771,337	\$ 86,268,536	\$ 139,634,178	\$ 315,779,524	\$ 876,453,574

*Individual funds may periodically have a negative cash position due to timing differences of cash inflows and outflows.

INVESTMENT POLICY

The Investment Policy (the “Policy”) for the City of Winston-Salem, North Carolina (the “City”), applies to all funds, which are under the direct control of the City Council of the City. The Policy does not include any financial assets under the direct control of North Carolina Municipal Leasing Corporation and Risk Acceptance Management Corporation. At such time as the control of these assets passes to the City, then this Policy will apply.

I. Investment Policy

The City Council of the City of Winston-Salem, North Carolina, establishes this Policy for investment of all public, proprietary, and fiduciary funds in accordance with all applicable North Carolina General Statutes. The overall objective of this Policy is to use total return strategies that are intended to achieve investment returns comparable to financial market indices for each asset class in accordance with the guidelines stated herein.

II. Investment Authority

In accordance with North Carolina General Statute § 159-30(a), a local government may deposit at interest or invest all or part of the cash balance of any fund. The Chief Financial Officer shall manage investments subject to this Policy. The Chief Financial Officer shall have the legal authority to purchase, sell, or exchange securities on behalf of the City. The investment program for the City shall be managed so that investments and deposits can be converted into cash when needed. This Policy is established to supplement existing statutory authority.

III. Legal Requirements

Investment of governmental funds, which does not include retirement funds, other post-employment benefits reserves, employee benefit and risk reserves, cemetery perpetual care funds and amounts designated as capital reserves by the City Council, is controlled by N.C.G.S. § 159-30. Capital reserves for purposes of the Policy shall mean fund balance or net assets of any designated fund, which probably will not be required for liquidity purposes within 3 years and shall not mean capital reserves that may be established in accordance with §159-18 for the accumulation of funds for specified capital improvements.

Proceeds of debt issues, which may include, but are not limited to General Obligation, Special Obligation, Limited Obligation, Revenue bonds, Certificates of Participation, and Installment Purchases, shall be invested in N.C.G.S. § 159-30 compliant investments since these funds are required to be expended within 3 years.

Senate Bill 1479, authorizes the investment of retirement, employee benefits and risk reserves, cemetery perpetual care funds, and capital reserves as designated by the City Council to be invested in the types of “**Securities and other investments authorized by**

State Law for the State Treasurer” in N.C.G.S. § 147-69.2 as now written or hereafter amended.

Investment Restrictions and Requirements in addition to N.C.G.S. § 147-69.2:

The City Council specifically authorizes the Chief Financial Officer and designees to invest eligible assets in any investment available to the State Treasurer under N.C.G.S. § 147-69.2, except as restricted in this policy. Qualified Investment Assets exclude amounts in demand deposit bank accounts and the North Carolina Capital Management Trust. The City Council specifically provides for differences and restrictions from N.C.G.S. § 147-69.2 as follows:

- No more than 4%, based upon market values, of the City’s total equity investments may be invested in one company.
- The City may own no more than 3% of the total issued and outstanding equity shares of a single company.
- No more than 50% of the market value of Qualified Investment Assets are permitted in investment companies registered under the Investment Company Act of 1940 (mutual funds and exchange-traded funds).
- Minimum qualifications for Investment Managers that may be selected to direct investment of City assets include \$200 million total assets under management and a 5-year performance record. The City Manager and Chief Financial Officer are authorized to make reasonable reductions to the minimum length of performance records and assets under management of minority- or women-owned Investment Managers with the recommendation of the Investment Consultant.
- Fixed income investments are restricted to Investment Grade bonds. Investment Grade is defined as a fixed income security bearing one of the four highest ratings of at least one nationally recognized rating service when acquired. Should the quality rating of any company, other organization, or legal entity fall below the four highest ratings after a security is acquired, the Chief Financial Officer, City Treasurer, Investment Analyst and Investment Consultant will assess the situation and respond according to the best long-term interest of the City.
- Fixed income investments shall at all times equal or exceed 20% of the market value of all Qualified Investment Assets of the City.
- Fixed income corporate securities for any entity located outside of the U.S. are required to be in Yankee bond form only.
- Fixed income mutual funds or exchange traded fixed income funds are limited to 5% of the market value of Qualified Investment Assets of the City and may invest in convertible bonds. Fixed income funds with minor allocations to foreign sovereign

debt, emerging market debt, and high yield debt and bank loans are permitted within the 5% fund limit.

- The City may not invest in hedge funds, private equity funds, timber land, currency hedges, and other higher risk investments.
- The City is limited to investing in international equity securities that trade in U.S. dollar denominated form. A specific exception applies to this restriction such that the City may invest up to 5% of the Qualified Investment Assets in common or preferred stock issued in non-dollar denominated securities held in a mutual fund or exchange traded fund (e.g. emerging markets or developing markets).
- The City is limited to investing no more than 10% of the Qualified Investment Assets in public equity (REITs, REOC's) and Investment Grade public traded real estate debt. The City is not permitted to directly invest in real estate ownership.
- The City is limited to investing no more than 5% of the Qualified Investment Assets in an inflation protection portfolio that may include TIPs and investment grade floating rate domestic securities.

IV. Delegation of Authority

The implementation of this Policy is delegated to the City Manager and Chief Financial Officer. The City Manager and Chief Financial Officer are responsible for investment and accounting procedures, which will be managed by the City Treasurer and Investment Analyst, to safeguard assets and govern the day-to-day investment activities necessary to successfully execute this Policy. No person may engage in an investment transaction except as provided by procedures, which conform to this Policy. The Chief Financial Officer and City Treasurer shall be responsible for all transactions undertaken and shall establish a system of control to regulate the activities of external Investment Managers and subordinate employees.

Investment Consultants and Investment Managers — Investment Consultants have been employed to assist the City in the selection and on-going evaluation of Investment Managers for fixed income and equity investments. See “**Externally Managed Investments**” in this Policy.

V. Investment Objectives

The following objectives shall be considered in decision-making for investments of the various portfolios of the City:

Prudence — the standard to be used by city officials shall be the “**prudent person**” standard and shall be applied in the context of managing the overall portfolio. Investment officials and staff acting in accordance with this Policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s credit risk or adverse market price changes, but are expected to take appropriate actions to minimize the effects of adverse market developments over a reasonable timeframe.

Safety of Capital — Safeguarding principal, over a reasonable timeframe depending upon asset allocation and risk tolerance of an individual portfolio, is the foremost objective of the investment program. To attain this objective, diversification is required to minimize potential losses on individual securities, and asset allocation strategies, which recognize each portfolio’s risk tolerance, to minimize losses on classes of investments.

Maintenance of Adequate Liquidity — Investment portfolios of the City shall be designed to remain sufficiently liquid to meet the operating requirements, which might be reasonably anticipated, for each individual fund.

To the extent possible, the City will match investment of operating funds with anticipated cash flow requirements. The City will not directly invest internally managed investments of operating funds in securities maturing more than five years from the date of the purchase.

Return on Investments — Investment portfolios shall be designed throughout budgetary and economic cycles, with the objective of attaining the rate of return (interest, dividends, and market value changes) over time (3 to 5 year timeframe for equity investments) commensurate with the risk constraints of each investment portfolio and the cash flow characteristics of the portfolio.

Risk Tolerance — The City provides risk tolerance information to its Investment Consultants and Investment Managers, so that assets are managed in a manner consistent with the City’s objectives and investment strategy as designated in this statement of investment policy. The City defines risk as the chance of recognizing a permanent loss, not simply short-term price fluctuation. The risk management objective is to manage the City’s assets with the goal of capital preservation relative to inflation risk by avoiding permanent impairment of the capital of the City. This is consistent with the long-term time horizons, diversification, and allocations mentioned throughout this Policy.

Ethics Standards and Conflicts of Interest — City officials and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. These officials and employees shall disclose to the City Manager and/or Chief Financial Officer any material personal financial interests in financial institutions that conduct business with the City’s investment program. In addition, they shall further disclose any material personal financial or investment position that could be related to the performance of the City’s portfolios.

VI. Authorized Financial Dealers and Institutions

The City Treasurer will maintain a list of the names and addresses of financial dealers, and institutions and contact officials that are authorized to be depositories of public funds, or provide safekeeping (custodian) of investment assets, and engage in investment transactions with or on behalf of the City.

Cash — Deposits of public funds shall be in qualified public depositories as established by North Carolina State Statutes. In addition, the City has authorized the Chief Financial Officer to establish deposit accounts, based upon valid business or liquidity needs, with any bank located in the City that participates in the North Carolina State Treasurer's collateral pool and with the North Carolina Capital Management Trust, established by the State Treasurer.

Internally Managed Investments — The Chief Financial Officer, City Treasurer, and employees, designated by the Chief Financial Officer, are authorized to purchase fixed income investments only from financial institutions and broker/dealers that have an office within the City. Financial institutions and broker/dealers that desire to become qualified dealers for investment transactions must supply the City Treasurer with the following: audited financial statements, proof of state registration, and proof of National Association of Security Dealers certification. An annual review of the financial condition and registrations of qualified dealers will be conducted by the City Treasurer.

VII. Externally Managed Investments

The City Council authorizes and approves Investment Consultants. The Chief Financial Officer and City Treasurer have the authority, with the active assistance of the Investment Consultants, to select and employ Investment Managers, subject to the approval of the City Manager, as needed to direct investment activities of City portfolios in accordance with this Policy. The City shall have at least three fixed income Investment Managers and at least three active equity Investment Managers.

Investment Managers selected in accordance with this Policy shall make all investments in equity securities on behalf of the City and none shall be made by City staff.

The assets authorized to be invested with external Investment Managers may be invested through any of the following:

- Investment companies registered under the Investment Company Act of 1940; and individual, common, or collective trust funds of banks and trust companies; that invest primarily in authorized investments as well as mutual funds and exchange traded funds.
- Contractual arrangements in which Investment Managers have full and complete discretion and authority to invest assets specified in such contractual arrangements in authorized investments. No Investment Manager is permitted to have custody of assets.

Multiple Investment Managers will be used to provide complimentary investment styles. All investment portfolios of the City of Winston-Salem will be adequately monitored for risk and performance considerations. The Investment Managers will employ appropriate risk control measures which are needed to respond to a rapidly changing investment environment. Appropriate investment targets and indices shall be communicated to Investment Managers and performance shall be reviewed quarterly by the Investment Consultant.

VIII. Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by the City or directed by Investment Managers on behalf of the City shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities will be listed in the City's name if issued only in book entry form or held by a third party custodian designated by the Chief Financial Officer and City Treasurer and evidenced by safekeeping receipts.

IX. Asset Allocation and Diversification

To achieve growth on invested assets, it is important to use the concepts of asset allocation and diversification. Diversification is simply the concept of picking investments from each legally available class. Effectively, it is the "don't-put-all-your-eggs-in-one-basket" theory. This approach makes sense in investing because all investment classes do not generally behave the same way in given financial markets. In addition to selecting different asset classes for investments, selecting different Investment Managers using various styles and disciplines is an important part of diversification.

Asset allocation is the process of putting diversification into effect. It is the practice of selecting different amounts of each of the different available asset classes to create investment strategies designed to accomplish specific investment goals. In general, return on investments over time is largely due to the important concept of asset allocation. The Chief Financial Officer and Investment Consultants will determine strategic asset allocations between fixed income, equity and other portfolio asset classes depending upon expected market conditions. They will set percentage target allocations for each asset class in the portfolio, and set percentage limits that asset classes should not exceed without rebalancing. Similar target allocations will be set for the various investment styles within the equity and fixed income portfolios. Asset allocations are to be reviewed at least annually and more frequently if needed. Amounts authorized as eligible for investments in equities are included in Table 1.

The actual investments may exceed the asset allocations indicated in this Policy from time to time, as the result of additional resources and changes in financial markets. In these instances, the Chief Financial Officer and City Treasurer, with the assistance of the Investment Consultant, shall rebalance the portfolios, at a time and manner that they deem appropriate.

X. Designation of Capital Reserves

The City Council designates the following Capital Reserves (as defined in Section III) for investments permitted in N.C.G.S. 147-69.2 with the restrictions and requirements of this Policy.

Capital Reserve Funds	Designation Percentage
Water and Sewer	50%
Solid Waste Disposal	50
Stormwater Management	50
Equipment Leasing	30

XI. Other Requirements

Distribution of Return on Investments

North Carolina General Statute § 159-30(e) provides for return on investments to be distributed to funds whose assets earned the investment income. Cash of several funds may be combined for investment, if not otherwise prohibited by law or action of the City Council, and the investment income earned shall be prorated to the various funds on the basis of the average balances invested or some other sound accounting principle. The City Council has further determined that the investment income of the General Fund, Capital Projects Fund, and certain other funds shall be credited to the Debt Service Fund and used to service outstanding debt.

Accounting and Reporting on Investments

The City Treasurer and employees designated by the Chief Financial Officer shall monitor the accounting of all investment transactions on a daily basis. The City Treasurer shall also receive and reconcile investment reports from the asset custodians at least monthly. The City Treasurer shall include information on investments in the Comprehensive Annual Financial Report of the City.

Performance Standards

The City investment strategy is considered active and appropriate benchmark indices for each asset class will be used for comparative purposes and to measure the performance of the various portfolios. The Investment Consultants shall prepare and present performance information of each Investment Manager at least quarterly. The goal of the City is to have the Investment Managers rank in the top quartile of similar Investment Managers and public funds as measured over a full market cycle.

Training and Education

The City Council recognizes that the conduct of investment activities is time consuming and requires specialized skills. It is the Policy of the City to provide periodic training for investment personnel through courses and seminars offered by the Government Finance Officers Association, North Carolina Local Government Investment Association, and other nationally recognized organizations.

Effective Date of Revised Investment Policy

This Investment Policy, updated April 2013, shall be effective on the date of approval by the City Council of the City of Winston-Salem, or upon the date of subsequent amendments.

Table 1**Equity Allocation Maximums**

Fund Name	Maximum Percentage
Capital Reserve Funds⁽¹⁾	
Capital Projects	0%
Water and Sewer	35
Solid Waste Disposal	35
Stormwater Management	35
Fairgrounds	0
Equipment Leasing	20
Retirement, Employee Benefits, Risk Reserves, and Perpetual Care Funds	
Employee Benefits	25%
Police Officers Retirement	80
Separation Allowance	80
Other Post-Employment Benefits	80
Cemetery Perpetual Care	80
Reserve for Debt Retirement	-

⁽¹⁾ Equity maximums are 70% of the designated capital reserves in Section X.