

BOROUGH OF FOREST HILLS

Investment Policy

Scope:

This investment policy applies to all assets of the Borough of Forest Hills and is established by Borough Council to guide the borough finance committee and borough staff in proper investment of borough funds. Borough council seeks to provide the borough with a maximum return on borough funds within the guidelines of a sound and prudent investment policy.

The borough seeks to invest funds in instruments that are insured or properly collateralized as proscribed by the state of Pennsylvania and requires that all investments comply with the borough code, section 1316 and all related statutes or amendments.

These funds are accounted for in the borough's annual financial audit and include but are not limited to the following funds:

General Fund

Capital Projects Funds, including
Capital Improvements Plan (Capital 1)
Road Improvement Fund

Special Revenue Funds, including
Highway Aid Fund (Liquid Fuels Fund)
Corrective Action Fund (Capital 2)

Fiduciary Funds, including
Forest Hills Borough Police Pension Fund
Forest Hills Borough Non-Uniform Employee Pension Fund

Objectives:

The primary objective of the borough's investment program is to earn interest income on idle cash. When investing funds, safety and liquidity are paramount. The borough insists that the following requirements are met for each fund and as a whole, prioritized in the order shown: the preservation of principal, liquidity of funds, and the generation of income.

Furthermore, when the above priorities are met, the borough will seek to invest in instruments and institutions that provide no costs/fees when possible or the lowest possible cost/fees available. The liquidity requirement, therefore, also implies that funds are available for electronic or other transfer from the investment institution to another

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institution or to the borough at little or no cost for any and all such transactions. Sufficient provision should be made to allow for the conversion of investments into usable funds in case of an emergency or an unanticipated change in circumstances.

When the Borough of Forest Hills can legally borrow money and invest at a rate higher than the interest rate on the note, it will be its policy to do so (e.g., tax anticipation note, bond proceeds).

The borough expects that any individual or institution managing or investing borough funds will seek to avoid interest-rate risk (that is, the risk of being “trapped” for an extended period with an interest rate that is lower than market). The borough wishes to reduce its exposure to interest rate risk in all investments.

Types of Investments:

The Pennsylvania Borough Code specifically lists the types of investments which a governmental unit may make and only includes investments with the highest standards of safety. Moneys may be invested in certificates of deposit, direct obligations of the US Treasury, short term obligations of the United States Government or any of its agencies backed by the full faith and credit of the United States of America, or bank instruments that are fully insured or properly collateralized (see borough code section 1316(c) included as Attachment A here and any subsequent amendments to the borough code that affect municipal investments).

A mix of investments may be appropriate. The borough believes that diversification of funds to avoid concentration of all borough investments in one instrument or entity (excluding U.S. Treasury securities) enhances the safety and security of borough funds.

The code authorizes the combination of moneys from more than one fund for the purchase of a single investment, provided that each of the funds combined for the purpose shall be accounted for separately in all respects and that the earnings from the investment are separately and individually computed and recorded and credited to the accounts from which the investment was purchased.

Attachment B covering investments for the Forest Hills pension plans permits a different mix of investments than what is specified here.

Authority:

Investment program objectives are established by the finance committee of borough council and by the borough manager and treasurer except in the case of the borough

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pension funds where the borough pension committee may also be involved at the discretion of borough council.

The borough manager and treasurer shall establish and maintain any written procedures for the operation of the investment program consistent with this policy. No person may engage in an investment transaction except as provided under the terms of this policy and any procedures established by the borough manager and treasurer.

The borough manager and treasurer are authorized to execute any documents necessary to carry out the investment policy of the borough.

Term of Investment:

The finance committee and council request that the borough manager and/or treasurer monitor the performance of borough investments. The borough manager and treasurer may make adjustments in the mix of investments or location of the borough's accounts periodically to provide the borough with the most favorable interest rates and least fees or other charges without the need to consult council or the finance committee except in the case of pension investments which remain under the supervision of council. The borough seeks at minimum to review the investment of all funds annually and to consider changes on that basis. Pension funds and certain other funds related to debt and bond issue funds may be handled differently with a long term focus compared with all other borough funds.

Investment maturities for operating funds shall be scheduled to coincide with projected cash flow needs, taking into account large routine expenditures like payroll and bond payments as well as considering anticipated revenue.

Council may require that staff periodically issue a request for investment proposals to allow several entities to provide plans for the investment of borough funds. Otherwise, council requests that the borough manager and treasurer investigate investment opportunities on a regular basis so as to take the best advantage of changing interest rates, reduced or eliminated fees and related investment opportunities. Regardless of the method, at all times this investment policy shall serve as the guide for both staff and banks or other investment entities who may seek to invest borough funds.

Fees:

The borough shall seek at all times to invest funds in instruments and institutions that provide the most favorable cost advantage to the borough. Investment related fees shall be nominal at best and fees involving the transfer or movement of funds shall be minimal or nonexistent. In order to maintain the liquidity objective, the borough will seek investments that permit the movement of funds without fee.

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All institutions investing borough funds shall provide the borough with a complete written record of any agreements and shall clearly and plainly state any and all charges, fees, limitations, requirements, etc. Institutions investing borough funds shall provide a complete monthly record of all transactions including any fees and interest.

Collateral for Deposits:

Depository institutions shall provide collateral for all borough deposits in accordance with applicable law.

For mid-range and long-term deposits, the borough manager and treasurer should consider requiring a pledge of specific collateral pursuant to an agreement approved by borough legal counsel.

Pooled collateral is permitted in accordance with the requirements of applicable law and subject to the following additional requirements:

- (1) Prior to making any deposit secured by pooled collateral, the depository institution shall provide the borough with a written commitment documenting the collateral pledge. The commitment should include the following and other normal and appropriate terms:
 - (a) A statement of the borough funds secured by the pool.
 - (b) Identification of the custodian holding the pooled collateral and prohibition against change of the custodian unless advance written notice is given to the borough, including the identity of the new custodian.
 - (c) A copy of the current custodian and pledge agreement between the bank and the custodian holding the pooled collateral.
 - (d) A statement of the minimum requirements for assets in the security pool.
 - (e) A statement that the pool is pledged solely for the benefit of public bodies maintaining with the institution deposit accounts secured by the pool of pledged assets.
 - (f) A statement of the minimum excess collateral coverage, measured by market value, maintained by the institution over the amount of all public deposits secured by the pool.
 - (g) Authorization of immediate withdrawal of all borough funds together with accrued interest, without any penalty for early withdrawal, if the excess collateral coverage falls below the specified minimum excess collateral coverage.
 - (h) A requirement that the institution maintain daily records of public deposits and collateral maintained in the pool for public deposits.
 - (i) A requirement that the institution make reports to the borough of deposits and collateral on request by the borough, including in the report

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the total amount of public funds on deposit and the total amount and market value of collateral in the pool to secure such public deposits.

(j) A requirement that the pooled collateral arrangements comply in all respects with applicable law.

(2) The borough manager and/or treasurer shall make periodic requests for collateral reports from all depository institutions. Reports should be requested at the inception of any deposit arrangement and at predetermined intervals thereafter.

Pension Funds:

See Attachment B for specific requirements and directives in addition to requirements contained in this policy.

Qualification of Depository Institutions, Brokers and Dealers, Custodians, Local Government Investment Pools, Investment Advisors, and Money Market Mutual Funds:

All depository institutions (except to the extent deposits are fully insured), repurchase agreement providers, brokers, custodians, investment advisors, and local government investment pools, shall submit:

- (1) Their most recent audited annual financial statements.
- (2) Their rating, if any, from a nationally recognized rating agency.
- (3) Information concerning any fidelity bonds, errors and omissions insurance, and any other insurance available to protect the borough against possible loss, including names of insurance companies, coverage limits, and scope of coverage.
- (4) Information concerning the internal and external audit procedures applicable to investments, collateral, or investment services.
- (5) Other information requested by the borough.

Investment advisors shall submit a written acknowledgement of receipt of this policy and knowledge of legal requirements applicable to borough investments. Local government investment pools shall submit copies of the trust or other documents establishing the pool and defining structure and management of the pool, and a comprehensive information statement describing the pool. Money market mutual funds shall submit an up to date prospectus of the fund.

Qualification information shall be updated at least annually.

Investments may be made in money market mutual funds and local government investment pools only to the extent rated in the highest rating category by a nationally recognized rating agency. The borough shall not invest in a money market mutual fund

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or local government investment pool until the legality of investment in the fund or pool has been approved by borough legal counsel. Further qualifications for specific investments or types of government entities may be developed for approval by council and included as part of the borough's investment program

Selection of depository institutions, repurchase agreement providers, brokers, custodians, investment advisors, local government investment pools, and money market mutual funds will be based on legality, performance, quality of service, creditworthiness, experience, capitalization, reputation, integrity, and other relevant factors.

Ethics:

Officers and employees involved in the borough's 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. Elected officials, the borough manager and treasurer shall disclose in writing to the full council any material conflict of interest or material potential conflict of interest which exists because of personal relationships or personal business activity between the employee/official and any depository institution, broker, investment advisor, or other investment or investment service provider. Elected officials, the borough manager and treasurer shall refrain from any personal business activity that could impair ability to make impartial decisions in managing the investment program.

All depository institutions, repurchase agreement providers, brokers, and investment advisors shall disclose in writing to the district:

- (1) any fees paid to or received from a third party with respect to any borough investment; and
- (2) any ownership of, by, or for a parent corporation which owns, any other depository institution, broker, investment advisor, or other investment or investment service provider which does business with the borough.

Financial Disclosure:

Officers and employees involved in the borough's investment process shall provide an annual financial disclosure statement indicating their personal representatives and investment institutions. Such disclosure shall be reviewed annually by the borough's independent auditor and shall be considered confidential.

Audit:

All investment records shall be subject to annual audit by the borough's independent auditors. The audit shall include but not be limited to, as deemed necessary by the auditors, verification of amounts and records of all transactions, verification that

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investments are of the type authorized by this policy, and verification that values are properly reported. It shall be the responsibility of the investment advisor, financial institution and/or bidder to maintain necessary documents to permit independent audit of the borough's investments. The audit shall also include a review of internal controls, including separation of transaction authority from accounting and record keeping, custodian arrangements, transaction confirmations, record keeping, and other issues deemed appropriate by the auditors.

Legal Counsel:

Borough legal counsel shall review investment agreements, documents establishing relationships with depository institutions, repurchase agreement providers, brokers, custodians, investment advisors, and local government investment pools; and other documents as appropriate to ensure compliance with this policy and applicable law. Legal counsel need not review documents relating to opening standard bank accounts, certificates of deposit, or specific security transactions. The rules set forth in this investment policy may be modified or waived with written approval by borough legal counsel.

Approved December 19, 2007
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Attachment A

BOROUGH CODE

(1314 amended Oct. 5, 1967, P.L.336, No.145 and Oct. 9, 1967, P.L.399, No.181)

Compiler's Note: The Department of Community Affairs, referred to in this section, was abolished by Act 58 of 1996 and its functions were transferred to the Department of Community and Economic Development. The Secretary of Community Affairs, referred to in this section, was abolished by Act 58 of 1996 and the functions were transferred to the Secretary of Community and Economic Development.

Section 1315. Capital Improvements to Certain Public Service Facilities.—(a) For the purpose of financing the cost and expense or its share of the cost and expense of capital improvements by altering, improving or enlarging (i) its sewer, sewer system or sewage treatment works, either singly or jointly, with other municipalities or townships, or both, or (ii) its water works, either singly or jointly, with other municipalities or townships, or both, or (iii) its electric light or power plant or power distribution system, or (iv) its gas plant or gas distribution system for its own municipal purposes, including the purchase and installation of machinery and equipment, any borough owning any such plant or facility may issue non-debt revenue bonds as provided in clause (72) of section 1202 of this act.

(b) Any borough issuing non-debt revenue bonds under the authority of this section shall adjust and, where necessary, increase the rates of rentals or charges pledged as security for the bonds, in order to provide sufficient revenue which shall be set aside as reserve funds to cover depreciation of the properties involved, and for future improvements to the plant or facility involved, as well as for the payment of the interest on the bonds and the principal at the time of maturity.

Section 1316. Investment of Funds.—(a) Council shall invest borough funds consistent with sound business practice.

(b) Council shall provide for an investment program subject to restrictions contained in this act and in any other applicable statute and any rules and regulations adopted by council.

(c) Authorized types of investments for borough funds shall be:

(i) United States Treasury bills.

(ii) Short-term obligations of the United States Government or its agencies or instrumentalities.

(iii) Deposits in savings accounts or time deposits, other than certificates of deposit, or share accounts of institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured, and, for any amounts above the insured maximum, provided that approved collateral as provided by law therefore shall be pledged by the depository. ((iii) amended Dec. 13, 1982, P.L.1145, No.261)

(iv) Obligations of the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, the Commonwealth of Pennsylvania or any of its agencies or

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instrumentalities backed by the full faith and credit of the Commonwealth, or of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.

(v) Shares of an investment company registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, provided that the only investments of that company are in the authorized investments for borough funds listed in (i) through (iv).

(vi) Certificates of deposit purchased from institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund or the Pennsylvania Deposit Insurance Corporation or the Pennsylvania Savings Association Insurance Corporation to the extent that such accounts are so insured. However, for any amounts above the insured maximum, such certificates of deposit shall be collateralized by a pledge or assignment of assets of the institution, and such collateral may include loans (including interest in pools of loans) secured by first mortgage liens on real property. Certificates of deposit purchased from commercial banks shall be limited to an amount equal to twenty percent of a bank's total capital and surplus. Certificates of deposit purchased from savings and loan associations or savings banks shall be limited to an amount equal to twenty percent of an institution's assets minus liabilities. ((vi) added Dec. 13, 1982, P.L.1145, No.261)

(vii) Any investment authorized by 20 Pa.C.S. Ch.73 (relating to fiduciaries investments) shall be an authorized investment for any pension or retirement fund. ((vii) added Dec. 13, 1982, P.L.1145, No.261)

(d) In making investments of borough funds, council shall have authority:

(i) To permit assets pledged as collateral under subsection (c)(iii), to be pooled in accordance with the act of August 6, 1971 (P.L.281, No.72), relating to pledges of assets to secure deposits of public funds.

(ii) To combine moneys from more than one fund under borough control for the purchase of a single investment, provided that each of the funds combined for the purpose shall be accounted for separately in all respects and that the earnings from the investment are separately and individually computed and recorded, and credited to the accounts from which the investment was purchased.

(iii) To join with one or more other political subdivisions and municipal authorities in accordance with the act of July 12, 1972 (P.L.762, No.180), entitled "An act relating to intergovernmental cooperation," in the purchase of a single investment, provided that the requirements of subclause (ii) on separate accounting of individual funds and separate computation, recording and crediting of the earnings therefrom are adhered to.

(1316 added Nov. 2, 1979, P.L.458, No.94)

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Attachment B

The following is the investment policy for the Forest Hills Borough Police Pension Fund and the Forest Hills Borough Non-Uniform Employee Pension Funds.

Borough Council and the pension committee believe that pension funds should be diversified among appropriate investments. These include government securities, common stocks, bonds, money market instruments, and other appropriate investments authorized by council and as mandated by the Pennsylvania Borough Code. It is the policy of the borough to invest these funds with care in those instruments which preserve the principal while recognizing the need for income and appreciation with minimal risk.

This policy will be carried out in a prudent manner by borough council with the assistance of reputable professional money managers, consultants, insurance companies and banks to make the investments. The performance of these investments will be reviewed periodically by borough council and/or the pension committee using various evaluation techniques that prove reliable and face to face review and discussion among the parties.

These long range objectives are subject to such flexibility as may be necessary to conform to changing economic conditions and the each fund's actuarial needs. Accordingly this statement of investment philosophy will be reviewed periodically by council and/or the pension committee so they may be assured the professional managers, consultants, insurance companies and banks to whom each fund's monies are entrusted from time to time are performing their functions within the framework of this investment philosophy.

General Policy on Pension Investments

1. It is the intention of council to allow the investment manager(s) full discretion within the scope of the agreed upon investment guidelines and restrictions. The manager's performance in meeting the funds' objectives will be reviewed on a regular periodic basis. Results based on a total rate of return as used herein shall include realized and unrealized capital gains and losses, dividends and interest income, brokerage cost, administrative fees and investment manager fees.
2. Investment manager(s) shall provide monthly reports to the borough in the requested format. The reports shall include review of previous actions, current

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3. Investment managers will provide each fund with a quarterly written statement identifying they are in compliance with each fund's guidelines. If, in the judgment of the investment manager, strict adherence to one or more of the following investment guidelines in connection with a specific transaction is not in the best interests of one or both funds or would produce an undesirable investment result, the manager shall consult council before proceeding with the transaction.

Investment Guidelines

1. Pension fund investments shall be invested and managed as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the funds. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution. Investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the funds. Investments are also limited to holdings permitted under the borough code and/or PA Act 205.
2. Each fund may utilize both balanced and specialty managers to accomplish the overall objectives of each.
3. Bond investments, except as identified in specific manager addendums, hereafter provided, shall be limited to federal or federal agency obligations or corporate bonds of the first four quality ratings (AAA, AA, A, BBB) at the time of purchase as established by 2 of the 3 (Moody's, S & P, Fitch) Bond Rating Services. In the event a security is downgraded after purchase, sale of that holding will be at the discretion of the manager. The investment manager is required to notify the fund and council of the downgrade and advise the fund and council of their decision to "hold or sell." In no event shall the debts securities of any one corporation (excluding quasi-governmental agencies such as Federal National Mortgage Association and Federal Home Mortgage) exceed 5% of total fund assets under management.
4. Fixed Income: Domestic fixed income securities shall consist of: obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities and repurchase agreements collateralized by such obligations, mortgaged-backed securities, collateralized mortgage obligations, asset-backed securities, Yankee bonds, taxable municipals, Eurobonds and investment grade domestic corporate

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obligations. Preferred stock of Yankee and domestic issuers are permissible provided they do not exceed 5% of the portfolio's market value and where the issuer of the stock is of investment-grade quality. Purchases of commercial paper, certificates of deposit, banker's acceptances, and floating-rate notes are permissible provided they are of investment-grade quality. Direct investments in non-U.S. dollar-denominated securities are not permitted. The fixed income portfolio should maintain an overall quality rating of "AA" or higher at all times

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1. The overall benchmark for each fund will be 50% Russell 3000 or S & P 500 for equities and 10% MSCI EAFE International Stock Index (net) and 40% Lehman Brothers Aggregate for fixed.
2. On approval of council, real estate investments in co-mingled funds are allowed but shall be limited to 10% of the total fund assets at time of purchase.
3. Neither fund will engage in investment transactions involving stock options, short sales, purchase on margin, letter stocks, venture capital, unregistered or restricted stock, commodities (including gold or currency futures), conditional sales contracts, fixed income futures and options, and various rate transactions such as swaps, caps, floors, or collars, unless authorized by council.
4. Uninvested cash balances should be kept to a minimum through the prompt investment of available funds in short term or more permanent securities.
5. If over a calendar quarter the turnover of common stock investments exceeds 50% of total market value, the investment manager will promptly submit to council a detailed explanation of the reasons such trading activity occurred.
6. Any portion of the equity or fixed income portions of the portfolio may be held in short term reserve. Such funds will be invested in prime quality short term, liquid assets to obtain a reasonable rate of interest while providing liquidity. The following types of investment may be used for this purpose: US Government and Agency securities, certificates of deposit, commercial paper, master notes, and the custodian's short term investment fund. The amount, timing and type of investment shall be at the discretion of the investment manager.
7. It should be assumed that employment opportunities in the area covered by each fund will be stable over the foreseeable future. The Funds will not, in all probability, need to liquidate securities to meet benefit obligations in the near future.

If the borough's investment manager believes that a particular guideline is too broad or too restrictive, requires further definition or should be altered or deleted, it is the

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responsibility of the borough's investment manager to make appropriate recommendations in writing to borough council and the borough manager.