Housing Authority of the City of Pittsburgh

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April 24, 2018

Investment Advisor Services
RFP #150-14-18

ADDENDUM NO.1

This addendum issued April 24, 2018 becomes in its entirety a part of the Request for Proposals RFP #150-14-18 as is fully set forth herein:

Item 1: Q: Would you be able to provide us with the Authority Investment Policy Statement?
A: **Please see the attached HACP Investment Policy.**

Item 2: Q: Can you please advise if there is dial-in info for the pre-submission meeting on April 25th? We are located in Portland, OR, thus we will be unable to attend the meeting in person.
A: **Join the audio conference by phone:**
United States - Washington, DC +1.202.602.1295
Access Code 598-776-271#

Item 3: The proposal due date, time and location remain unchanged at May 4, 2018 at 11:00 AM, at the HACP Procurement Dept., 100 Ross St. 2nd Floor, Suite 200, Pittsburgh, PA 15219.

END OF ADDENDUM NO. 1

Kim Detrick

Mr. Kim Detrick
Procurement Director/Chief Contracting Officer

4/24/18
Date

Investment Policy

Housing Authority of the City of Pittsburgh, Pennsylvania
Investment Policy

Background

Part II, Section 401, Paragraph E of the Annual Contributions Contract (A.C.C.) between the Housing Authority of the City of Pittsburgh (HACP) and the U. S. Department of Housing and Urban Development (HUD) requires the Housing Authority to deposit and invest all program funds for projects under an ACC in accordance with the terms of a General Depository Agreement. The General Depository Agreement must be in a form approved by HUD and is executed between the Housing Authority of the City of Pittsburgh and the depository. In addition, the ACC requires the Housing Authority to invest General Fund (program) monies only in HUD approved investments.

Investment of Funds

Funds on deposit in the General Fund are comprised of four components:

1. funds for current transactions purposes
2. development and/or modernization funds
3. funds exceeding those necessary for the daily operation of the Housing Authority which are considered available for investment
4. operating reserve funds

The Housing Authority will, on occasion, have monies on deposit in the General Fund in excess of its estimated needs for a ninety-day period. Such excesses will be invested or deposited.

Purpose

This comprehensive investment policy establishes guidelines for the overall administration and effective management of all monetary funds. Investments shall conform to all legal requirements, HUD regulations and guidelines, and the policies as outlined herein.

Prudent Investment Standard

All investments and evaluation of such investments shall be made with regard to the "prudent investor" standard of care, that is, with the care, skill, prudence and diligence under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the professional management of their business affairs, not for speculation, but for investment, considering the probable safety of their capital, including liquidity of the investment, as well as the probable income to be derived.

Diversification

Diversification is one of the fundamental principles of investing. Properly exercised, it allows for risks to be minimized and returns maximized within a given investment framework. The Housing Authority of the City of Pittsburgh will seek prudent amounts of diversification at all levels of its investment management process. This includes diversification both among and within allowable asset classes. The investment policy may provide for specific guidance on diversification, including allowable limits for various types of asset classes, industry sectors, specific issuers, and security types. Where not specified, investments should adhere to prudent practices of diversification in order to safeguard the assets under their administration.

Custody

All investments of the Housing Authority of the City of Pittsburgh are to be secured or held by a custody bank for safekeeping procedures. All investments purchased by the Housing Authority of the City of Pittsburgh will be properly designated as assets of the Housing Authority of the City of Pittsburgh.

Individuals responsible for custody of securities shall be someone other than the individual maintaining the accounting records, or buying and selling investments.

Approved Investment Securities

Purchases of securities shall have maturities that coincide with expected disbursements by the Housing Authority. For the purpose of investing operating reserves, issues shall be limited to maturities three years or less. Although some of the securities have maturities longer than three years, they can be traded in the secondary market and therefore are considered to be allowable investments.

The Housing Authority can choose to invest in one or more of the following HUD approved investments issued in Notice PIH 96-33 (HA) reinstated with Notices PIH 97-41, 98-46, 99-48 2001-7, and 2002-13 (HA).

1. Direct Obligations of the Federal Government Backed by the Full Faith and Credit of the United States

   a. U.S. Treasury Bills

      These securities are short-term obligations, which the Housing Authority or its agent may purchase directly. Treasury Bills with 3-month and 6-month maturities are issued weekly and those with 9-month and 12-month maturities are issued monthly. The minimum denomination is $10,000.

      They are issued on a discount basis and are redeemed at par upon maturity.

U.S. Treasury Bills are available for purchase at any time after issuance from investment departments of banks and from dealers in investment securities. Purchases may be made conveniently using the Housing Authority's depository bank. Treasury Bills may be acquired by subscription on the issue date from a Federal Reserve Bank or branch in amounts not in excess of $200,000. Detailed information is contained in the weekly or monthly announcements, which may be received regularly upon application to a Federal Reserve Bank or branch.

b. U.S. Treasury Notes and Bonds

These securities are issued periodically by the Treasury Department through Federal Reserve Banks and Branches. They are medium to long-term obligations, which the Housing Authority or its agent can only purchase in the secondary market to assure that they will mature at a date, which coincides with scheduled disbursements by the Housing Authority. Outstanding issues may be purchased from banks or dealers in investment securities at the market price, which on any given day may be more or less than the face amount.

(1) U.S. Treasury Notes

These notes mature in not less than one and not more than 10 years from the issue date and bear interest at fixed rates payable semiannually.

(2) U.S. Treasury Bonds

These bonds mature after 10 years from the issue date and bear interest at fixed rates payable semi-annually. Many issues of bonds are redeemable on call by the Treasury Department before maturity. The yield of such issues usually is computed to the first call date, which may be as much as 5 years prior to maturity.

2. Obligations of Federal Government Agencies

a. Federal Financing Bank (FFB)

The Federal Financing Bank is authorized to purchase obligations held by Federal Agencies and to issue obligations to the public.

b. Government National Mortgage Association (GNMA) Mortgage-Backed Securities (GNMA I and GNMA II)

The securities, guaranteed by GNMA are issued by an issuer (a GNMA approved mortgage lender). The securities are backed by a pool of government-insured or guaranteed mortgages. The holders of the securities receive monthly payments of principal and interest. The minimum denomination issued is $25,000. The difference in GNMA I and GNMA II is that the GNMA II payment date is on the 20th of the month and the GNMA I payment date is on the 15th; GNMA II uses a central paying agency whereas GNMA I has individual issuers sending checks to investors; and GNMA II has interest rates that vary within a one percent range. The maximum maturity for GNMA I and GNMA II is 30 years, except that GNMA I project loans mature in 40 years.

c. GNMA Participation Certificates

These securities, guaranteed by GNMA, were sold by GNMA as the trustee with various other Federal agencies as trusters. They represent beneficial interest in future payments of principal and interest on mortgage pools. Their maturities range between one and 20 years and the minimum denomination is $5,000.

d. Maritime Administration Merchant Marine Bonds, Notes, and Obligations

These securities are issued by shipping companies and are backed by the full faith and credit of the U.S. Government. Each issue is further secured by a first preferred ship or fleet mortgage. Maturities and denominations vary.

e. Small Business Administration (SBA), Small Business Investment Corporation (SBIC) Debentures

When authorized by appropriation acts, the SBA may guarantee principal and interest payments on debentures of SBIC. The SBA may also pool these debentures and sell SBA-guaranteed debentures. These issues have maturities of 10 years and are issued in $10,000 denominations.

f. Tennessee Valley Authority (TVA) Power Bonds and Notes

These securities are secured by a first charge on net power proceeds. Payment of interest and principal on them is ranked ahead of annual payments to the U.S. Treasury. They have been issued in multiples of $1,000.

3. Securities of Government-Sponsored Agencies

a. Farm Credit Consolidated System-Wide Discount Notes

These notes are the secured joint and several obligations of the Farm

Credit System, which consists of the Federal Land Banks, the Federal Intermediate Credit Banks, and the Banks for Cooperatives. They are issued in denominations of $5,000 and maturities are authorized from 5 to 365 days.

b. Federal Farm Credit Banks Consolidated System-wide Bonds

These bonds are the secured joint and several obligations of the Farm Credit Banks. Their issuance supersedes individual bond issues by the Federal Land Banks, the Federal Intermediate Credit Banks, and the Banks for Cooperatives. They are issued in multiples of $1,000 for maturities in excess of 13 months and in multiples of $5,000 for shorter maturities.

c. Federal Home Loan Banks Consolidated Obligations

These securities are the secured joint and several obligations of the Federal Home Loan Banks comprised of:

(1) Bonds

Bonds that have maturities of one year or more are issued in multiples of $10,000, $25,000, $100,000 and $1,000,000.

(2) Notes

Notes, which have maturities of less than one year, are issued in multiples of $10,000, $25,000, $100,000 and $1,000,000.

(3) Discount Notes

Discount notes, which have maturities ranging from 30 to 170 days. They are issued in denominations of $100,000 and $1,000,000.

d. FHLMC Mortgage Participation Certificates (PC) (Guaranteed)

These certificates represent undivided interest in specific fixed rate, first lien conventional and residential mortgages. FHLMC provides monthly interest and principal payments. The final payment is the first of the month and year in which the last monthly payment on the last maturing mortgage is scheduled to be paid.

e. FHLMC Collateralized Mortgage Obligations (CMOs)

CMOs are general obligations of FHLMC that are secured by a single pool of conventional mortgages owned by FHLMC. CMOs are issued in several classes with varying stated maturities. Semiannual principal payments are allocated to each class of the CMOs in the order of the stated maturity of each class so that no principal payments are made to holders of a class until classes with an earlier maturity are retired.

f. Federal National Mortgage Association (FNMA) Debentures

These debentures are issued in denominations ranging from $10,000 and with maturities ranging from 20 to 25 years.

g. FNMA Notes

The minimum investment in these notes is $50,000 with maturities ranging from 1 to 20 years.

h. FNMA Short-Term Discount Notes

These notes are similar to commercial paper and are tailored to the individual needs of investors. They are sold at published rates with maturities of 30 to 270 days and in denominations ranging from $5,000.

i. FNMA Capital Debentures

These debentures are subordinated to the non-capital debentures notes, and short-term discount notes. They were last issued in 1975 in a $10,000 minimum denomination and with maturities of 5 and 25 years.

j. Student Loan Marketing Associations (SLMA) Obligations

SLMA issues obligations comprised have guaranteed student loans as follows:

(1) Floating Rate and Master Notes.

These notes bear interest at rates that vary with the 91-day Treasury Bill rate. Short-term borrowing has an original or remaining term maturity of one year or less.

(2) The Series E and F Floating Rate Notes.

These notes bear interest at rates which vary with the 91-day Treasury Bill, except that each issue has fixed minimum and maximum rates know as interest rate "collars" for any quarterly interest period.

(3) Zero Coupon Notes

These notes are shown at net proceeds adjusted for accretion of discount.

4. Demand and Savings Deposits

Demand and savings deposits at commercial banks, mutual savings, banks, savings and loan associations and credit unions are permitted for Housing Authority funds provided that the Federal Deposit Insurance Corporations (FDIC) or the National Credit Union Share Insurance Fund (NCUSIF) insures the entire deposit. A deposit in excess of the insurance coverage may be made at a depository institution provided that it is 100 percent collateralized by any of the securities listed under paragraphs 1, 2, and 3 of the approved investment securities. The Housing Authority should be able to make withdrawals on demand without loss of interest and without penalty.

5. Money-Market Deposit Accounts

Money-Market Deposit Accounts at depository institutions that may not be insured fully by the FDIC or NCUSIF are permitted provided that the certificates are fully backed by 100 percent collateral consisting of securities listed under paragraphs 1, 2, or 3 of the approved investment securities. When accounts exceed the $100,000 insurance limitation, their safety also may depend on the Housing Authority's control of the underlying collateral which must consist of clearly identified (not pooled) U.S. Government securities. Possession of the collateral securities and a continuous perfected security interest may be the only sure protection against loss in case of financial institution failure.

6. Municipal Depository Fund

A Municipal Depository Fund (Fund) or Local Government Investment Pool, which is established by States, municipalities, units of local government or other political subdivision to serve as an investment fund for the Housing Authority is permitted. The securities purchased by a Fund shall be on the HUD-approved list of investment securities. The Housing Authority shall have either an undivided or divided interest in securities comprising the Fund. The Fund shall be under the control of the Investment Company Act of 1940, and its objective shall be clearly stated. The investment objective of the Fund shall be to obtain as much income as possible consistent with the preservation and conservation of capital. The Fund shall disclose clearly the basis of earnings and how they are distributed. The

Housing Authority shall obtain a statement of potential default and risk and a clear demonstration that withdrawals from the Funds will not be so restricted as to impair the Housing Authority's day-to-day cash management needs. The management fee shall be fixed at a reasonable amount and management shall be passive. The Housing Authority shall limit the amount of funds invested in the Fund to no more than 30 percent of the Housing Authority's available investment funds. The Fund shall disclose the relationships of the investment advisor, manager, trustees, custodian and transfer agent. Each financial advisory relationship shall be evidenced by a written document executed prior to, upon, or promptly after the inception of the financial advisory relationship, or promptly after the creation or selection of the issuer. If the issuer does not exist or has not been determined at the time the relationship commences, that written document shall set forth the basis of compensation for the financial advisory services to be rendered.

7. Super NOW Accounts

Super NOW accounts have been available and approved for public funds since January 1983. They offer a relatively high market rate and are fully transactional (have no limitations on the number of checks or transfers). Insurance and collateral requirements are as above for subparagraph e Demand and Savings Deposits.

8. Certificates of Deposit

a. Certificates of Deposit are permitted at depository institutions that are insured by an agency of the Federal Government. Caution must be exercised for certificates exceeding the $100,000 insurance limit or when the term is longer than 30-90 days. Although the certificates' rate of return may be attractive for larger amounts and longer terms, U.S. Treasury securities offer superior safety and liquidity for the same amounts and terms. Certificates shall be in the Housing Authority's name and a General Depository Agreement must be executed by each financial institution that issues a Certificate of Deposit.

b. Certificate amounts above $100,000 are permitted provided that the excess is 100 percent collateralized by clearly identified (not pooled) U.S. Government securities. Possession of the collateral securities and a continuous perfected security interest may be the only sure protection against loss in case of bank failure.

c. Brokered deposits are avoided because it is impossible to get $100,000 federal insurance on a number of deposits placed by brokers.

9. Repurchase Agreements

Repurchase (repos) agreements for a term not to exceed 30 days may be entered into with Federally insured depository institutions to purchase and for sale of securities identified under paragraphs 1, 2, and 3. A repurchase agreement is an agreement negotiated with a bank usually for a short period (1 to 7 days) wherein securities approved for investment are purchased from that bank at a stated price with the bank agreeing to repurchase them on a specified date for a specified amount. The minimum may vary, although it is usually $100,000. There are three main types: (1) fixed term where both parties are bound to the negotiated time period, (2) demand, where the agreement stays in effect until terminated by either party, and (3) day-to-day, where daily renewal is by mutual consent and 24-hour notice is required for termination. The Housing Authority will review existing and future repos for compliance with the following certifications. Prior approval by HUD is not necessary, however, the repos seller depository or its agency must provide a written certification to HUD, Assistant Secretary for Public and Indian Housing (Office of Finance and Budget), the Area Office, and to the Housing Authority:

a. That the depository's repo program complies with applicable Federal and State statutes and regulations and that the program does not involve sales or loans of Federal securities by securities dealers that are not regulated or that report to the Federal Reserve Board;

b. That the depository owns the underlying Federal securities (approved for repurchase under HUD guidelines) when the repo interest is sold and that the value of the securities is equal to or greater than the amount the Housing Authority Pays for the repo;

c. That the Housing Authority has possession of the securities (or the Housing Authority will take possession of the securities) or an independent custodian (or an independent third party) holds the securities on behalf of the Housing Authority as a bailee (evidenced by a safe keeping receipt and a written bailment for hire contract), from the time the repo interest is sold to the Housing Authority and will be (or is expected to be) maintained for the full term of the repo;

d. That the repo agreement and any related documents identify specific Federal securities related to the specific repo purchased by the Housing Authority;

e. That the repo interest does not represent any interest in a pool or fund of Federal securities for which registration under the Investment company Act of 1940 may be required;

f. That the Housing Authority will have a continuous perfected security interest in the underlying Federal securities under State or Federal law for the full term of the repo (disclosing the method by which perfection has or will be accomplished, i.e., by possession, filing, registration of book-entry securities and/or Federal preemption of State law by Federal regulation);

g. That the depository or a reporting dealer selling the repo has not received any adverse financial report from a credit reporting agency, State or Federal regulatory agency; and

h. That the depository will not substitute other securities as collateral, except to increase the value of the repos security to match the repos purchase price.

10. Sweep Accounts

Sweep Accounts are a contractual agreement between a bank and a Housing Authority, which provide that the bank will regularly "sweep" or transfer any available collected balances from the Housing Authority's account into repurchase agreements. The Sweep Accounts agreement shall include all the certification provided in the Repurchase Agreement and adherence to paragraph 4-3, Collateralization of Deposits.

11. Separate Trading of Registered Interest and Principal of Securities

Separate Trading of Registered Interest and Principal of Securities (STRIPS) are Treasury-based zero-coupon securities, which consist of interest or principal on U.S. Treasury securities. STRIPS were issued in minimum increments of $1,000. STRIPS pay no interest until maturity and the rate of return is "locked in" at the time of purchase. Wire transfer through the Federal Reserve book entry system accomplishes the delivery of STRIPS. STRIPS shall be in the name of the Housing Authority.

12. Mutual Funds

A Mutual Fund (Fund) is an investment company that makes investments on behalf of individuals and institutions. The Fund pools the money of the investors and buys various securities that are consistent with the Fund's objective.

a. Mutual Fund Criteria

The Fund shall be organized as a no-load, open-end, diversified management company and its shares shall be registered under the Securities Act of 1933. The Fund shall be under the control of the Securities Exchange Act of 1934, Investment Advisers Act of 1940 and the Investment Company Act of 1940. The investment objective of the Fund shall be to obtain as much income as possible consistent with the preservation, conservation and stability of capital. The mutual fund objective cannot be changed without the prior approval of fund shareholders.

b. The securities purchased by the Fund shall be on the HUD-approved list of investment securities. The Fund will not engage in options or financial futures. The Housing Authority shall limit the amount of funds invested in the Fund to no more than 20 percent of the Housing Authority's available investment funds. The Fund shall disclose clearly the basis of earnings and how they are distributed. The Housing Authority shall obtain a statement of potential default and risk. The Housing Authority's invested funds shall be accessible to the Housing Authority daily. It shall be demonstrated that any limitations on withdrawals will not impair the Housing Authority's day-to-day cash management needs.

c. The management fee shall be fixed at a reasonable amount. The Fund shall disclose the relationships of the investment advisor, manager, trustee, custodian and transfer agent. The Fund shall clearly state all services (such as wire transfers and check writing privileges) and charges.

d. A Board Resolution shall authorize investment in the Fund. A certified copy of the resolution shall accompany the initial application for the Fund.

e. The Fund (or Custodian) and the Housing Authority shall sign the General Depository Agreement, HUD-51999 dated June 1991, modified as follows:

    (1) In the title, "Mutual Fund" shall be added after General Depository Agreement. Whenever "depository" appears in the text it also refers to "Mutual Fund."

    (2) The Housing Authority's name and location (including county or city) will be filled in the first clause of the General Depository Agreement. The name, location and the Housing Authority's mutual fund account number also will be filled in the first clause. The second clause remains unchanged.

    (3) The third clause is substituted as follows: "Whereas, under the terms of the Contract the Housing Authority shall invest in a mutual fund (herein called the depository) only on the terms set forth hereafter. Mutual Fund is defined as an investment company that makes investments on behalf of individuals and institutions. The depository shall be organized as a no-load, open-end, diversified management company and its shares shall be registered under the Securities Exchange Act of 1933. The depository shall be under the control of the Securities Exchange Act of 1934, the Investment Advisers Act of 1940 and the Investment Company Act

of 1940. The Housing Authority shall acquire shares in a Mutual Fund whose portfolio includes only securities on the HUD-approved list of investment securities."

(4) Paragraphs 1, 3, 11 and 12 are deleted.

(5) Paragraphs 4 through 6 are modified to read as follows:

(a) Paragraph 4: Any shares purchased from Housing Authority funds shall be held by the depository in safe-keeping for the Housing Authority until sold. Dividends and distributions on such shares and the proceeds from the sale thereof shall be used to purchase additional shares or remitted directly to the Housing Authority.

(b) Paragraph 5: The language "from said Accounts" is deleted.

(c) Paragraph 6: The language "in respect of the Accounts" is deleted.

(d) Paragraphs 7 through 10 are not changed.

(e) The additional language can be typed on a separate page, attached and duly executed. The following language shall be added to the bottom of the page: Page number incorporated in and made a part of the General Depository Agreement between (Housing Authority) and (Depository).

Determination of Investment Type

The determination of the best or appropriate types and mixtures of investments is dependent on several factors. The Housing Authority's primary objective is safety. The factors that the Housing Authority of the City of Pittsburgh takes into account include the following:

1. Safety – Safety is achieved through adherence to the list of permitted investments which are backed by the full faith and credit of, or guarantee of, principal and interest by, the U.S. Government, a Government agency or issued by a Government-sponsored agency, coupled with an appropriate maturity date. The single most important objective of this investment proposal is the preservation of principal of the funds within each portfolio.

2. Liquidity – The portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future payment requirements of the Housing Authority of the City of Pittsburgh. All investments

should be able to be liquidated on one day's notice. Therefore, no investments are made which impose a longer notice period for redemption or which are not readily marketable.

3. Return – The Housing Authority strives to achieve the highest return consistent with the other factors of this investment policy. The portfolios shall be managed in such a fashion as to maximize the return on investments, but within the context and parameters set forth by objectives 1 and 2 above. Safety of principal and adequate liquidity will be the overriding principles guiding the management of the portfolio. After these two goals are met, rate of return can be considered. Trading for gains in the portfolio is not permitted. Securities in the portfolio may be sold to:

    - furnish liquidity,
    - remedy deterioration in credit quality of an issuer, or
    - purchase a security that better fits the current needs of the portfolio
    - after notification and consultation with the Housing Authority of the City of Pittsburgh

4. Maturity – Investments are scheduled to mature when the funds are needed. Sale of securities prior to maturity should be avoided if the security is trading below cost. The Housing Authority of the City of Pittsburgh may invest in securities up to five years, however the average duration of the portfolio should not exceed two years.

<u>Investment Record</u>

The Accounting Manger shall maintain a record of all investments and reconcile the investments to the general ledger monthly. These reports are maintained on file as backup documentation to be used during the audit process and for the preparation of financial statements.

<u>Internal Controls</u>

The Housing Authority follows the internal control procedures listed below:

The Chief Financial Officer will develop and recommend for approval an Investment Policy and Investment Guidelines and Limitations to the Executive Director and the Board of Commissioners. Based upon the Investment Policy and Investment Guidelines and Limitations, the Chief Financial Officer will develop an Investment Strategy based on current and projected cash flow needs, and current market conditions. The Investment Strategy will be reviewed and approved by the Executive Director.

The Chief Financial Officer will provide a written delegation of authority for each member of the Housing Authority of the City of Pittsburgh staff that is authorized to buy and sell investments ("Authorized Staff"). The delegation will be subject to the parameters of the Investment Policy, the Investment Strategy, as well as these Internal Controls.

Authorized Staff will invest funds and report status of investments as required by the Investment Policy, including the monitoring of all investments through maturity to ensure receipt of principal and interest.

Investment results shall be presented to the Board of Commissioners for review no less than quarterly.

Investment documents are to be kept in a secure file cabinet.

Investments are maintained in a custody account or trust account.

Cash Management

The primary goals of the Housing Authority of the City of Pittsburgh are to assure the availability of cash for transaction needs, preserve the value of cash resources and earn the maximum return on funds until they are disbursed.