

# **COUNTY OF SANTA CRUZ**

## **2023**

# **INVESTMENT POLICY**



Adopted by Board of Supervisors on December 6, 2022

Policy in effect for calendar year 2023

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# **County of Santa Cruz**

## **STATEMENT OF INVESTMENT POLICY**

Under the laws of the State of California, it is the responsibility of the County Treasurer, at the direction of the Board of Supervisors, to secure and protect the public funds of the County and the participants of the Investment Pool, and to establish proper safeguards, controls, and procedures to maintain these funds in a lawful, rational and auspicious manner. Said maintenance shall include the prudent and secure investment of those funds that are deemed temporarily available for investment, in a manner anticipated to provide additional benefit to the people of the County of Santa Cruz. In addition, the County Treasurer acts as the Treasurer, cash manager, and investor for a sizable number of public agencies within the County rather than each entity having to locate and hire a knowledgeable person to handle the entity's banking, investments, and other financial duties separately. This pooling of public funds eliminates duplication of expenses, smooths out cash flow, permits cost savings through higher volume, and attracts more professional service providers.

This Statement of Investment Policy will be provided annually for the review of the Treasury Oversight Commission and the approval of the Board of Supervisors in an open public meeting.

### **COUNTY TREASURER**

The County Treasurer referred to in the Statement of Investment Policy is the County Auditor-Controller-Treasurer-Tax Collector.

### **SCOPE**

This Statement of Investment Policy pertains to those temporarily excess funds under the control of the Treasurer, designated for the daily ongoing operations of the County and pool participants; and concerns the deposit, maintenance, and safekeeping of all such funds, and the investments made with these funds. This Policy does not apply to pension moneys, deferred compensation funds, trustee, and certain other non-operating funds not participating in the County Investment Pool.

### **PURPOSE OF POLICY STATEMENT**

The purpose of this Statement of Investment Policy is to provide the Board of Supervisors, the Treasury Oversight Commission, those entities invested in the County Investment Pool, those involved in servicing the investment requirements of the County, and any other interested party, a clear understanding of the regulations and internal guidelines that will be observed in maintaining and investing those pooled funds deemed temporarily excess.

## TREASURY OBJECTIVES

The primary objective of the Treasurer is to protect the safety of the principal of the County Investment Pool through the judicious purchase of those legal investments permitted to local agencies, as defined in the State of California Government Codes, consistent with current conditions and the other dominant objectives pursuant to managing a local agency portfolio, namely:

***Safety:*** It is the primary responsibility of the Treasurer to maintain the safe return of all principal placed in investments by avoiding decisions that might result in losses through either fraud, default, or adverse market conditions. Import is also accorded the protection of accrued interest earned on any investment instrument.

***Liquidity:*** It is imperative that most investments be in items that are immediately negotiable, as the portfolio is a cash management fund. It shall always be assumed that all investments could require immediate liquidation in order to meet unexpected cash calls.

***Availability:*** Due to the nature of a public funds portfolio, it is mandatory that moneys be available to meet the monetary requirements inherent to operating a public entity. Thus funds need to be invested in such a manner that money will always be available to pay normal cash requirements. A sufficient portion of all funds shall be invested in securities providing a high degree of liquidity and availability, that is, in securities easily sold or converted to cash in a timely manner, with little or no loss of interest earnings.

***Yield:*** While it is considered desirable to obtain a yield commensurate to current market conditions, yield shall not be the driving force in determining which investments are to be selected for purchase. Yield is definitely considered to be of much lesser importance than safety, liquidity or availability.

The Treasurer places investments with the objective of obtaining a yield commensurate to current market conditions, not attempting to maximize yield at the expense of safety, liquidity, or availability, yet not totally ignoring those factors within the marketplace that may be indicative of either favorable or hazardous conditions. The portfolio will be managed very conservatively, but actively enough to avert avoidable losses due to adverse market conditions.

## PRUDENCE

The Treasurer is subject to the “Prudent Investor Standard” whenever making a decision regarding the investment of the County’s funds. This rule states in principle:

*“When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent investor acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.”*

The Treasurer, and those acting for the Treasurer, are considered to have a fiduciary, trustee, relationship with the public for the public funds, and all investment decisions will be made in a manner sustaining this responsibility.

## DELEGATION OF AUTHORITY

In accordance with Government Code section 27000.1 and County of Santa Cruz Ordinance 2.10.030, the County Treasurer has been delegated the authority to invest and reinvest the funds of the County and the funds of other depositors in the County Pool.

While the Treasurer has final responsibility for all investment decisions, other Treasury personnel may aid in the day-to-day operations. Those staff members, in addition to the Treasurer, currently authorized to act on behalf of the County, as of the date entered on this Policy, are listed below. This list is subject to change, and those parties involved in transactions with the Treasurer’s department should always obtain a current Trading Authorization and Agreement form, and be verbally introduced by a known Treasury employee, prior to accepting unconfirmed verbal instructions from any previously unknown Treasury staff member.

### Authorized Personnel

Senior Department Administrative Analyst

Investment Officer

Senior Accounting Technician – Treasury Division

Other persons, both inside and outside County employment, may act in the role of assistant or advisor to aid in the timely and proper settlement of investment transactions. While these persons may provide information or aid in the expedient delivery of securities, they may not authorize, approve, or initiate any trading activities. **Only the Treasurer and the persons listed on the current *Trading Authorization and Agreement* may initiate trading activity.**

## SECURITIES CUSTODY

The Treasurer has established a third party custody and safekeeping account to which all negotiable instruments shall be delivered upon purchase on a payment versus delivery basis. No negotiable or deliverable securities or investments will be left in the custody of any brokerage firm or issuing party, including any collateral from Repurchase Agreements.

## DESIGNATED SERVICE BANK

The Treasurer shall designate a State or Federally chartered bank operating within the State of California to serve as the County's Primary Service Bank. The Treasury shall use this bank as a clearinghouse for all funds.

## AUTHORIZED INVESTMENTS AND LIMITATIONS

The Government Codes of the State of California, primarily within sections 53600 et. seq., establish the legality of certain types of investment vehicles for a California local agency's portfolio. Thereby, under no circumstances is the Treasurer permitted to purchase an investment that is not specifically authorized for a local agency under these, or other code sections that may apply, or might later be enacted, pertaining to local agency investments. Investment professionals dealing with the County should possess a complete understanding of these Code sections.

An attached Exhibit A briefly describes the types of securities that are legal within the Government Code sections noted above and outlines the various limitations included in these sections. Excepting the restrictions noted below in this section, all legally permitted investment options described in the Government Code are authorized at this time. Funds placed in the State's Local Agency Investment Fund (LAIF) shall follow the limitations placed on these deposits by the State and may change in accordance with these restrictions.

Though these Government Code sections define the investment types and terms permissible to the Treasurer, **the Treasurer will not:**

- Invest in any security or investment with a stated or potential final maturity longer than five years, unless it contains a non-retractable "put" exercisable within five years. In other words, such a security cannot be purchased by the Treasurer unless it permits the investor the unrestricted choice of selling the security back to the issuer at par, or above, at a time prior to five years.
- Invest in any security or investment wherein, by the terms of the investment, interest might not be earned during any period the security or investment exists.
- Purchase floating rate securities containing an inherent yield structure that could result in a return substantially below rates available for similar maturity periods on the dates the coupon changes.

- Enter into a reverse repurchase agreement.
- Purchase any Collateralized Mortgage Obligations.
- Lend securities.
- Invest in futures or options.

Nothing in the preceding prohibitions is intended to preclude the purchase of authorized investments that are callable.

In addition to the limitations provided in State law and this Statement of Investment Policy, various temporary and more restrictive constraints may at times be beneficial due to transient conditions within the marketplace. These flexible constraints are not part of this Policy but are presented in a document prepared by the Treasurer entitled “Temporary Constraints and Restrictions on Investments”, and will change on an “as needed” basis. The attached Exhibit B is the “Temporary Constraints and Restrictions on Investments” that were in effect when the Board of Supervisors approved this policy. When these constraints and restrictions change, a copy will be immediately sent to members of the Treasury Oversight Commission and the Board of Supervisors. These constraints or restrictions may only be *more* restrictive than those of the Policy but may *not* be less restrictive. Investment professionals should be aware of these temporary conditions in order to save time and best serve the County.

## **AUTHORIZED DEALER LIST**

It is prohibited for a transaction to be entered into with any securities broker, dealer or bank investment department or subsidiary prior to that entity being designated an Authorized Dealer, and placed on the Authorized Dealer List. For a firm to become authorized it must first demonstrate that it will add value to the Treasurer’s efforts to best manage the cash portfolio, as well as fulfill certain other minimum requirements. Preference will be given to primary dealers or others who possess a strong capital capacity and willingness to make a market in the various fixed income securities that the County holds. To qualify for Authorized Dealer status, a brokerage firm or bank must be one of the following:

- 1) Be a dealer operation properly licensed to deal with local agencies in California and have a minimum of \$50 million in capital or;
- 2) Be a Primary Dealer of the Federal Reserve Bank of New York or;
- 3) Be a department or subsidiary of an insured bank with minimum assets of \$500 million that the County has a comprehensive banking relationship with or;
- 4) Be a broker operation properly licensed to deal with local agencies in California that has capital of not less than \$5 million, that is not directly involved in the actual custody, and transfer of money or securities purchased or sold by the County, but that represents established accounts opened in the County name at those firms meeting the requirements of this section,

wherein all dealings would be the responsibility of the dealer operation, and wherein all deliveries, payments, written confirmation, etc. will originate with the qualified dealer operation and are sent directly to the County.

If meeting the above requirements, a salesperson may apply to become an Authorized Dealer by sending to the Treasurer their most recent annual and interim audited financial statements and a letter furnishing:

- 1) Their reasons for believing they would add value to the present coverage; and,
- 2) A general roster of those markets they participate in, and specifics on those types of securities they as a firm, regularly issue or regularly hold dealer trading positions in; and,
- 3) A list of five references, at least three being California local agency treasurers, including telephone numbers and email addresses that the Treasurer or his representative may contact.

The Treasurer will initiate an investigation of the applying salesperson and the firm through various sources, including the Financial Industry Regulatory Authority (FINRA), to determine market participation, knowledge, reputation, and financial stability. All salespeople and their supervisors will be expected to have a working knowledge of the appropriate sections of the State of California Government Code, sufficient experience in covering public entities, a willingness to well serve their customers, a complete and total understanding of this Investment Policy, and demonstrate an ongoing ability to work with the Treasurer and staff. The Treasurer will review all new requests annually, and if the decision is made that additional dealers would be beneficial to best service the portfolio's needs, those dealers selected will be informed of their addition to the Authorized Dealer List. All dealers are subject to removal from the Authorized Dealer List at any time, solely at the discretion of the Treasurer.

The Treasurer, or Treasury staff, are prohibited from dealing with a salesperson, broker, or account executive from any broker, dealer or bank investment department or subsidiary until the Acknowledgment form found on the last page of the *Trading Authorization and Agreement* is signed by all parties and received by the Treasurer. The *Trading and Authorization Agreement* is sent to all approved dealers and is an integral part of this Policy Statement for Broker/Dealers, etc. doing investment business with the County Treasurer or Treasury staff.

Similar restrictions and forms will be required of those firms doing business with the County through retained financial advisors or managers. Certain selected firms may be chosen or appointed by the Treasurer to render specific services the Treasurer determines they are uniquely qualified to provide, wherein some of the requirements of this section may be waived.

Neither the Treasurer, nor any member of the Treasurer's staff, may accept any gift, honoraria, gratuity or service of value in violation of the regulations set forth by the Fair Political Practices Commission, the Government Codes, additional limitations set forth by County ordinance, or internal requirements of the Treasurer. The Treasurer and all members of the Treasury staff are prohibited from conducting any business with any broker, dealer, or securities firm that has made a political contribution within any consecutive 48 month period beginning January 1, 1996, in an amount exceeding the limitation contained in Rule G37 of the Municipal Securities Rulemaking Board, to the County Treasurer or any member of the Board of Supervisors, or any candidate for these offices.



## THE COUNTY TREASURY OVERSIGHT COMMISSION

In accordance with Government Code section 27130 et seq. and County Ordinance 4433, there shall be a Treasury Oversight Commission of five members appointed from the following:

- a) An appointed representative of the Board of Supervisors.
- b) The County Superintendent of Schools, or designee.
- c) A representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts of the County.
- d) A representative selected by a majority of the presiding officers of the legislative bodies of the special districts within the County that are required or authorized to deposit money in the County Investment Pool.
- e) A public member who shall have expertise in, or an academic background in, public finance.

**Restriction of Members** - All members of the Treasury Oversight Commission are restricted as follows:

- A member may not be employed by an entity that has (a) contributed to the campaign of a candidate for the office of local treasurer; or (b) contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the commission.
- A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the commission.
- A member may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the treasurer is doing business during the period that the person is a member of the commission or for one year after leaving the commission.
- Members may not receive honoraria, gifts, gratuities or service of value from advisors, brokers, dealers, bankers, or other persons with whom the county treasury conducts business.

The Treasurer will annually provide a copy of the Investment Policy for review and monitoring by the Treasury Oversight Commission. The Treasurer will provide a report quarterly to the Board of Supervisors and the Treasury Oversight Commission, identifying all investments held in the County Investment Pool, or elsewhere by the Treasurer. The Treasury Oversight Commission shall, via this report and other appropriate means, monitor the activities of the Treasurer, and cause to be performed an annual audit to determine the Treasurer's compliance with this Investment Policy, and other appropriate regulations.

Commission meetings shall be open to the public and in compliance with the appropriate sections of the Ralph M. Brown Act. By Code, all costs related to the duties of the Treasury Oversight Commission will be considered normal charges against earnings of the Investment Pool.

The Treasury Oversight Commission shall have no authority to direct the process or daily operation of any portion of the Treasury department, nor shall the Commission play any role in determining which banks, firms, or individuals the Treasurer does business with, nor shall the Commission be involved in determining which investments the Treasurer purchases, but shall act only to review the actions of the Treasurer to determine that they are in accordance with the Investment Policy and all other legal requirements or regulations.

## **TERMS FOR FUNDS INVESTED WITH THE COUNTY INVESTMENT POOL**

The Government Code requires the County Treasurer to define the limits and conditions under which local agencies having their money in the Investment Pool may deposit and withdraw their funds. The Government Codes confer upon the Treasurer the final authority as to how funds for which the Treasurer is held responsible for overseeing, are to be invested. The Treasurer must take into account the current financial condition of the sum total of the Pools' agencies, the conditions of the marketplace, as well as the cash flow projections and the potential for changes in the Pool's cash needs. The Treasurer must protect the earnings of each individual local agency in the Pool, and also see that no decision will reward a particular agency or group of agencies within the Pool at the expense of another or others within the Pool. If the Treasurer determines that a request for a withdrawal of funds for a specific or outside investment is not, in the Treasurer's opinion, in the best interest of a particular agency, or is overly detrimental to the Pool as a whole, the Treasurer must legally deny the request, or find a means of neutralizing the harm to all those affected.

Any funds deposited in accounts that are consolidated into the County Investment Pool that are not immediately required to meet cash flows of the Pool will be invested by the Treasurer or the Treasurer's staff. All Pool entities agree that by placing funds in such accounts that they agree to proportionately participate in all investments within the Investment Pool.

### **FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL**

Funds will be accepted at all times, in the manner prescribed, from those local agencies where the County Treasurer is also the Treasurer for the local agency, or from any agencies that by statute must place their money in the County Investment Pool. Funds will earn interest based on the average daily balance distributed on a monthly basis.

Should a legislative body of a local agency determine that certain funds will not be required by the local agency for a period of at least one year, the local agency may petition the County Treasurer to invest that portion of the local agency's excess funds in a specific investment under the control of the County Treasurer. Such a petition should state the nature of the funds the legislative body wishes to invest specifically, and the reasons why the legislative body believes a specific investment is a preferable and viable alternative to the general Pool participation. Should the Treasurer determine that the request for a specific investment is valid and not overly counter-productive to the Pool as a whole, the Treasurer will consult with the local agency's legislative body, or its appointed representative, to suggest and determine exactly what investment(s) should be purchased to fulfill the needs of the local agency. The Treasurer will then purchase the specific investment(s) upon receipt of a written resolution, issued by the legislative body of the local agency, requesting the specific investment. The resolution must acknowledge that the local agency's legislative body takes

full responsibility for the decision to purchase the specific investment(s), and that should conditions change requiring a sale prior to maturity of the specific investment(s), any loss that might be suffered as a result, will be solely that of the local agency, and that this loss shall not be shared by the Pool as a whole, nor by the County.

Under language added to the Government Code in 1995, it is not permissible for local agency legislative bodies, required to have their funds within the Pool, to withdraw funds from the Pool in order to invest outside the County Pool in any manner, at any time without specific permission of the Treasurer. Any such investments shall be either terminated and all funds returned to the Pool, or the securities so purchased must be transferred to the custody of the County Treasurer immediately. Upon receipt of any such securities by the Treasurer, the Treasurer shall at the Treasurer's option, place the investment in the Pool, terminate the investment at the current market value and credit the local agency with the proceeds, or place the security in the name of the local agency as a specific investment.

#### MONEY VOLUNTARILY INVESTED WITH THE COUNTY INVESTMENT POOL

By Code, the County Treasurer shall limit the amounts and set conditions under which money from local agencies, not required to have their funds in the Investment Pool, may deposit and withdraw voluntarily invested funds. Local agencies from outside the County will not be permitted to deposit funds in the County Pool. Funds from local agencies within the County, voluntarily wishing to participate in the Pool, will not be accepted under normal conditions unless the Treasurer is assured that these funds are in lieu of longer-term investments. Such deposits are subject to withdrawal restrictions for a set minimal term as to be agreed to, prior to the funds being accepted into the Pool. Total amount of deposited funds may not be withdrawn at any time without a minimum of thirty days notice of "intent to withdraw."

Before a local agency withdraws monies from the Fund, it must submit a withdrawal request a minimum of 2 working days prior to the desired withdrawal date. Although not encouraged, shorter notice may be honored at the discretion of the County Treasurer's Office if the withdrawal does not cause the Fund to fall out of compliance with its maturity policy or jeopardize its ability to meet cash flow requirements.

Under normal conditions, voluntary money withdrawn from the Pool will be disbursed on a dollar for dollar basis, plus appropriate interest, but under adverse market conditions, when the Treasurer deems the withdrawal of voluntary funds would cause undue losses or significantly lower earnings for those local agencies remaining within the Pool, the Treasurer may require one or more of three remedies:

1) restrict the percentage of funds that may be withdrawn in any given month 2) restrict the rate at which the funds may be withdrawn, or 3) require the local agency withdrawing their funds to accept their funds based on the current market value of the overall Pool.

These terms will be agreed to and contracts signed prior to any voluntary money being accepted into the County Investment Pool. Such terms may exceed minimum requirements set forth in the Government Codes.

Specific investments are not normally permitted with voluntary funds, though on a cost recovery basis and under circumstances that dictate such activity, exceptions may be permitted.

## **POOLING FUNDS AND DISTRIBUTING EARNINGS**

Funds available from all sources may be pooled in order to achieve greater investment potential. The earnings from the pooled investments shall be deposited in a dedicated fund. Each month, accrued interest will be distributed to each participant in the Pool proportional to their average daily balance in the pool during the month.

Funds placed in specific investments earn the yield of the investment, not the return earned by the Pool. Earnings on specific investments will be distributed within thirty days of receipt. The Treasury will charge the cost of administration against the earnings of the specific investment.

## **CALCULATING AND APPORTIONING COSTS**

The County Treasurer, following the criteria outlined by the Federal Office of Management and Budget Circular A-87, will determine the “administrative cost” of investing or handling of funds as well as the cost of equipment which expedites processing. This cost shall be deducted prior to interest apportionment and shall be shared proportionately by all pooled and specific investments.

## **REPORTING**

The Treasurer will report to the Board of Supervisors and the Treasury Oversight Commission on a quarterly basis the holdings, status, and earnings of the portfolio. The Statement of Investment Policy will be reviewed by the Treasury Oversight Commission and adopted by the County Board of Supervisors annually. Should circumstances require revision within this Policy during the year, the changes will be presented to the Treasury Oversight Commission, and approval obtained from the Board of Supervisors prior to these alterations being adopted.

The Treasurer reports monthly to the County Board of Supervisors all investment transactions completed in the prior month.

The Auditor reports quarterly to the County Board of Supervisors the results of their regular cash audit of the Treasury.

## EXHIBIT A

	INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS
A	LOCAL AGENCY BONDS	5 YEARS	NONE	NONE
B	U.S. TREASURY OBLIGATIONS	5 YEARS	NONE	NONE
C	STATE OBLIGATIONS –CA AND OTHERS	5 YEARS	NONE	NONE
D	CA LOCAL AGENCY OBLIGATIONS	5 YEARS	NONE	NONE
E	US AGENCY OBLIGATIONS	5 YEARS	NONE	NONE
F	BANKERS' ACCEPTANCES	180 DAYS	40%	NONE
G	COMMERICAL PAPER <sup>b</sup>	270 DAYS	40%	<i>"A-1" If the issuer has issued long-term debt it must be rated "A" without regard to modifiers</i>
H	NEGOTIABLE CERTIFICATES OF DEPOSIT	5 YEARS	30% <sup>d</sup>	NONE
I	CD PLACEMENT SERVICES	5 YEARS	30% <sup>d</sup>	NONE
J	REPURCHASE AGREEMENTS	1 YEAR	NONE	NONE
K	REVERSE REPURCHASE AGREEMENTS AND SECURITIES LENDING AGREEMENTS	92 DAYS	20% OF THE BASE VALUE OF THE PORTFOLIO	NONE
L	MEDIUM-TERM NOTES <sup>c, e</sup>	5 YEARS	30%	"A" Rating
M	MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS	N/A	20% <sup>f</sup>	MULTIPLE <sup>g</sup>
N	COLLATERALIZED BANK DEPOSITS	5 YEARS	NONE	NONE
O	MORTGAGE PASS-THROUGH SECURITIES	5 YEARS	20%	"AA" RATING
P	BANK/TIME DEPOSITS	5 YEARS	NONE	NONE
Q	JOINT POWERS AUTHORITY POOL	N/A	NONE	MULTIPLE <sup>h</sup>

# EXHIBIT A

R	LOCAL AGENCY INVESTMENT FUND (LAIF)	N/A	NONE	NONE
S	SUPRANATIONALS	5 YEARS	30%	“AA” RATING <i>i</i>

## ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE

## EXHIBIT B

### Temporary Constraints and Restrictions on Investments

**A. Bonds issued by the County or County Agencies.** The Treasurer may purchase debt issued by the County or its agencies, but any such debt purchased will normally be obtained only directly from the issuing agency and not in the secondary market. Such issues, along with issues from 'C' and 'D' below, shall not exceed 10% of the total portfolio.

**B. US Treasury obligations.** The Treasurer currently invests in US Treasury obligations. US Treasuries provide the greatest liquidity in the market and should be a preferred investment for their very strong liquidity and high credit quality. There is no limit on the percentage of the portfolio in US Treasuries.

**C. State of California Obligations.** The Treasurer may invest in state obligations, including notes, bonds, or other instruments of the State of California. Interest bearing state issued warrants as an investment alternative are permissible investments. Such issues, along with issues from 'A' and 'D' below, shall not exceed 10% of the total portfolio.

**D. Obligations of another California local agency.** The Treasurer does not currently purchase these securities due to tax considerations, but may purchase taxable issues. The total of such issues, along with issues from 'A' and 'C' above, shall not exceed 10% of the overall portfolio. LAIF investments (see 'R' below) shall not be included when calculating this percentage, nor shall investments in joint powers authority pools (see 'Q' below) that resemble money market mutual funds such as CAMP and CALTRUST. Maximum investments in LAIF shall be governed by the maximum permitted by the State. Neither of these limits shall include specific investments or individual local agency's investments of bond proceeds not made through the pool.

**E. Obligations of the various Federal Agencies.** The Treasurer currently does not invest in any long term pooled securities issued by GNMA, FHLMC, SBA, or any federal agency with a maturity based on average life calculations. Due to the frequent concerns for the safety and liquidity levels of many agency obligations, the Treasurer monitors and may restrict the purchase of any particular agency's securities at any time. No single Government Sponsored Enterprise (GSE) will account for more than 25% of the portfolio at this time. The total of all GSEs may compose 100% of the portfolio. The GSEs referred to above include FHLMC, FNMA, FHLB and FFCB.

**F. Bankers Acceptance.** The Treasurer currently purchases bankers acceptances from those banks rated "AA" or higher by both Moody's and Standard and Poor's rating agencies. Additionally, the Treasurer monitors, and therefore may possibly eliminate those banks whose marketability and liquidity may be considered suspect due to their pricing within the secondary markets. Foreign banks shall be headquartered in certain Western European countries, Canada, or Japan. For additional potential restrictions see section 'S' below.

## EXHIBIT B

**G. Commercial Paper.** The Treasurer currently does not allow the percent of commercial paper to exceed 25% of the total portfolio. See section 'S' below for additional restrictions on particular commercial paper issues. The Treasurer is currently only purchasing commercial paper with maturities of 90 days or less.

**H. Negotiable Certificates of Deposit (NCD).** The Treasurer currently purchases those types of NCD permitted by the Government Codes only from banks with a long term rating of "A" and short term rating of A1 / P1 or better from both Moody's and Standard and Poor's rating agencies. Additionally, the Treasurer monitors, and therefore may possibly eliminate those banks whose marketability and liquidity may be considered suspect due to their pricing within the secondary markets. NCD issued by S&Ls, savings banks and credit unions are not currently purchased. The Treasurer currently is not purchasing NCD with maturities greater than one year. Please see sections 'P' and 'S' below for additional restrictions on non-negotiable Certificates of Deposit (CD) purchases.

**I. Certificate of Deposit (CD) Placement Services.** The Treasurer may invest or participate in CD Placement Services. See section 'P' below for restrictions on time deposits.

**J. Repurchase Agreements.** Repurchase agreements will only be entered into with Primary Dealers, and all collateral will be delivered to a third party designated by the Treasurer, as per state law. Due bills are not acceptable, nor, except in cases of extreme emergency, are substitutions of collateral on agreements under thirty days. The Treasurer will constantly monitor the market value of all collateral and shall require additional collateral if the market value falls to a level of 100% of the cash value invested, when Treasury Notes and Bonds are the collateral, and at higher levels for other types of collateral. Treasury Notes and Bonds will be collateralized at a minimum of 102% of market at the start of the repo, for short-term repos, and possibly at higher levels for longer-term repos, (percentage determined by market conditions, etc.). Repo agreements with Treasury Bills or other discounted securities as collateral will be priced to market and collateralized at a minimum of 102% of market, (actual percentage to be determined by collateral type, conditions, etc.). Collateral with maturities beyond five years are not acceptable, (except in certain limited cases where unrestricted 'puts' are included with the issue), and all collateral must meet the same requirements as purchased securities. Repurchase Agreements will not be entered into for periods longer than ninety days. Repurchase Agreement contracts will be on file for any dealer with which the County does Repos. See section 'S' below for other potential restrictions on Repo collateral.

**K. Reverse Repurchase Agreements.** The County Investment Policy does not allow the Treasurer to enter into reverse repurchase agreements.

**L. Medium Term Notes.** The Treasurer currently purchases medium term notes with a rating of "A" or higher from both Moody's and Standard and Poor's rating agencies. See section 'S' below for additional potential restrictions on medium term notes. Medium term notes shall not exceed 30% of the portfolio.

**M. Mutual Funds.** The Treasurer currently imposes no additional restrictions on mutual fund purchases beyond those in the Codes.



## EXHIBIT B

**N. Collateralized Bank Deposits.** The Treasurer currently imposes no additional restrictions on collateralized bank deposits beyond those in the Codes.

**O. Mortgage Pass-Through Securities.** The Treasurer does not invest in Mortgage pass-through securities nor in any collateralized mortgage investments.

**P. Bank/Time Deposits.** The Treasurer will enter into contracts for time deposits (including CDs) of amounts greater than \$250,000 only with those banks that meet the requirements for investment in NCD. Time deposits of less than or equal to \$250,000 (not including accrued interest) will require FDIC insurance. The total of all time deposits shall not exceed 10% of the total portfolio. Mandated deposits or investments specifically invested by pool participant's request are not included in this percentage restriction. See section 'S' below for additional potential restrictions.

**Q. Joint Powers Authority (JPA) Pool.** Investments in JPA investment funds shall not exceed 25% of the pool's portfolio.

**R. Local Agency Investment Fund (LAIF).** The Treasurer does invest in LAIF up to the current limit determined by the State Treasurer.

**S. Exposure Limits.** Presently the total exposure to any one issuer, when totaling all types of securities shall not exceed 10% of the total portfolio on date of purchase. Exceptions to this limit shall include US Treasury issues, federal agency or government sponsored enterprise issues, and funds in LAIF. Repurchase agreement collateral shall not be excluded from this calculation unless the repurchase agreement is for 5 business days or less. Exposure to the overall credit of individual foreign countries shall be monitored and maintained at prudent levels.

**T. Lending Securities.** The County Investment Policy does not allow the County Treasurer to lend securities.

**U. Futures and Options.** The County Investment Policy does not allow the Treasurer to invest in futures or options. The purchase of callable securities is permitted.

**V. Maturities over Three Years.** Any investment made with a maturity exceeding three years shall require prior written approval of the Treasurer. The Treasurer may provide temporary exemptions for specific employees for a period not to exceed one year such that each individual investment shall not require specific approval.

**X. Calculating Limits.** State law states that all required percentages included within investment related sections of the Government Codes are only binding on the day the investment is made, and that future changes in the size of the portfolio do not require the Treasurer to readjust the total percentage of each security type within the portfolio to reflect the change in size. Neither is it necessary to sell an investment when changes occur such that the security no longer meets the minimum requirements of the Codes or the Codes are changed such as to no longer include certain current holdings. The Treasurer shall weigh the change in risk and determine whether or not a security should be sold within the portfolio after a change in conditions or the Codes result in a

## EXHIBIT B

particular security no longer meeting existing or new regulations.

**Y. Asset Backed Securities** The Treasurer may purchase asset backed commercial paper with a maturity of less than or equal to 90 days and a short term rating of A1 / P1 / F1. The Treasurer currently does not purchase medium term notes issued by structured investment vehicles.

**Z. Supranationals.** The Treasurer may purchase United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank eligible for purchase and sale within the United States. The issue shall be rated “AA” or better by an NRSRO and shall not exceed 30 percent of the portfolio.