

EXHIBIT 2

CLEVELAND PUBLIC LIBRARY

Finance Committee

March 18, 2014

RESOLUTION REVISING THE LIBRARY'S INVESTMENT POLICY

WHEREAS, On September 15, 2005, the Board of Library Trustees approved the Library's Investment Policy; and

WHEREAS, It is now deemed necessary to amend the Library's Investment Policy; now therefore be it

RESOLVED, That the Board of Library Trustees approves the attached Cleveland Public Library Investment Policy to become effective March 20, 2014; and be it further resolved

RESOLVED, That the Fiscal Officer obtain the required acknowledgments and convey this policy to the Auditor of State.

CLEVELAND PUBLIC LIBRARY INVESTMENT POLICY

I. Introduction

The purpose of this investment policy is to establish priorities and guidelines regarding the investment management of the Library's investment funds [hereinafter referred to as the "Portfolio" (section II)] and the Library's endowment funds [hereinafter referred to as the "Endowments" (section III)]. Overall priorities and guidelines for the Portfolio are based upon *Ohio Revised Code* Chapter 135.14 and prudent money management. Guidelines for the Endowments are based upon *Ohio Revised Code* Chapter 2109.37 and 2109.371 as delineated by a 1975 Cuyahoga County Probate Court Order and a ruling from the Cuyahoga County Prosecutor's Office.

The effective date of this policy is March 20, 2014 and represents a revision to the previously submitted policy, September 15, 2005. It is the third revision to the original submitted policy dated June 17, 2000 (1st revision September 18, 2003; 2nd revision September 15, 2005). This policy includes [totally or partially] sections of the statute in order to describe eligible investments. In some sections, the policy places further limits upon the use of eligible investments or investment transactions.

II. The Portfolio

A. Investment Objectives

The investment objectives of the Portfolio, in priority order, include:

1. *Compliance with all Federal and State laws*
2. *Safety of principal*

Safety of principal is the most important objective. The investment of Library funds shall be conducted in a manner that seeks to ensure the preservation of capital within the context of the following criteria:

Credit Risk

Credit risk is the risk of loss due to the failure of a security issuer to pay principal or interest, or the failure of the issuer to make timely payments of principal or interest. Eligible investments, pursuant to Chapter 135.14 ORC, affected by credit risk include certificates of deposit, commercial paper, and bankers acceptances. Credit risk will be minimized by (1) diversifying assets by issuer; (2) ensuring that required, minimum credit quality ratings exist prior to the purchase of commercial paper and bankers acceptances; and (3) maintaining adequate collateralization of certificates of deposit and other deposit accounts pursuant to the method as determined by the Fiscal Officer.

Market risk

The market value of securities in the Library's portfolio will increase or decrease based upon changes in the general level of interest rates. The effects of market value fluctuations will be mitigated by (1) maintenance of adequate liquidity so that current obligations can be met without a sale of securities; (2) diversification of maturities; (3) diversification of assets.

3. *Liquidity*

The portfolio shall remain sufficiently liquid to meet all current obligations of the Library. Minimum liquidity levels [as a percentage of average investable funds] may be established in order to meet all current obligations. The portfolio may also be structured so that securities mature concurrently with cash needs.

4. *Yield*

The portfolio shall be managed to consistently attain a market rate of return throughout budgetary and economic cycles. Whenever possible, and consistent with risk limitations and prudent investment management, the Library will seek to augment returns above the market average through the implementation of active portfolio management strategies.

B. Authorized Investments (itemized)

-U.S. Treasury Bills, Notes, and Bonds; various federal agency securities including issues of Federal National Mortgage Assn. (FNMA), Federal Home Loan Mortgage Corp. (FHLMC), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Government National Mortgage Association (GNMA), and other agencies or instrumentalities of the United States. Eligible investments include securities that may be "called" [by the issuer] prior to the final maturity date. Any eligible investment may be purchased at a premium or a discount. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.

-Interim deposits in the eligible institutions applying for interim moneys as provided in Section 135.08 ORC.

-No-load money market mutual funds, as defined in 135.14(B)(5), rated in the highest category by at least one nationally recognized rating agency, investing exclusively in the same types of eligible securities as defined in Division B(1) or B(2) under 135.14 ORC, and repurchase agreements secured by such obligations. Eligible money market funds shall comply with 135.01 ORC, regarding limitations and restrictions.

-Repurchase agreements with any eligible institution mentioned in section 135.03 ORC, or any eligible securities dealer pursuant to (M) of 135.14 ORC of this section, except that such eligible securities dealers shall be *restricted to primary government securities dealers*. Repurchase agreements will settle on a delivery vs payment basis with repo collateral held at a

qualified custodian or agent, designated by the Library. Eligible repo collateral is restricted to securities listed in division (B)(1) or (B)(2) under 135.14 ORC. The market value of securities subject to a repurchase agreement must exceed the principal value of the repo amount by at least 2%. Prior to the execution of any repo transaction, a master repurchase agreement will be signed by the Library and the eligible parties.

-Commercial paper notes issued by companies incorporated under the laws of the United States and bankers acceptances issued by any domestic bank rated in the highest category by a nationally recognized rating agency; specific limitations regarding the investment in commercial paper and bankers acceptances apply as defined under 135.14 (B)(7) ORC.

-The state treasurer's investment pool [STAROHIO], pursuant to Section 135.45 ORC, and any other investment alternative offered to political subdivisions by the Treasurer of State.

-The use of derivative securities, as defined in 135.14 (C), is expressly prohibited.

-All eligible investments will mature within five years from the date of settlement, unless the investment is matched to a specific future obligation or debt of the Library, and the investment is specifically approved by the Board of Trustees.

C. Safekeeping and Custody

Securities purchased for the Library will be held in safekeeping by a qualified trustee [hereinafter referred to as the "Custodian"], as provided in Section 135.37 ORC. Securities held in safekeeping by the custodian will be evidenced by a monthly statement describing such securities. The custodian may safekeep the Library's securities in (1) Federal Reserve Bank book entry form; (2) Depository Trust Company (DTC) book entry form in the account of the custodian or the custodian's correspondent bank; or (3) Non-book entry (physical) securities held by the custodian or the custodian's correspondent bank. All securities transactions will settle using standard delivery-vs-payment (DVP) procedures. The records of the custodian shall identify such securities in the name of the Library. Under no circumstances will the Library's investment assets be held in safekeeping by a broker/dealer firm, or a firm acting on behalf of a broker/dealer firm.

D. The Board of Trustees of the Library

The Library Board of Trustees shall meet as necessary to review the Portfolio. Specific areas of review include the investment inventory, transactions for the period, and realized income. The Fiscal Officer may also recommend changes to the existing investment policy.

Any amended policy that has been approved by the Library Board shall be filed with the Auditor of State.

E. Portfolio Reporting

The Library shall maintain an inventory of all portfolio assets. A description of each security will include security type, issue/issuer, cost [original purchase cost or current book value], par value [maturity value], maturity date, settlement date [delivery versus payment date of purchased or sold securities], and any coupon [interest] rate. The investment report will also include a record of all security purchases and sales. Regularly issued reports will include a monthly portfolio report and a quarterly portfolio report to the Library detailing the *current* inventory of all securities, all investment transactions, any income received [maturities, interest payments, and sales], and any expenses paid. The report will also include the purchase yield of each security, the average-weighted yield and average-weighted maturity of the portfolio.

The portfolio report shall state the name(s) of any persons or entity effecting transactions on behalf of the investing authority.

F. Investment Advisors, Qualified Dealers and Financial Institutions

The Library may retain the services of a registered investment advisor. The investment advisor will manage the Library's portfolio and will be responsible for the investment and reinvestment of such investment assets, including the execution of investment transactions.

Upon the request of the Fiscal Officer, the investment advisor will attend meetings and will discuss all aspects of the Library's portfolio, including bond market conditions affecting the value of the Library's investments. The investment advisor will be required to issue portfolio reports as defined under section II-E of this investment policy ["Portfolio Reporting"].

The investment advisor may transact business (execute the purchase and/or sale of securities) with eligible Ohio financial institutions, primary securities dealers regularly reporting to the New York Federal Reserve Bank, and regional securities firms or broker dealers licensed with the Ohio Department of Commerce, Division of Securities, to transact business in the State of Ohio.

Under no circumstances will brokers or broker/dealer firms act as an investment advisor or in a similar capacity as an investment advisor, either directly or indirectly, if such broker/dealer participates in transaction business (purchase and sale of securities) with the Fiscal Officer or the Fiscal Officer's investment advisor.

All persons or entities transacting investment business with the Library are required to sign the approved investment policy as an acknowledgment and understanding of the contents of said policy.

G. Sale of Securities Prior to Maturity

Portfolio securities may be "redeemed or sold" prior to maturity under the following conditions:

- (1) To meet additional liquidity needs
- (2) To purchase another security to increase yield or current income
- (3) To lengthen or shorten the portfolio's average maturity (average duration)
- (4) To realize any capital gains and/or income
- (5) To adjust the portfolio's asset allocation

Such transactions may be referred to as a "sale and purchase" or a "bond swap". For purposes of this section, redeemed shall also mean "called" in the case of a callable security.

H. Procedures for the Purchase and Sale of Securities

Securities will be purchased or sold through approved broker/dealers on a "best price and execution" basis. All such investment transactions will be communicated by electronic transmission to the Fiscal Officer or to an authorized representative, designated by the Fiscal Officer. A purchase or sale of securities will be represented by transaction advices issued by the Library's investment advisor, which will describe the transaction, including par value, coupon (if any), maturity date, and cost. A facsimile transmission will also be sent to the Library's designated custodian bank and will serve as an authorization to said custodian to receive or deliver securities versus payment. Confirmation advices, representing the purchase or sale of securities, will be issued by the eligible broker/dealer and sent to the investing authority. Copies of such advices will be sent to the Library's investment advisor.

III. The Endowment

A. Investment Objectives

The Library seeks to maximize the long-term total return of its Endowments. As a result, the maintenance and growth of the funds are the primary objectives. The Library's ability to achieve these returns will depend upon the acceptance of moderate risk, recognizing that a reasonable degree of volatility in market value is necessary to achieve long-term capital appreciation.

B. Authorized Investments

In recognition of the expected returns and volatility from financial assets, the Library will be invested in the following ranges with the target allocation noted:

	<u>Range</u>	<u>Target</u>
Equities	50%-70%	60%
Fixed Income	30%-50%	40%
Cash Equivalents	0%-10%	

The midpoints of the above ranges will be considered the long-term or policy allocation. Any deviations beyond this mix of securities must have prior approval by the Board of Library Trustees. Allocations to cash equivalents are to be considered a subset of the Fixed Income allocation. Likewise, Convertible Assets and Real Estate allocations will be considered a part of the Fixed Income allocation.

Within the above ranges, the Library's Endowment Fund Manager will make all tactical asset allocation decisions (over-and-under-weights). Deviations outside of the above ranges require prior approval from the Library.

C. Equity Guidelines

Objective – Achieve long term returns which exceed those of the overall equity market. Specialty equities (styles differing from the S&P 500) have been incorporated into this policy with the intention of delivering superior long-term performance and improved diversification.

In evaluating long term (full market cycle) performance, overall equity returns will be compared to the indices noted below.

In recognition of the expected returns and volatility provided by different segments of the equity market, equity assets will be invested in the following ranges with the policy allocation noted:

	<u>Range</u>	<u>% Allocation</u>
Large-Cap Stocks	50-100%	60%
Mid-Cap Stocks	0-30%	15%
Small-Cap Stocks	0-30%	15%
International Equities	0-20%	10%

Equity assets will be managed in accordance with the following:

- Equity investments should be broadly diversified. The equity investment in any single company should not exceed 5 percent of the equity portfolio, based on market value. Investments in mutual funds would not be subject to this limit. Short sales, private securities, letter stock, commodities, and put and call contracts are expressly prohibited.
- Investments in Small Cap and International Equities may be made through the use of mutual funds. Mutual funds selected will be diversified and generally conform to the above-mentioned company and industry guidelines.
- The equity benchmark is the S&P 500.

D. Fixed Income Guidelines

Objective – Achieve returns that exceed those of the investment grade aggregate bond market and to provide additional long-term performance. The Fixed Income Investment style returns will be compared to the Barclays Intermediate Government/Credit Bond Index.

Fixed income assets will be managed in accordance with the following:

- Minimum criteria for direct investment in a bond:

Par Value of issue	\$100 million outstanding at time of purchase
Quality of issue	A or better by Standard & Poor's Or A2 or better by Moody's
- The Market value of the aggregate holdings of an individual corporate debtor should not exceed 5% of the organization's debt related assets.
- The average maturity of the bond portfolio should be within the range of the Barclays Intermediate Government/Credit Bond Index. The investment manager will have full discretion to determine the average maturity within this range.

- The maximum maturity for individual U.S. Treasuries, Agencies, and corporate bonds will be 20 years.
- Individual mortgage-backed securities (MBS) and asset-backed securities (ABS) may have maturities of greater than 20 years but the duration should not exceed 12 years.
- Fixed Income mutual funds may be used to further enhance diversification, provide better coverage of the yield curve, and/or improve liquidity.
- Real Estate investment will be implemented through REIT investments or through the use of a REIT-based mutual fund.

E. Liquidity Guidelines

Objective – Cash equivalents will be invested in an appropriate cash-equivalent fund. Returns should be equal to or better than the 90-day Merrill-Lynch Treasury Bill Index.

Investments in cash equivalents must be made in high quality in obligations of the U.S. Government and its Agencies. Money market mutual funds may be used, so long as these mutual funds meet the high standards suitable for the funds of this nature.

F. Prohibited Investments

The investment manager is prohibited from investments in the followings:

- Fixed Income securities not denominated in U.S. Dollars or Eurodollars
- Venture Capital
- Guaranteed Insurance Contracts
- Commodities
- Precious Metals or Gems
- Options, futures, or any contract whose value is derived from the price of an underlying asset or index (Derivatives)
- Short-selling and other hedging strategies
- Private Placements or “restricted” stock
- No investments in securities deemed to be in violation of prohibited transaction standard of ERISA.

G. Investment Review

Objective – Achieve financial returns for the Library which preserve the principal asset value and are competitive relative to those offered by the financial markets.

Review – The Investment Committee will compare the investment performance of the Investment Manager to the following benchmarks:

- The blended performance of 60% S&P500/40% Barclays Intermediate Government/Credit policy benchmark over a full market cycle.

In addition, the Investment Committee will compare the various asset classes to the following benchmarks:

1. The annual total return of U.S. equity securities will be compared to the S&P 500 measured over a three to five year time period.
2. Within each equity allocation/style, performance will be compared to the aforementioned benchmarks.
3. The annual total return of fixed income securities will be compared to the Barclays Intermediate Government/Credit Bond Index over a three to five year time period.
4. Real Estate investment will be compared to the NAREIT Index; Convertible Assets will be compared to Merrill Lynch Investment Grade Convertible Securities index.
5. The annual total return of cash equivalents will be compared to the Merrill Lynch 90 day T-Bill Index.

H. Endowment Fund Manager

The Board of Library Trustees shall select an endowment fund manager and custodian for the Library's Endowments by authorizing Board resolution. The Board of Library Trustees shall approve a separate written agreement with its selected endowment fund manager governing terms of service, compensation, and related issues.

IV. Statements of Compliance

This investment policy has been approved by the investing authority and the governing board and filed with the Auditor of State, pursuant to *Ohio Revised Code* 135.14 (N)(1).

All brokers, dealers, and financial institutions executing transactions initiated by the Library or the Library's investment advisor have signed the approved investment policy. Investment policies [signed by such brokers, dealers, and financial institutions] are filed with the Fiscal Officer of the Library.

The Library's Portfolio and Endowment investment advisors are registered with the Securities and Exchange Commission and possesses public funds investment management experience, specifically in the area of state and local government investment portfolios. The investment advisor has additionally signed the approved investment policy and the signed policy is filed with the Fiscal Officer of the Library.

Any amendments to this policy will be filed with the Auditor of State [Attn: Clerk of the Bureau, P.O. Box 1140, Columbus, OH, 43216-1140] within fifteen days of the effective date of the amendment.

The following broker/dealer/financial institution/investment advisor or endowment fund manager has signed, herein, this approved investment policy, having read the policy's contents thereby acknowledging comprehension and receipt:

For. _____
Name of Broker/Dealer/Bank Advisor/Manager

Date

Signature of Register Representative or
Financial Institution Representative

Type Name of Registered Representative or
Financial Institution Representative