



Memorandum

To: ISO Board of Governors

From: Ryan Seghesio, VP, Chief Financial Officer & Treasurer

Date: March 20, 2019

Re: **Decision on Investment Policy**

This memorandum requires Board action.

The ISO Board of Governors is responsible for reviewing and approving the investment policy not less than once every three years as well as any substantive modifications or amendments to the policy in the interim. The investment policy was last reviewed and approved by the Board at their June 28, 2016 meeting.

Other than some minor wording edits and clarifications, Management is proposing a change to the allocation limits to fixed income mutual funds which may impact the way the ISO invests corporate funds.

Fixed income mutual funds

The current policy limits the allocation of assets into fixed income mutual funds at 25% of total unrestricted assets. Beginning in 2018, Management began to allocate assets for the first time to this category in order to utilize the benefits of outside professional management. Per the policy, all mutual funds must be approved by the Corporate Management Committee (CMC), the ISO internal investment committee. During the year, four funds were approved by the CMC as acceptable strategies. Two of the funds were focused on the ultra-short area (3-12 month time frame) and served as an attractive option for funds that the ISO accumulates during the year; however, needs to keep liquid. The other two funds focused on the short to intermediate area (1-7 year time frame) and were invested in similar ways to which the ISO invests its portfolio.

Both strategies have been successful. For example, over the last nine months since the ultra-short funds strategy was implemented, the return on those assets have been 2.01%. This can be compared to the return on money market funds over the same period, which was 1.79%. The short to intermediate strategy was implemented later in the year, although early results are also very positive. Over a five month period, the strategy has returned 1.80% compared to the return on our portfolio of individual securities of 1.62%.

Management is proposing to remove the 25% cap on the allocation of assets to fixed income mutual funds to take advantage of the efficiencies gained with professionally managed funds. The ISOs unrestricted portfolio, while averaging approximately \$180 million last year, is small in the institutional investment space. In order to have the appropriate diversification, the ISO is forced to purchase small positions in individual securities resulting in inferior pricing and liquidity. The use of professionally managed funds also allows the ISO exposure to asset classes and investment strategies that would not be prudent to invest in without full-time dedicated expert staff. The use of funds will allow the ISO to enhance the yield of the portfolio while maintaining a similar level of risk.

All other proposed changes are not substantive and involve updating language, formatting, and style to eliminate ambiguities and improve readability. A redline copy of the policy is attached for reference.

Management recommends the following motion:

Moved, that the ISO Board of Governors approves the amended Investment Policy as attached to the memorandum dated March 20, 2019.