

**Report to the Hennepin County Board of Commissioners
Regarding Investment Oversight Processes
4th Quarter 2023**

General oversight

The Hennepin County investment function is managed by the Treasury and Investment Officer and designated staff, which includes regular consultation with the Chief Financial Officer. The investment function follows the practices described in the Office of Budget and Finance (OBF) Investment Policy which is maintained by OBF and revised with concurrence of the Investment Policy Advisory Committee.

The Investment Policy Advisory Committee is an ad hoc group of volunteer members from the professional community having experience and expertise that provides investment staff with both insights on financial markets and feedback on the investment strategies of the County. Input from this Committee is limited to policy and overall strategy but does not include day-to-day oversight of individual transactions.

At its September 25, 2023 meeting, after hearing and discussing the staff presentation, the committee approved the continuation of the county's investment practices, as presented, to position the county's investment portfolio strategically as a response to the inverted nature of interest rates, increasing short-term positions and limiting short-term borrowing.

In addition to the Investment Policy Advisory Committee, there are several other oversight processes in place to monitor the investment activity of the County. These additional oversight processes are completed by a variety of entities. These entities are both internal and external and are listed below.

Internal monitoring

The Accounting Division of OBF tracks investment activity on a daily basis by receiving broker confirmations and reconciling with bank statements. With this process, it monitors the invested amount and ascertains that the size of the investment portfolio does not exceed the amounts defined within state law and internal investment policy guidelines. The most recent report on investment limit, dated September 30, 2023, verified the amount of investments with maturities greater than 1 year at 50.5 percent of the prior year's average daily invested assets. This current percentage indicates that there are fewer investments with maturities greater than 1 year than the prior year (at 66.5%). This is consistent with current strategy of maintaining additional investments with maturities less than 1 year.

Audit, Compliance and Investigation Services periodically reviews the investment process in the normal course of its audit activities and receives the review of banking and investment activities in the annual audit schedule by the external auditor. In 2018, ACIS completed a review of data

security practices in treasury activities. It also assists reviews made by the State Auditor's Office on the legal compliance of the investment program.

The Accounting Division also provides monthly reports on investment activities including transaction volumes, earnings, monthly yields, benchmarks, and investment balances to the Director of Budget & Finance, the Director of ACIS, the Controller and investment staff.

External audit and credit reviews

The County's external auditors review the County's investment practices during the course of the annual audit and preparation of the financial statement. They review investment balances and legal compliance, compliance with applicable accounting standards, and they test internal controls. Review of the investment activity is a part of the audit, but it is not handled as a separate audit specific to investment activity. Therefore, the external auditors express no opinion related to the investment function or strategy but would note any significant exceptions in the management letter. In the last completed external audit for fiscal year 2022, no exceptions related to investment activities were noted.

The County's investment activity is also reviewed by the credit rating services. When the County issues bonds, the rating services review the County's investment practices. Currently, the County prices the market value of the portfolio monthly as compared to the book value of the portfolio and makes that available to rating agencies during ratings discussions. In conjunction with the County's commercial paper issuance program, the County also complies with monthly liquidity reporting procedures required by certain credit rating agencies. This reporting allows investors to judge the County's ability to repay its short-term liabilities. Once a year, S&P Global Ratings liquidity review group reviews and affirms the county's short-term rating on its commercial paper certificates which has been at the highest rating, A-1+, since inception of the commercial paper program. Fitch Ratings also has given its highest short-term rating, F1+, to the county's commercial paper certificates. These highest ratings from both agencies were confirmed recently as part of credit reviews for bonds and commercial paper issued in 2023.

In addition, our continuing disclosure agreements now require that any events of a material nature be disclosed to interested parties. This disclosure is conducted through a public portal of the Municipal Securities Rulemaking Board called Electronic Municipal Market Access. Additionally, as defined by Securities and Exchange Commission rules, the OBF has adopted the RFP process to comply with rules on municipal advisory requirements for the investment of bond proceeds. The information is posted on the county website.