



TREASURER / TAX COLLECTOR/ PUBLIC
ADMINISTRATOR

2020 INVESTMENT POLICY

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1.0 POLICY

The Investment Policy establishes the criteria for the prudent investment of pool participants' surplus treasury funds and outlines the policies for maximizing the efficiency of the San Benito County (County) cash management system. In addition, the Investment Policy governs the deposit, safekeeping, and investment of all funds under the control of the County Treasurer (Treasurer), as well as all related transactions and investment activities. It does not apply to bond funds, pension monies, delayed compensation funds, trustee, and certain other non-operating funds not participating, or other affiliated public agency assets that reside outside of the County's Investment Pool.

The Investment Policy shall be reviewed annually by the Treasurer. Any modifications made thereto must be approved by the County Board of Supervisors and adopted by resolution. No person may engage in an investment transaction except as provided under the terms of this policy. The Treasurer shall establish written investment policy procedures.

2.0 OBJECTIVE

The objective of the Investment Policy is to protect all Investment Pool participants and the investment of their surplus treasury funds. The County operates its investment program under the "Prudent Investor Standard" set forth by Government Code Section 53600.3. This affords the County a broad spectrum of investment opportunities provided that the investment is deemed prudent and is allowable under current legislation of the State of California.

The criteria and priority for selecting investments are as follows:

- (a) **Safety**. Safety of principal is the foremost objective of the County's investment program. The safety and risk associated with an investment refers to the potential loss of principal and/or interest. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the Investment Pool.
- (b) **Liquidity**. Liquidity refers to the ability to access cash at any time with minimal risk of losing some portion of principal or interest. The Investment Pool will remain sufficiently liquid to enable the County to meet all anticipated operating requirements. Liquidity is an important investment quality considering an unanticipated need for funds may arise.
- (c) **Yield**. Yield is the potential dollar earnings that an investment can provide and is also referred to as the rate of return. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

3.0 DELEGATION OF AUTHORITY

The County Board of Supervisors, as permitted under Government Code 53607, delegates the responsibility to invest or reinvest the funds of the County or to sell or exchange securities so purchased, to the Treasurer who shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of authorized employees and their procedures in the absence of the Treasurer.

4.0 GENERAL CONSTRAINTS

The following criteria represents the general framework within which the County's Treasury investment program shall be conducted:

- (a) The laws of the State of California and the Prudent Investor Standard shall be the primary standards by which all County Treasury investments are transacted.
- (b) Surplus treasury fund management and investment transactions are the responsibility of the Treasurer.
- (c) The Treasurer strives to maintain the level of investment of all funds as near 100 percent as possible through daily projections and cash flow forecasting.
- (d) The basic premise underlying the County's Investment Policy is to ensure that the pooled funds are always safe and available when needed.
- (e) Surplus treasury funds are all funds which are not required to meet the bank's demands on the Treasury to redeem warrants or cover other County disbursement obligations on any given day.

5.0 CONSTRAINTS SET BY GOVERNMENT CODE

Government Code Sections 53601 and 53635 impose restrictions on the investments of government entities. All such restrictions are to be adhered to in their entirety. In addition, the Treasurer may impose further restrictions to investments if the Treasurer deems such action appropriate. Such action is deemed appropriate with the following section listing the only authorized investments of the County.

6.0 AUTHORIZED INVESTMENTS

The County's authorization to invest is limited to the securities categorized below. All securities must be U.S. dollar denominated. The restrictions specified in Government Code Sections 53601 and 53635 apply unless otherwise stated. Authorized investments are as follows:

- (a) United States Treasury Bills, Notes, and Bonds (Maximum of 100%)

United States Treasury Bills, Notes, and Bonds for which the full faith and credit of the United States are pledged for the payment of principal and interest. Zero Coupon issues of these types of investments are authorized. There is no percentage limit on the total dollar amount that may be invested in this category.

- (b) Obligations issued by a Federal Agency or a U.S. Government Sponsored Enterprise (GSE) (Maximum of 100%)

Federal Agency issues of the Federal National Mortgage Association (also known as Fannie

Mae and/or FNMA), and the Federal Home Loan Mortgage Corporation (also known as Freddie Mac and/or FHLMC), the Federal Farm Credit Bank System (also known as FFCB), and the Federal Home Loan Bank (also known as FHLB). Debentures, Zero Coupon, Discount Notes, or Floaters of the above issuers are authorized. There is no percentage limit on the total dollar amount that may be invested in this category.

(c) State Obligations and California Local Agency Bonds (Maximum of 100%)

Registered Treasury Notes, Bonds or Warrants as defined in Government Code Section 53601. There is no percentage limit on the total dollar amount that may be invested in this category.

(d) Local Agency Investment Fund

Local Agency Investment Fund (LAIF) of the State of California is an investment alternative created pursuant to Government Code Section 16429.1 for California's local governments and special districts. LAIF purchases securities under the authority of Government Code Section 16430 and 16480.4. The Treasurer may invest up to the maximum amount permitted by LAIF. Due diligence must be conducted on an annual basis.

(e) California Asset Management Program

California Asset Management Program (CAMP) is a California Joint Powers Authority, short-term, highly liquid money market account organized pursuant to Government Code Section 6509.7. The CAMP pool is a permitted investment under Government Code Section 53601(p). The CAMP deposit limit is calculated at 10 percent of their total portfolio. Due diligence must be conducted on an annual basis.

(f) Repurchase Agreements (Maximum of 100%)

Term repurchase agreements may be collateralized by either U.S. Treasury Securities or by any U.S. Federal Agency security.

Regardless of maturity, repurchase agreements must be collateralized at 102 percent (market value plus accrued interest). Repurchase agreements shall only be made with dealers with assets in excess of \$500 million and having either the highest commercial paper rating, of A or higher rating for the issuer's debt, if any, as provided by a nationally recognized statistical-rating organization (NRSRO). There is no percentage limit on the total dollar amount that may be invested in this category.

All Repurchase Agreements with brokers/dealers will be done through a "Tri-Party Custodian Agreement" that has been approved, in writing, by the Treasurer.

All Repurchase Agreements with commercial banks will be governed by a Public Securities Association (PSA) agreement that has been approved, in writing, by the Treasurer.

(g) Medium Term Notes (Maximum of 30%)

Corporate Debentures (Medium Term Notes), other than those of security or insurance firms that have a rating in the highest or second highest categories of a NRSRO. The maximum maturity of such issues is three years. Floaters of the above issues are authorized as long as the maximum maturity does not exceed three years. Medium Term Notes must be issued by corporations organized and operating within the United States. Medium Term Notes may not exceed 30 percent of the Investment Pool.

(h) Time Deposits (Maximum of 30%)

Certificates of Deposits issued by nationally or state-chartered bank, savings association, federal association, or state-licensed branch of a foreign bank. . The bank must have a rating in the highest or second highest categories of an NRSRO. Certificates of Deposit may not exceed one-year maturity and may not exceed 30 percent of the Investment Pool.

(i) Commercial Paper (Maximum of 40%)

Commercial Paper is an unsecured, short-term debt instrument issued by a corporation. Commercial Paper must have the highest categories of an NRSRO. The maximum maturity of commercial paper is 270 days. The limit for each issuer is specified in the Treasurer's "Commercial Paper Approved List". Commercial Paper may not exceed 30 percent of the Investment Pool.

(j) Mutual Funds (Maximum of 20%)

Mutual Funds, as defined in Government Code Section 53601 that consist only of those investments authorized by the Investment Policy. Mutual Funds may not exceed 20 percent of the investments. A thorough investigation of the fund is required prior to investing and due diligence must be conducted on an annual basis.

(k) Bank Deposits (Maximum of 10%)

Bank Deposits are interest-bearing active deposits in a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company. These deposits must be properly collateralized at 110 percent in accordance with Government Code Section 53652. Deposits with any one depository cannot exceed 10 percent of the Investment Pool.

(l) Specific Securities (Maximum per Approval)

Specific securities as specified in the ordinance, resolution, indenture, or agreement for monies pledged to the payment or security of bonds or other indebtedness as governed by Government Code Section 53601(m) must receive written approval from the Treasurer.

7.0 DIVERSIFICATION

It is the policy of the Treasurer to diversify the pooled funds. Investments are diversified to minimize the risk of loss resulting in an overconcentration of assets in a specific maturity, issuer, or class of security. Diversification strategies shall be established by the Treasurer and periodically reviewed.

8.0 MATURITY STRUCTURE

The maturity of investments, excluding investments that have been specifically matched to a bond issue maturity, are subject to the following restrictions at the time of purchase:

- (a) A minimum of 25 percent of the entire Investment Pool is to mature within 60 days.
- (b) A minimum of 50 percent of the entire Investment Pool is to mature within one year.
- (c) A minimum of 75 percent of the entire Investment Pool is to mature within three years.
- (d) A maximum of 25 percent of the entire Investment Pool may mature within three to five years.

If for any reason the Investment Pool is not in compliance with the maturity percentages, all new investments will be restricted to a maturity of 60 days or less until compliance is restored.

The Treasurer must give written approval for all purchases of securities with a maturity of one year or longer.

9.0 DEALER APPROVAL

All financial institutions used for the placement of investments, must be approved by the Treasurer in writing. The creditworthiness of all financial institutions will be reviewed by the Treasurer. The Treasurer will maintain a list of approved financial institutions authorized to provide investment services to the County.

The Treasurer will not approve any broker, brokerage, dealer, or securities firm that has, within the past two years, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the Treasurer, any member of the Board of Supervisors, or any candidate for these offices.

All brokers are provided with the updated Investment Policy on an annual basis.

11.0 SWAPS AND TRADES

Securities may be swapped and traded for other eligible securities after calculating the gain between the buy and sell candidates in the transaction and approval by the Treasurer.

12.0 LOSSES

Generally, losses are acceptable on a sale before maturity and may be taken if reinvested proceeds will earn an income flow with a present value higher than the present value of the income flow that would have been generated by the original investment.

13.0 SAFEKEEPING

Securities purchased from broker/dealers shall be held in third party safekeeping by the trust department of the County's bank or other designated third party custodian and in the County's name. The third party custodian shall be required to issue a safekeeping statement listing specific instrument, rate, maturity, and other pertinent information. No securities will be held by the broker/dealer from whom they were purchased.

Safekeeping of Repurchase Agreements and Collateralized Non-Negotiable Certificates of Deposit are stipulated in the section titled "Authorized Investments of the County".

14.0 CONFIRMATION

All investment confirmations are to be reviewed for conformity with the original transaction. Discrepancies are to be reported to the Treasurer.

15.0 INTERNAL CONTROLS

The Treasurer shall establish internal controls to provide reasonable assurance that the investment objectives are met and to ensure that the assets are protected from loss, theft, or misuse. The Treasurer shall also be responsible for ensuring that all investment transactions comply with the Investment Policy and Government Codes.

The Treasurer shall establish a process for daily, monthly, quarterly, and annual reviews and the monitoring of investment program activity. Daily, the Treasurer or authorized Treasury personnel shall review the investment activity, as well as corresponding custodial and commercial bank balances and positions for compliance with the Investment Policy and guidelines. The County Auditor-Controller's Office or the contracted external auditor shall conduct an annual audit of the investment program's activities.

16.0 PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles commensurate with investment risk constraints and cash flow needs.

The Treasurer's investment strategy is both passive and active. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be to identify a comparable benchmark to the rates of various investment options. Duration. (i.e. 90-day U.S.

Treasury Bill, six-month U.S. Treasury Bill, Average Fed Funds Rate). Benchmarks may be modified over time based on changes in market conditions or cash flow requirements.

17.0 CREDIT FOR INTEREST EARNINGS

Interest earnings from the Investment Pool shall be credited to participating entities each quarter. The credit is computed based on the average daily cash balance of funds on deposit during the quarter in the County Treasury.

In accordance with Government Code Section 27013, authorized costs of investing, depositing, banking, auditing, reporting or otherwise handling or managing funds will be deducted from the total interest earnings prior to the interest earnings apportionment.

19.0 OUTSIDE AGENCIES

Agencies not required to deposit funds with the County may place funds in the Investment Pool with the approval of the Treasurer. All agencies must comply with this Investment Policy. It is anticipated that most funds will be withdrawn from the Investment Pool by a warrant. Wire transfers must be arranged with the Treasurer.

20.0 WITHDRAWALS

The Treasurer has determined that withdrawals less than \$1 million will not negatively impact the structure of the Investment Pool. The Treasurer requires 48-hour notice on withdrawals over \$1 million. The Treasurer may reduce or waive the required notice. The Treasurer also reserves the right to work with any agency on the timing of a withdrawal exceeding \$1 million if that withdrawal might affect the stability or predictability of cash flow in the County Treasury. The Treasurer may refuse any withdrawal or any series of withdrawals in one month which may negatively impact the stability and predictability of cash flow in the County Treasury.

21.0 REPORTING

The Treasurer shall provide a monthly report to the County Board of Supervisors, County Administrator, and County Auditor-Controller itemizing all Treasury investments by investment type, institution, date of maturity, amount of investment, rate of interest, and current market value. Securities will be valued based on information from either the trustee, broker, the Wall Street Journal, or other sources approved by the Treasurer. The market value for Certificates of Deposit, Repurchase Agreements of less than 30 days, CAMP, and LAIF will be at cost. The report will include the weighted average maturity of the investments in the Treasury Pool.,

23.0 INDEMNIFICATION

The standard of care to be used by the County's officers or employees in all investment transactions shall be the Prudent Investor Standard (Government Code Section 53600.3), which is expanded as follows:

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 person acting in a like capacity and familiar with such 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. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

The above criteria are established as the standard for professional responsibility and shall be applied in the context of managing the Investment Pool. Investment officers acting in accordance with the Investment Policy shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

24.0 ETHICS AND CONFLICT OF INTEREST

No officer or employee, may directly or indirectly accept or solicit from any person, corporation, or group having a business relationship with the Treasurer or Treasury-related functions, any rebate, kickback, or anything of an economic value as a gift, gratuity, or honoraria.

No officer or employee of the Treasurer shall, outside of working hours, engage in any profession, trade, business, or occupation, which is incompatible or involves a conflict of interest with his/her duties as a County officer or employee.

Investment officials shall refrain from personal business activity that may conflict with proper execution and management of the policy and the investment program or which could impair their ability to make impartial decisions. Investment officials must provide public disclosure required under Government Code Section 87203, et seq.

The Treasurer and designated employees must annually file a Form 700 (Statement of Economic Interest) in accordance with the County's Conflict-of-Interest Code.

25.0 BUSINESS CONTINUITY PLAN

In the event the Treasurer or authorized staff is unable to conduct normal business operations, the Treasurer has an agreement with the custody bank for a daily sweep of surplus funds into an interest-bearing account as well as the ability to transfer additional funds to money market and liquid accounts until normal operations are restored. Restrictions pertaining to investment type, investment amount, and investment percentages, as stated in the Investment Policy, will be temporarily suspended to allow for continued operations.

GLOSSARY

Accrued Interest: The amount of interest that is earned but unpaid (not yet received) since the last interest payment date.

Banker's Acceptance (BA): A highly liquid draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Broker: A broker brings buyers and sellers together for a transaction for which the broker receives a commission.

CAMP: A California Joint Powers Authority which offers a short-term, highly liquid money market account organized pursuant to Government Code Section 6509.7.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

Collateral: Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

Commercial Paper (CP): The short-term unsecured debt of corporations.

Credit Risk: The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

Custodian: A bank or other financial institution that keeps custody of stock certificates and other assets.

Dealer: A dealer, as opposed to a broker, acts as a principal in security transactions buying and selling securities for his own account.

Diversification: Dividing investment funds among a variety of securities offering independent returns to avoid excessive exposure to any one source of risk.

Federal Home Loan (FHLB): GSEs with wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district bank.

Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac): A United States GSE, charged by Congress in 1970, to keep money flowing to mortgage lenders in support of homeownership and rental housing for middle-income Americans. The FHLMC familiarly known as Freddie Mac, purchases, guarantees and securitizes mortgages to form mortgage-backed securities.

Federal National Mortgage Association (FNMA or Fannie Mae): FNMA was chartered under the Federal National Mortgage Association Act in 1938. It is a GSE. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae is a private stockholder-owned corporation and its purchases include a variety of mortgages and second loans. FNMA's securities are also highly-liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Government Sponsored Enterprise (GSE): A type of financial services corporation created by the Federal Government to facilitate borrowing in specific sectors. GSE bonds carry the implicit backing of the Federal Government.

Interest: The amount earned while owning a debt security and generally calculated as a percentage of the principal amount.

Internal Controls: An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met.

Investment Policy: A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

Liquidity: The speed and ease with which an asset can be converted to cash without substantial loss of value.

Local Agency: County, city, city & county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

Local Agency Investment Fund (LAIF): The LAIF is an investment alternative for California's local government and special districts authorized under Sections 16429, 1, 2 and 3 of the California Government Code (the "Code"). The LAIF is managed by the State Treasurer's Office, with oversight by the Local Agency Investment Advisory Board. All securities in LAIF are purchased under the authority of Code Sections 16430 and 16480.4. The State Treasurer's Office receives all securities on a delivery versus payment basis using a third party custodian. All securities are purchased at market, with market valuation conducted monthly.

Market Value: The price at which a security can be traded.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase or reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Maturity: The final date upon which the principal or stated value of a security becomes due and payable.

Medium Term Notes (MTN): Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term “medium-term notes” refers to the time it takes for an obligation to mature and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen with the five year maturity range. MTNs issued by banks are also called “bank notes.”

Money Market: The market in which short-term debt instruments (Treasury Bills, discount notes, commercial paper, and banker’s acceptances) are issued and traded.

Mutual Funds: An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments.

Nationally Recognized Statistical Rating Organization (NRSRO): Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.) The primary rating agencies include Standard & Poor’s Corporation; Moody’s Investor Services, Inc.; Fitch Investors Service; Duff & Phelps Investment Service; Thompson BankWatch, and International Bank Credit Analyst.

Portfolio: A collection of securities held by an investor.

Price: The amount of monetary consideration required by a willing seller and a willing buyer to sell an investment on a particular date.

Prudent Investor Standard: A standard of responsibility which applies to fiduciaries. In California, the rule is stated as “Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes.”

Principal: The face value or par value of an investment.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on the bond or the current income return.

Rating: Various alphabetical and numerical designations used by institutional investors, Wall Street underwriters, and commercial rating companies use to give relative indications of bond and note creditworthiness.

Repurchase Agreement (RP or REPO): The purchase of securities, on a temporary basis, with the seller’s simultaneous agreement to repurchase the securities at a later date at a specified price that includes interest for the buyer’s holding period. In essence, this is a collateralized investment whereby the security “buyer” lends the “seller” money for the period of the agreement.

Risk: The uncertainty of maintaining the principal or interest associated with an investment due to a variety of factors.

Rule G-37 of the Municipal Securities Rulemaking Board: Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

Safekeeping: A service to bank customers whereby securities are held for protection by the bank in the customer's name.

Safety: In the context of investing public funds, safety relates to the preservation of principal of an investment in an investment portfolio; local agencies address the concerns of safety by controlling exposure to risks.

Swap: A swap is any financial transaction that involves the simultaneous purchase of a security and the sale of another for the purpose of enhancing an investor's portfolio. Swap transactions of interest to California public investors include portfolio swaps and interest rate swaps.

Tax and Revenue Anticipation Notes (TRANs): Notes issued in anticipation of receiving tax proceeds or other revenues at a future date.

U.S. Government Agency Securities: Debt Securities issued by U.S. GSE and federally related institutions. These government agencies include: Federal Home Loan Banks (FHLB); Federal Loan Mortgage Corporation (FHLMC, or "Freddie Mac"); Federal National Mortgage Association (FNMA or "Fannie Mae"); Federal Farm Credit Banks (FFCB); Farmer Mac.

Treasury Bills: Non-interest-bearing discount securities with maturities under one year issued by the U.S. Treasury to finance the national debt.

Treasury Notes: Interest-bearing obligations of the U.S. Treasury with maturities ranging from two to 10 years from date of issue.

Treasury Bonds: Interest-bearing obligations issued by the U.S. Treasury with maturities that range from 10 to 30 years from date of issue.

U.S. Treasury Securities: Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the U.S. and overseas. The U.S. Treasury issues both discounted securities and fixed coupon notes and bonds.

Weighted Average Maturity (WAM): The average maturity of all the securities that comprise a portfolio that is typically expressed in days or years.

Yield: The annual rate of return on a debt investment computed as though held to maturity expressed in percentages.

Zero-Coupon Bonds/U.S. Treasury Strips: A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. “Zeros” or “strips” mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.