

ADDENDUM TO CITY OF MADISON INVESTMENT POLICY (APM 1-7)
(PERMANENT FUNDS)

This addendum specifically addresses the City of Madison's Investment Policy as it pertains to portfolios contained or established within the City's Permanent Fund.

The fund will be invested under the provisions of Wis. Stat. ch. 881. The standard for investments under this chapter is "prudence." This addendum will make more specific how that standard is interpreted.

Goals:

The fund will be invested for total return, namely a combination of yield and capital appreciation. As a result, the fund will be allocated among money market instruments, fixed income securities, and equity securities.

Nevertheless, the fund should have a conservative orientation. In keeping with that orientation, the fund should have no more than 50% (by value) invested in equities when fully invested. The goal of the equity component is to provide dividend income with the potential to keep pace with inflation; the goal of the fixed income component is to provide a stable, consistent cash flow reflecting the current level of interest rates in the marketplace. The money market component will be used to accumulate dividend and interest income until it is dispersed for allowed expenses, and to have cash available to acquire new stocks or bonds.

Money Market Instruments:

The fund may invest in money market funds (government funds, government agency funds, or prime funds), certificates of deposit, or commercial paper. Commercial paper purchases will be confined to ratings of A1/P1 or better. Certificates of deposit should be insured.

Fixed Income Securities:

Allowable investments include US Treasury bills, notes, and bonds, bonds and notes issued by agencies of the US government, municipal bonds (rated investment grade, i.e., BBB or higher), and corporate bonds (rated investment grade). Also permitted are mortgage-backed securities and asset-backed securities.

All of the fixed income securities listed above must still meet the prudent investor standard. While long-term bonds are permissible, caution should be used as to the average maturity and duration of this portion of the fund. Fixed income investments need to be regularly monitored so that changes in credit worthiness can be noted. Although bonds whose ratings fall below investment grade may continue to be held, the portfolio should be managed conservatively, so that this prospect is a rare occurrence.

The fund may be invested in open-end investment companies (mutual funds) that predominantly adhere to the criteria in the previous paragraph.

Equity Securities:

A portion of the fund may be invested in common stocks. These equities will be traded on a US exchange or the over-the-counter market. Any stock bought by the fund shall pay a current dividend. Stock selection should emphasize the history of a given company reliably paying a dividend. Stocks should be purchased that have the potential for a regular increase in the dividend.

Stocks selected for the fund should be evaluated for financial strength and potential performance. Third-party services like Value Line, Standard & Poor's, or Morningstar should have the stock ranked average or above for both financial strength and performance.

The fund may also invest in open-end investment companies (mutual funds) that predominantly adhere to the criteria in the previous paragraph.

Revised: November 25, 2019

Original Addendum dated 6/12/2013