SAN DIEGO COUNTY TREASURER'S POOLED MONEY FUND INVESTMENT POLICY

January 1, 2017

The Investment Policy and practices of the County Treasurer are based on prudent money management principles and California State Law, specifically Government Code Sections 27000.1 - 27000.5, 27130 - 27137, and 53600 - 53686. Section 53635 shall apply to a local agency that is a county, or other local agency that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body. However, Section 53601 shall apply to all local agencies that pool money in deposits or investments exclusively with local agencies that have the same governing body.

The practices of this office will always comply with the legal authority and limitations placed on it by the governing legislative bodies. The implementation of these laws, allowing for the dynamics of the money markets, will be the focus of this policy statement. All matters contained in this policy are to be read and applied pursuant to and consistent with state law. Where this Investment Policy specifies a percentage limitation, compliance will be measured as of the date of purchase. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing the Fund the objectives of this office shall be:

1. **The primary objective shall be to safeguard the principal of the funds under the County Treasurer's control.**

2. **The secondary objective shall be to meet the liquidity needs of the participants.**

3. **The third objective shall be to achieve an investment return on the funds under control of the County Treasurer within the parameters of prudent risk management.**

The Fund is an actively managed portfolio. By this it is meant that the County Treasurer and his staff will observe, review, and react to changing conditions that affect the Fund; this shall be viewed as a full time responsibility by the County Treasurer and his staff. The authority to execute investment transactions that will affect the Fund will be limited to:

County Treasurer
Chief Deputy Treasurer
Chief Investment Officer
Investment Officers

The County Treasurer and the above staff will meet on a regular basis to discuss current market conditions and future trends and how each of these affects the Fund.

TABLE OF CONTENTS

SAN DIEGO COUNTY TREASURER
INVESTMENT POLICY

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The purpose of the County Treasurer's Investment Policy is to implement the legislated parameters of the investment authority of the Fund. As an elected official of the County of San Diego, the County Treasurer must manage public monies in a way that is consistent with investment oversight, and sound investment practices. To have a policy which only concerns itself with maximizing return is a very dangerous course. The basic concept of investment return is based on a risk/reward relationship. Therefore, the higher the return, the higher the risk. Risk management must be an integral part of any investment policy. Risk management must include adequate internal controls so that Fund depositors and the public have confidence that public monies are secure. The policy stated below will concern itself with risk management.

1. **SECURITY OF PRINCIPAL POLICY** - The policy issues directed to protecting the principal entrusted to this office are:

   A. Limiting the Fund's exposure to each type of security.

   B. Limiting the Fund's exposure to each issuer of debt.

   C. Determining the minimum credit requirement for each type of security.

2. **LIQUIDITY POLICY -** The policy issues directed to provide necessary liquidity to the participants are:

   A. Limiting the length of maturity for securities in the Fund.

   B. Limiting the Fund's exposure to Moderately Liquid and Illiquid securities.

3. **RETURN POLICY -** The policy issues directed to achieving a return are:

   A. Attaining a market rate of return taking into account the investment risk constraints and liquidity needs.

   B. A majority of the investments shall be limited to low risk securities in anticipation of earning a fair return relative to the risk being taken.

4. **MATURITY POLICY**

   A. The maximum maturity allowed by the California Government Code is 5 years with shorter limitations specified for certain types of securities. The mandatory minimum for the maturity structure of the Fund shall be to have 50% of the Fund in instruments with remaining maturities of one year or less. Furthermore, at least 25% of the Fund must mature within 90 days.

The maximum effective duration for the Fund shall be 1.50 years. The following bullet points summarize these parameters:

- At least 50% of the Fund maturing within 1 year
- At least 25% of the Fund maturing within 90 days
- Maximum effective duration of 1.50 years

B. The Fund will be considered in compliance with the maturity policy if it meets the maturity targets above. In the event that the Fund distribution does not comply with the table above, until such time as the Fund is within maturity targets, all securities purchased shall be of a maturity or duration that will lower the maturity and or duration of the Fund. In the event a compliance violation has occurred, a variance report shall be made to the Oversight Committee as part of the normal monthly reporting.

5. **PROHIBITED SECURITIES**

The California Government Code prohibits a local agency to invest in any of the following derivative notes:

- Inverse Floater
- Range Notes
- Interest-only strips derived from a pool of mortgages
- Any security that could result in zero interest accrual

6. **CREDIT RATING POLICY**

A. This Investment Policy sets forth minimum credit ratings for each type of security. These credit limits apply to the initial purchase of a security and does not automatically force the sale of a security if the credit ratings of the security fall below the policy limits.

B. The monitoring of credit ratings consists of the following procedures:

1. When a credit rating downgrade occurs which results in a rating below the minimum credit requirement, the Investment Group will analyze and evaluate the downgrade on a case-by-case situation to determine whether to hold or sell the security after further analysis of the credit rating on an ongoing basis.

2. In the event a security in the Fund receives a credit rating downgrade which results in a rating below the minimum credit requirement, the Investment Group will report the rating change to the Oversight Committee in the monthly report. In the same manner, the Oversight Committee will be informed on the Investment Group's decision to hold or sell a downgraded security.

3. The Investment Group shall meet at least quarterly to review and update the approved list of securities and establish credit criteria for each category of security.

C. To ensure that the Fund maintains an overall credit rating of AAAf / S1, the highest rating given by Standard & Poor's, the asset allocation with respect to credit quality will be provided to S&P on a monthly basis.

Investments rated below A-1 (short term) or below "A" (long term), at the time of purchase, are prohibited in this policy.

7. INTERNAL CONTROLS

A. The Chief Deputy Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that:

1. The cost of a control should not exceed the benefits likely to be derived; and

2. The valuation of costs and benefits requires estimates and judgments by management.

B. Accordingly, the Chief Deputy Treasurer shall establish and maintain internal controls that shall address the following points:

1. Control of Collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

2. Separation of Transaction Authority from Accounting and Record Keeping - By separating the person who authorizes the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.

3. Custodial Safekeeping - Securities purchased from any bank or dealer including appropriate collateral (as defined by California State Law), not insured by FDIC, shall be placed with an independent third party for custodial safekeeping.

4. Avoidance of Physical Delivered Bearer Securities - Book entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Bearer securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with such securities.

5. Clear Delegation of Authority to Subordinate Staff Members - Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

6. Written Confirmation of Telephone Wire Transfers - Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions should be supported by written or electronic communications and approved by the appropriate person.

7. Development of a Wire Transfer Agreement with the Lead Bank or Third Party Custodian - This agreement should outline the various controls, security provisions, and delineate responsibilities of each party making and receiving wire transfers.

8. Treasury operations manual, as directed by the Chief Deputy Treasurer, will be reviewed and updated by the treasury staff every two years or on an as needed basis.

C. Provide for an annual independent review by an external auditor to assure compliance with policies and procedures.

8. **PERMISSIBLE INVESTMENTS** - Government Codes 53601, 53601.1, 53601.2, 53601.8, 53635, 53635.8, 53637, 53638, 53651, 53652, and 53653 address permissible investments. These investment categories are addressed individually in sections 9-24 below.

9. **GOVERNMENT OBLIGATIONS** - The Fund invests in two categories of Government Obligations: U.S. Treasury and Agency obligations. Both are issued at the Federal level. U.S. Treasury obligations are bills, notes and bonds issued by the Treasury and are direct obligations of the Federal Government. Agency obligations are notes and bonds of federal agencies, and government sponsored enterprises.

A. Maximum Maturity - The maximum maturity of an issue shall be the current 5-year issue or an issue, which, at the time of the investment, has a term remaining to maturity not in excess of 5 years.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category is unlimited.

C. Maximum Exposure Per Issuer - The maximum exposure to the Fund for an individual issuer shall be:

1. Treasury - Unlimited

2. Agency - No more than 35% of the Fund value shall be invested in any single issuer.

D. Minimum Credit Requirement - None

E. Liquidity Category - Liquid

10. **LOCAL AGENCY OBLIGATIONS** - These are bonds, notes, warrants or other evidences of indebtedness of any local agency or by a department, board or authority of any local agency within this State. In addition, the Fund is further authorized to purchase bonds and notes of any of the fifty states in the United States.

A. Maximum Maturity - The maximum maturity of an issue shall be 5 years.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 15%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

D. Minimum Credit Requirement - Issuers outside of the County must be at or above the following investment grade rating from one of these ratings firms:

1. Standard & Poor's – SP-1 or "A" (long-term when applicable)
2. Moody's - MIG 1 or "A" (long-term when applicable)
3. Fitch - F-1 or "A" (long-term when applicable)

(For 1 year or less, use short-term rating)
(For over 1 year, use long-term ratings)

E. Liquidity Category – Moderately Liquid

11. **BANKER'S ACCEPTANCE** - This is a draft or bill of exchange, accepted by a bank or trust company and brokered to investors in a secondary market. The purpose of the Banker's Acceptance (BA) is to facilitate trade and provide liquidity to the import-export markets. Acceptances are collateralized by the pledge of documents such as invoices, trust receipts, and other documents evidencing ownership and insurance of the goods financed. Since its inception in 1914, there has been no known loss of principal to investors through the use of Banker's Acceptances.

A. Maximum Maturity - the maximum maturity of an issue shall be 180 days.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 40%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

D. Minimum Credit Requirement – The security must be at or above the following investment grade from one of these rating firms**.**

1. Standard & Poor's - A-1
2. Moody's - P-1
3. Fitch - F-1

E. Liquidity Category **–** Liquid

12. **COMMERCIAL PAPER** - These are short-term, unsecured, promissory notes issued by firms in the open market. Commercial paper (CP) is generally backed by a bank credit facility, guarantee/bond of indemnity, or some other support agreement.

A. Maximum Maturity - The maximum maturity of an issue shall be 270 days.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 40%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

D. Minimum Credit Requirements - The security must be at or above the following investment grade rating from one of these rating firms**.**

1. Standard & Poor's - A-1 or "A" (long-term when applicable)
2. Moody's **–** P-1 or "A" (long-term when applicable)
3. Fitch **–** F-1 or "A" (long-term when available)

E. Liquidity Category - Liquid

13. **MEDIUM-TERM NOTES ("MTN")** - These are corporate notes**,** deposit notes**,** and bank notes sold by an agent in the open market on a continually offered basis. Issuers include well recognized banks and bank holding companies, thrifts, finance companies, insurance companies, and industrial corporations. These medium term notes are debt obligations generally unsecured, although some issues come to market on a collateralized or secured basis.

A. Maximum Maturity - The maximum maturity of an issue shall be 5 years.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

D. Minimum Credit Requirements - The security must be at or above the following investment grade rating from one of these rating firms**.**

1. Standard & Poor's - A-1 or "A" (long-term when applicable)
2. Moody's - P-1 or "A" (long-term when applicable)
3. Fitch - F-1 or "A" (long-term when applicable)

(MTN's 1 year or less, use short-term rating)
(For MTN's over 1 year, use long-term rating)

E. Liquidity Category - Liquid

14. **NEGOTIABLE CERTIFICATES OF DEPOSIT** - These are issued by commercial banks and thrift institutions against funds deposited for specified periods of time and earn specified or variable rates of interest. Negotiable certificates of deposit ("NCD") differ from other certificates of deposit by their liquidity. NCD's are traded actively in secondary markets.

A. Maximum Maturity

1. The maximum maturity of a NCD issue shall be 5 years.
2. The maximum maturity of any FDIC insured CD's, whether directly placed or placed through a private sector entity, shall be 13 months.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.

D. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

E. Minimum Credit Requirement – All NCD must be at or above the following investment grade rating from one of these rating firms.

1. Standard & Poor's - A-1 or "A" (long-term when applicable)
2. Moody's - P-1 or "A" (long-term when applicable)
3. Fitch - F-1 or "A" (long-term when applicable)

(For NCD's 1 year or less, use short-term rating)
(For NCD's over 1 year, use long-term rating)

F. Liquidity Category - Liquid

15. **REPURCHASE AGREEMENT** - A repurchase agreement (RP) consists of two simultaneous transactions. One is the purchase of securities by an investor (the Fund); the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed-upon future date.

A. Maximum Maturity - The maximum maturity of repurchase agreements shall be one year.

B. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 40%.

C. Maximum Exposure Per Broker/Dealer - The maximum exposure to a single broker/dealer of RP shall be 10% of the Fund when the dollar weighted average maturity is greater than 5 days, 15% of the Fund when the dollar weighted average maturity is 5 days or less.

D. Eligible Broker/Dealers - Broker/Dealers shall sign a PSA Master Repurchase Agreement or a Tri-Party Repurchase Agreement. The Agreement must specify a minimum margin percentage of 102% and also provide for daily mark-to-market of the collateral by the custodian bank.

E. Eligible Collateral - The securities eligible for repurchase agreement transactions shall be a security authorized in Section 53601 of the California Government Code. Collateral eligible for repurchase agreements maturing 7 days to 1 year shall be Treasuries and Government Agencies.

F. Delivery of Collateral - Broker/Dealers shall deliver the underlying securities to either the County's safekeeping bank or a mutually agreed upon third party custodian bank or a counterparty bank's customer book-entry account. When a third party custodian is used, it will be the custodian's responsibility to transfer funds and securities between the broker/dealer and the County Fund in accordance with the terms of the repurchase agreement.

G. Liquidity Category - Liquid

16. **REVERSE REPURCHASE AGREEMENT** - Reverse repurchase agreements (RRPs) are essentially the mirror image of RPs. In this instance, the Fund is the seller of securities and the broker or bank is the investor.

Due to the nature of RRPs, the policy regarding this instrument is different from the above RP policy.

A. Maximum Maturity - The maximum maturity of a securities lending loan shall be 92 days unless the agreement includes a written guarantee of a minimum earning or spread for the entire period of the RRP.

B. Maximum Exposure of Fund - No more than 20% of the Fund shall be invested in RRP's and/or securities lending at any one time.

C. Maximum exposure Per Broker/Dealer - No more than 10% of the Fund shall be invested in RRP's with any one broker/dealer at any one time.

D. Purpose of RRPs - The uses of RRPs shall be to invest the proceeds from the agreement into permissible securities that have the highest short-term credit ratings; to supplement the yield on securities owned; or to provide funds for the immediate payment of an obligation. The maturity of the RRP and the maturity of the security purchased shall be the same.

E. Eligible Securities - A RRP may only be entered into with a security, authorized in California Government Code 53601, which has been owned and paid for 30 days prior to the settlement of the RRP.

F. Eligible Broker/Dealer - Broker/Dealers shall be primary broker/dealers of the Federal Reserve Bank of New York.

G. Liquidity Category - Liquid

17. **COLLATERALIZED CERTIFICATES OF DEPOSIT** - This is the deposit of funds made by the County Treasurer in state or national banks or state or federal savings and loan associations or federal credit unions or FDIC insured industrial loan companies in California per California Government Code Section 53652. The deposit of the funds will be made under the following conditions:

A. The deposit may not exceed the total of the paid up capital and surplus of a depository.

B. The depository must maintain securities with a market value of at least 10% in excess of the total amount of the County Treasurer's deposits. These securities will be placed in the institution's pooled collateral account and monitored by the State Treasurer of California or a mutually agreed upon third party custodian bank.

C. The County Treasurer may waive the first $250,000 of collateral for each depository, so long as that amount is insured by an agency of the Federal Government. The documents listed below in D will not be required for deposits of $250,000 or less.

D. Each institution which receives County deposits must provide the County Treasurer with an up-to-date Contract, Annual Report, Affirmative Action Policy, Community Reinvestment Act Statement and EEO-1 Form.

E. Maximum maturity shall be 13 months.

F. Maximum exposure to the Fund for collateralized Certificates of Deposit shall be 5%.

G. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

H. Institutions at or above the following investment grade, as determined by the respective rating firms, may pledge mortgage based collateral for County deposits:

1. Standard and Poor's – A-1
2. Moody's - P-1
3. Fitch – F-1

I. Liquidity Category - Illiquid

18. **FDIC & NCUA INSURED DEPOSIT ACCOUNTS –** This is the deposit of funds made by the County Treasurer in a nationally or state chartered commercial bank, savings bank, savings and loan association, and credit union in this state per California Government Code Section 53635.8.
The deposit of funds will be made under the following conditions:

A. The deposit of funds may be placed directly with a selected depository institution not to exceed the issuance limit from the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

B. A selected depository may use a private sector entity to help place deposits with one or more commercial bank, savings bank, savings and loan association, or credit union located in the United States.

C. The full amount of each deposit and the interest that may accrue on each such deposit shall at all times be insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

D. Maximum maturity - The maximum maturity of an FDIC or NCUA Insured Deposit Account shall be 13 months.

E. Maximum exposure - The maximum exposure to the fund shall be no more than 5%

F. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

G. Minimum credit requirement - There is no minimum credit requirement for FDIC or NCUA insured deposit accounts whether directly placed or placed through a private sector entity.

H. California Government Code Section 53636.8 shall remain in effect until January 1, 2024

I. Liquidity Category - Illiquid

19. **COVERED CALL OPTION/PUT OPTION** - An option is the right to buy or sell a specific security within a specific time period at a specific price.

A. A covered call is when the County Treasurer sells the option to another party, giving them the right to buy an existing security in the Fund at a specific price within a specific time period.

B. A put option is when the County Treasurer sells the option to another party, giving them the right to sell to the County Treasurer a security at a specific price within a specific time period.

C. The seller of a covered call option/put option is paid at the time of the sale of the option. At the end of the option period, if the option is not exercised, the right to buy or sell the security is canceled.

D. The County Treasurer will act only as a seller of covered call and put options with the following exception: County Treasurer may buy an option to offset an existing open option position.

E. Securities subject to covered calls shall not be used for Reverse Repurchase Agreements.

F. Cash sufficient to pay for outstanding puts shall be invested in securities maturing on or before the expiration date of the options.

G. Maximum maturity - The maximum maturity of a covered call option/put option shall be 90 days.

H. Maximum exposure - No more than 10% of the Fund may have options written against it at any given time.

I. Credit risk - Options shall only be written with primary dealers.

J. Liquidity Category - Liquid

20. **MONEY MARKET MUTUAL FUND** - Shares of beneficial interest issued by management companies. Such shares represent ownership of a diversified portfolio of securities, which are redeemable at their net asset value. The Government Code allows for purchases of mutual funds, but the Fund will limit use to money market mutual funds managed to maintain a stable NAV.

A. Maximum exposure - The maximum exposure to the Fund for this category shall be 15%.

B. Purchase price - The purchase price of the mutual fund shall not include any commission.

C. Maximum exposure per fund - The maximum exposure to a single mutual fund shall be 10% of the Fund value.

D. Minimum credit requirement - Mutual funds must have the following investment grade from at least one of these rating firms or retain an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience in managing money market mutual funds with assets under management in excess of five hundred million dollars:

1. Standard & Poor's - AAAm
2. Moody's - Aaa-mf
3. Fitch - AAAmmf

E. Liquidity Category – Liquid

21. **INVESTMENT TRUST OF CALIFORNIA (CalTRUST**) is a pooled investment program through the CalTRUST Joint Powers Authority, authorized by Government Code Section 53601(p). CalTRUST provides two pooled account options (Short-Term Account provides daily liquidity and the Medium-Term Account permits monthly deposits and withdrawals). All of the accounts comply with the limitations and withdrawals. All of the accounts comply with the limitations and restrictions placed on local investments by the Government Code; and no leverage is permitted in any of the accounts.

A. Maximum Exposure - The maximum exposure to the Fund for this category shall be 2.5%, subject to limitations placed upon deposits by CalTRUST.

B. Liquidity Category - Moderately Liquid

22. **PASS-THROUGH SECURITIES** - These will be limited to equipment lease-backed certificates, consumer receivable pass-through certificates or consumer receivable-backed bonds.

A. Maximum maturity - The maximum maturity of an issue shall be 5 years.

B. Maximum exposure - The maximum exposure to the Fund for this category shall be 20%.

C. Maximum exposure per issuer - The maximum exposure to a single issuer shall be 5% of the Fund value.

D. Minimum credit requirement issuer - Issuers must be at or above the following investment grade rating from one of these rating firms:

1. Standard & Poor's – "A"
2. Moody's – "A"
3. Fitch – "A"

E. Minimum credit requirement security - The security must be at or above the following investment grade rating from one of these rating firms**:**

1. Standard & Poor's – "AA"
2. Moody's – "Aa"
3. Fitch – "AA"

F. Liquidity Category - Liquid

23. **WHEN-ISSUED SECURITIES** - The Fund may invest in new issues of Government Obligations offered on a when-issued basis; that is, delivery and payment take place after the date of the commitment to purchase, normally within 15 days. Both price and interest rate are fixed at the time of commitment. This allows the Fund to lock in an interest rate that may not be available on the issue date. The Fund does not earn interest on the securities until settlement, and the market value of the securities may fluctuate between purchase and settlement. Such securities can be sold before settlement.

24. **SUPRANATIONALS** – The fund may invest in United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by multi-national organizations.

A. Issuers- International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB)

B. Maximum Maturity - The maximum maturity of an issue shall be 5 years.

C. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 30%.

D. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value.

E. Minimum Credit Requirements - The security must be at or above the following investment grade rating from one of these rating firms**:**

1. Standard & Poor's - A-1 or "AA"
2. Moody's - P-1 or "Aa"
3. Fitch - F-1 or "AA"

F. Liquidity Category - Liquid

25. **ILLIQUIDITY LIMITATIONS** - The Fund may not invest more than 10% of the total Fund in combination of Collateralized Certificates of Deposit, and FDIC Insured Deposit Accounts, which are classified as Illiquid. All other Investment Policy sanctioned asset categories are classified as Liquid or Moderately Liquid.

26. **MAXIMUM EXPOSURE FOR ANY ONE ISSUER** - Unless otherwise specified in this policy, if a single issuer is involved in more than one of the above listed investment categories, the exposure to the issuer is limited to 5% of the Fund. The aforementioned does not apply to repurchase agreements. The limits for repurchase agreements are set forth in the County Treasurer's Policy in section 15.

27. **QUALIFIED BROKERS AND DEALERS** - In order to eliminate risk in making investments under this Investment Policy, all investments will be made only through qualified dealers.

A. A qualified dealer must be a bank, savings and loan association, or an investment securities dealer. Commercial Paper and Certificate of Deposit issuers may be considered qualified dealers for direct issuance of their paper.

B. Any dealer entering into a new business relationship to conduct security transactions with the County Treasurer is required to make application and qualify for recommendations by the Investment Group to the County Treasurer.

C. The dealer must ensure that its staff is aware of the County Treasurer's Investment Policy and the California Government Code Sections 53601 and 53635.

D. Investment securities dealers for Reverse Repurchase Agreements must be primary dealers regularly reporting to the Federal Reserve Bank.

E. The dealer is required to have a net capital in excess of $1 million with liquidity lines of $50 million or more.

F. The dealer is required to maintain an active secondary market for securities sold to the County and must be competitive in price for bids and offers.

G. The dealer will be monitored by the Investment Group to ensure the services the County requires are delivered in a timely and efficient manner.

H. The primary account representative must be in the institutional or middle market fixed income division with 5 years or more experience covering large municipalities.

I. A qualified dealer must not have made any political contributions to the County Treasurer, any member of the Board of Supervisors, or any candidate for these offices within any consecutive 48-month period following January 1996. The exception is if the broker/dealer is entitled to vote for any of these offices, the contributions shall not be in excess of $250 to each official per election.

J. Each dealer every three years will be required to respond to the County's Request For Information (RFI) providing the County with up to date financial and investment experience information.

28. **SECURITIES LENDING** - This is a program conducted by an agent authorized to execute securities lending under the guidelines listed under RRP's and as detailed in the "Services for Securities Lending Agreement." A securities lending transaction is when the Fund transfers its securities to broker/dealers and other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future. The loans must be secured continuously by cash collateral or securities and maintained at a value of at least equal to 102 % of the market value of the securities loaned. During the term of the loan, the Fund will continue to receive the equivalent of the interest paid by the issuer of the securities loaned. The Fund will have the right to call the loan and receive the securities loaned at any time with one day's notice.

A. Maximum Maturity - The maximum maturity of a securities lending loan shall be 92 days.

B. Maximum Exposure of Fund - No more than 20% of the Fund shall be exposed to securities lending and/or RRP's at any one time.

C. Maximum Exposure Per Counterpart - No more than 10% of the Fund shall be on loan with any single counterpart at any one time.

D. Reinvestment shall be limited to Government Code and the County's authorized investment list.

29. **DELEGATION OF INVESTMENT AUTHORITY TO THE COUNTY TREASURER** - The State of California gives the Board of Supervisors the ability to delegate the investment authority to the County Treasurer for a one-year period in accordance with Section 53607 of the California Government Code. The delegation will require renewal each year.

30. **SAFEKEEPING AUTHORITY**

A. The State of California gives the Board of Supervisors the ability to delegate the deposit for safekeeping authority to the County Treasurer in accordance with Section 53608 of the California Government Code. Board Resolution 109 adopted September 29, 1959 delegated this authority to the County Treasurer.

B. In exercising this safekeeping function, the County Treasurer will require depositories to provide evidence that they are taking reasonable measures to prevent unauthorized access to the depository's electronic data files.

C. The County Treasurer's Manual addresses contingency plans in the event that a disaster, natural or otherwise, disrupts normal operations. Contingency plans vary depending upon the severity and expected longevity of the disruption.

31. **EXTERNAL OVERSIGHT** - The County Treasurer shall retain an independent third party investment advisor to provide oversight, compliance monitoring, and other duties defined in the statement of work.

32. **COUNTY TREASURY OVERSIGHT COMMITTEE** - The Board of Supervisors has established a County Treasury Oversight Committee pursuant to Sections 27130-27137 of the California Government Code. The County Treasurer shall annually prepare an investment policy that will be reviewed and monitored by the County Treasury Oversight Committee and shall be reviewed and approved at a public hearing by the Board of Supervisors.

33. **RULES GOVERNING THE ACCEPTANCE OF HONORARIA, GIFTS, AND GRATUITIES:**

A. The County Treasury Oversight Committee:

1. Gifts and Gratuity limits: - Members may not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from an advisor, broker, dealer, banker, or other persons with whom the County Treasurer conducts business.

2. Honorarium limit - Members may not accept any honorarium from advisors, brokers, dealers, bankers, or other persons with whom the County Treasurer conducts business.

3. Employment - A member may not be employed by an entity that has contributed to the campaign of a candidate for the office of the County Treasurer or a candidate for a legislative body of the local agency that has deposited funds in the County Treasury in the previous three years or during the period the employee is a member of the Oversight Committee. A member may not secure employment with bond underwriters, bond counsel, security brokers or dealers or with financial services firms during the period that the person is a member of the Committee or for one year after leaving the Committee.

4. Contributions - A member may not directly or indirectly raise money for a candidate for County 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 Committee.

B. The County Treasurer and Designated Employees:

1. Gifts and Gratuity limits - The County Treasurer and designated employees may not accept a gift or gifts aggregating more than the Fair Political Practices Commission (FPPC) guidelines in a calendar year from a single source that does business with the County Treasurer's Office.

2. Honorarium limits - The County Treasurer and designated employees may not accept any honorarium.

3. Form 700 "Statement of Economic Interests" - The County Treasurer and designated employees are required to file a 700 form annually.

34. **REPORTING** - The County Treasurer shall prepare an investment report monthly to be posted on the County Treasurer Tax-Collector's website.

A. The report will be available to the following officials:

1. Board of Supervisors
2. Oversight Committee
3. Chief Administration Officer
4. Auditor & Controller
5. Pool Participants

B. The report will include the following:

1. A summary of Fund Statistics

2. The type of investment, issuer, date of maturity, par, and dollar amount invested on all securities, investments and moneys held by the Fund; and shall additionally include a description of any of the Fund's investments or programs that are under management of contracted parties, including the securities lending program. The report shall also include a current market value and the source of the valuation as of the date of the report for all securities held by the Fund.

3. Securities Lending Portfolio, if applicable

4. Pool Purchases, Sales and Maturities

5. Pooled Money Fund Cash Flow Forecast

6. Included in the monthly report shall be a statement of compliance with the Investment Policy and a statement of the Fund's ability to meet cash flow requirements for the next six months.

35. **ANNUAL AUDIT** - The Treasury Oversight Committee shall cause an audit to be conducted annually on a fiscal year basis to determine if the County Treasury is in compliance with Section 27130-27137 of the California Government Code.

36. **COSTS AND EARNINGS APPORTIONMENT**

A. Prior to quarterly interest distribution, investment costs incurred by the County Treasurer will be deducted from the interest earnings of the pool and Dedicated Portfolios based on an equitable distribution formula. The costs, which are authorized by Government Code Section 27013, are made up of direct costs (salaries, banking services, computer services, and supplies), and indirect costs (department overhead and external overhead).

B. The Pool earnings distributed to each participant are proportionate to the average daily balance of the amounts on deposit by the participant. The County Auditor and Controller conducts the apportionment process based on the net earnings of the Fund each quarter.

C. In the event there is a negative balance in a participant's fund at any time, it shall reduce the average daily balance for the fund. If at quarter-end there is a negative average daily balance in a participant's fund, that fund will be charged the higher of the pool's earning rate for the quarter or a proxy TRANs cost.

D. The apportionment rate is set approximately ten business days after each calendar quarter end. Apportionments are not paid out by warrants; all earnings are credited to the participants' fund balance.

37. **TERMS AND CONDITIONS FOR DEPOSITING FUNDS BY VOLUNTARY PARTICIPANTS** - The State of California Government Code Section 53684 allows local agencies, upon adoption of a resolution by the governing body of the agency, the option of depositing excess funds in the County Treasury for the purpose of investment by the County Treasurer.

A. The County, in its regional role to assist and aid other local agencies, adopted Board Resolution 11 on March 24, 1987, to allow agencies to deposit excess funds with the County Treasurer for investment. The limitation on acceptance of voluntary deposits and this Investment Policy is structured to help to ensure that, pursuant to Section 27133 of the California Government Code, the County Treasurer shall be able to find that all proposed deposits/withdrawals will not adversely affect the interests of the other depositors in the Fund.

B. The policy for the acceptance of local agency deposits is:

1. The local agency must sign the Investment Management Agreement. The County Treasurer will allow a maximum of 25% of the total Fund in voluntary deposits.

2. The maximum amount of transactions per month shall be 10 per local agency.

3. The local agency must provide cash flows on a quarterly basis indicating projected withdrawals from the Fund.

C. Before any deposits for new accounts from non-participating Voluntary Participants can be accepted by the County Treasurer, the local agency must perform the following:

1. Provide a resolution adopted by the Board or governing body that authorizes the local agency to deposit excess funds in the County Treasury for the purpose of investment by the County Treasurer. The resolution must:

a) be signed by an authorized official

b) indicate the resolution number and date passed by the Board or governing body,

c) indicate the persons authorized to initiate deposits to and instruct withdrawals from the Fund,

d) bear the seal of the local agency, if the local agency has a seal.

2. Provide wire/ACH transfer instructions for cash withdrawals from the Fund. All withdrawals and external deposits will be by the Fed Wire or Automated Clearing House (ACH).

3. Establish a trust account through the County Auditor and Controller's General Accounting Division.

38. CRITERIA FOR WITHDRAWAL OF MONIES FROM THE FUND BY VOLUNTARY PARTICIPANTS

A. Before a local agency withdraws monies from the Fund it must submit a withdrawal request form 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 maturity status of the Fund to exceed its limits, or jeopardize its ability to meet cash flow requirements.

B. When monies are requested for withdrawal, the County Treasurer's Office must find that the withdrawal will not adversely affect the interests of all other depositors in the Fund.

39. GRANDFATHERED AGENCIES

A. The grandfathered agencies, including the Community Colleges, who use the services of the County to keep their records and/or issue warrants/wires for the agency can continue to function 100% in this manner and will be treated as a mandatory participant (this assumes that the agency shall continue to make their deposits into the Fund).

B. They can also opt to be treated as a voluntary participant and elect to withdraw funds in the same fashion as the other voluntary participants. However, any agency so opting shall be subject to all of the restrictions placed upon the other Voluntary Participants.

GLOSSARY OF TERMS

BANKERS ACCEPTANCE - Money market instrument created from transactions involving foreign trade. In its simplest and most traditional form, a banker's acceptance is merely a check, drawn on bank by an importer or exporter of goods.

BID - The price offered by a buyer of securities.

COLLATERALIZED CERTIFICATE OF DEPOSIT - An instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is collateralized by the bank with securities at a minimum of 110% of the deposit amount.

COMMERCIAL PAPER - Money Market instrument representing a short-term promissory note of a large corporation at a specified rate of return for a specified period of time.

COUPON - The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value.

COVERED CALL OPTION - The sale of an option to another party giving them the right to buy an existing security in the Fund at a specified price within a specified time period.

CREDIT RATING - The alphanumeric scale which provides an assessment of the credit opinion of one of the Nationally Recognized Statistical Rating Organizations for a particular investment or issuing entity. By way of example, the investment grade portion of S&P's credit rating is provided below from highest to lowest:

AAA	Highest
AA	
A	
BBB	Lowest

DEDICATED PORTFOLIO - Any assets, besides those held in the Fund, invested by the County Treasurer on behalf of any San Diego County agency.

DOLLAR WEIGHTED AVERAGE MATURITY - The sum of the amount of each security investment multiplied by the number of days to maturity, divided by the total amount of security investments.

DURATION - Is a measure of the price volatility of a portfolio and reflects an estimate of the projected increase or decrease in the value of a portfolio based upon a decrease or increase in the interest rates. A duration of 1.0 means that for every one percent increase in interest rates, the market value of a portfolio would decrease by 1.0 percent.

EARNINGS APPORTIONMENT - Is the quarterly interest distribution to the Pool Participants where the actual investment costs incurred by the County Treasurer are deducted from the interest earnings of the Fund.

EFFECTIVE DURATION OR OPTION-ADJUSTED DURATION - Is the approximate percentage price change of a bond for a 100 basis point parallel shift in the yield curve allowing for the cash flow to change as a result of the change in yield.

GOVERNMENT OBLIGATIONS - Securities issued by the U.S. Treasury and Federal Agencies. U.S. Treasuries are direct obligations of the Federal Government. Agencies are not direct obligations of the Federal Government, but involve Federal sponsorship or guarantees. Agency issuers include:

Federal National Mortgage Association (FNMA)
Federal Home Loan Bank (FHLB)
Federal Farm Credit Bank (FFCB)
Federal Home Loan Mortgage Corporation (FHLMC)
Government National Mortgage Corporation (GNMA)
Tennessee Valley Authority (TVA)

GRANDFATHERED AGENCIES- Such as community colleges and some fire districts that use the County's banking and accounting services.

ILLIQUID Is defined as either 1. A non-existent, or thinly traded secondary market, 2. The inability to access funds prior to maturity, or 3. Possibly liquidate at the cost of principal.

ISSUE - A discreet security of an issuing entity.

ISSUER - The entity identified as the counterparty or obligator related to a security trade.

INVERSE FLOATERS - An inverse floater is a note structured so that its coupon varies inversely with a designated index.

INVESTMENT GROUP - Shall be made up of the County Treasurer, Chief Deputy Treasurer, Chief Investment Officer, and Investment Officers.

INVESTMENT MANAGEMENT AGREEMENT - An agreement between a voluntary participant and the San Diego County Treasurer-Tax Collector. The agreement addresses the terms and conditions of local agencies deposit of funds for investment into the Fund.

LIQUID - The ability to convert a security to cash quickly.

LOCAL AGENCY OBLIGATION - An indebtedness issued by a local agency, department, board, or authority within the State of California.

LONG-TERM - The term used to describe a security when the maturity is greater than one year.

MEDIUM TERM NOTES - They are corporate notes and deposit notes that are debt obligations of banks, corporations, and insurance companies. They are issued at a specific rate of return for a specific period of time.

MONEY MARKET MUTUAL FUND - A mutual fund with investments directed in short-term money market instruments only, which can be withdrawn daily without penalty.

MODERATELY LIQUID - The ability to convert a security to cash quickly with the potential for minimum loss of principal.

NEGOTIABLE CERTIFICATE OF DEPOSIT - A money market instrument representing a receipt from a bank for a deposit at a specified rate of interest for a specified period of time that is traded in secondary markets.

OFFERED - The price at which a holder of a security would be willing to sell the security.

PASS-THROUGH SECURITIES - A debt instrument that reflects an interest in a mortgage pool, consumer receivables pool and equipment lease-backed pool that serves as collateral for a bond.

PORTFOLIO VALUE - The total book value amount of all the securities held in the Fund.

PRUDENT RISK - An investment system in which the investor will invest conservatively to receive a stable income with little risk.

PUT OPTION - The sale of an option to another party giving them the right to sell to the Fund a security at a specified price within a specified time period.

RANGE NOTES - Range notes (also called accrual notes) are bonds which accrue interest daily at a set coupon which is tied to an index. Range notes typically have two coupon levels; the higher of which is for the period that the index remains within a designated range.

REPURCHASE AGREEMENT - A repurchase agreement consists of two simultaneous transactions. One is the purchase of securities by an investor (i.e. the Fund), the other is the commitment by the seller (i.e. a broker/dealer) to repurchase the securities at the same price, plus interest, at some mutually agreed future date.

REVERSE REPURCHASE AGREEMENT - The mirror image of Repurchase Agreements. In this instance the Fund is the seller of securities to an investor (i.e. brokers).

SAFEKEEPING - A custodian bank's action to store and protect an investor's securities by segregating and identifying the securities.

SECURITIES LENDING - A transaction wherein the Fund transfers its securities to broker/dealers and other entitles for collateral, which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

SELECTED DEPOSITORY INSTITUTION - A nationally or state chartered commercial bank, savings bank, savings and loan association, or credit union in the state of California.

SHORT-TERM - The term used to describe a security when the maturity is one year or less.

SUPRANATIONALS - Organizations owned by governments of two or more countries. They are usually established by international treaties in order to pursue specified policy objectives such as fighting poverty by providing financing and other developmental assistance to middle and poor income countries in both private and public sectors

Inter-American Development Bank (IADB)
International Bank For Reconstruction and Development (IBRD)
International Finance Corporation (IFC)

VOLUNTARY PARTICIPANTS - Local agencies that are not required to deposit their funds with the County Treasurer.

WHEN-ISSUED SECURITIES - A security traded before it receives final trading authorization with the investor receiving the certificate/security only after the final approval is granted.

Appendix A - Long Term Portfolio Strategy

About the County Pool

The three objectives of the County Pooled Money Fund ("Pool") are, in order of priority, safety, liquidity and yield. Historically, these sometimes competing goals were pursued by investing in highly-rated securities (safety) with maturities that would match cash flow needs of the participants (liquidity). Investment staff would assess interest rate opportunities and would, subject to liquidity needs, position the portfolio maturities accordingly. This amounted to buying investments with longer-dated maturities when interest rates seemed relatively high, or likely to fall, and buying securities with shorter maturities if rates seemed low, or likely to rise. This interest rate assessment and the resulting maturity positioning attempted to accomplish the Pool's third objective of achieving incremental (higher) yield. The Pool's performance was driven by the appropriateness of this maturity positioning relative to the subsequent movement in interest rates. This activity took place in a single portfolio.

Introduction of the Long Term Portfolio, or PoolB

<u>Two Portfolios</u>

With the introduction of PoolB, the Pool is now managed differently in two fundamental ways. First, the Pool now has two discrete portfolios. The objective of the first portfolio, PoolA, is to meet liquidity needs, and it is managed in the same fashion as the entire Pool was prior to bifurcation. An historical study was conducted to determine appropriate liquidity levels during times of Pool contraction. This is used to be sure PoolA maintains adequate liquidity at all times.

The objective of the second, Long Term, portfolio is to extend maturities and achieve incremental yield. The size of the Long Term Portfolio was initially determined to be $1Billion USD and has since been enlarged over time to $2Billion. The goal is to keep the portfolio at a constant size, though it is understood that same day reinvestment of a maturity may not be possible given the overall restraints of the County Pool as a whole. This bifurcation of the Pool is for investment purposes only and is transparent to participants. Participants do not choose between the two funds. All reporting is done on a combined basis.

<u>A Benchmarked Portfolio</u>

The second way the Long Term Portfolio management differs is the adoption of a benchmark. A benchmark, or model portfolio, was established, which represented the return and risk profile that the Treasurer-Tax Collector felt was appropriate for the Long Term Portfolio. Its characteristics are consistent with prudent management of the portion of the Pool available for incremental yield.

The Long Term Portfolio has a duration which targets that of the benchmark. Since up to eighty-five percent of portfolio returns are determined by duration, the expected return on the extended portfolio will largely reflect that of the benchmark. The belief is that through interest rate cycles, the selected benchmark represents the ideal trade-off between incremental return and volatility.

This approach explicitly establishes an investment management process for what was previously done on an implicit basis, the pursuit of providing both liquidity and incremental yield. All of these approaches are consistent with California Code, the Pool's Investment Policy as currently written and the maintenance of the Pool's S&P AAA rating.

What does the Long Term Portfolio accomplish?

- It reduces the risk, or volatility, of pool performance <u>in relation to this selected benchmark portfolio</u>.
- That is, performance will not be driven by investment officers' interest rate anticipation, but by the selected benchmark's duration. This duration is known in advance and is, by and large, constant.

What this Long Term Portfolio doesn't accomplish:

- It does not ensure out-performance of any index, fund or group of funds, including LAIF. That is, whether the Pool outperforms LAIF and other counties depends upon their portfolio make-up relative to our benchmarked portfolio and the direction interest rates move.
- It does not ensure a higher yield than the pool is currently achieving.
- It does not ensure less volatility of return.

Benchmark Composition
The target duration for the PoolB is 1.60.
The Original Benchmark was composed of the following:

Percentage	Ticker	Index
30.0%	G0QA	BofA Merrill Lynch 0-1 year, U.S. Treasury Index
30.0%	GVQA	BofA Merrill Lynch 0-5 year, U.S. Treasury Index
30.0%	UAGV	BofA Merrill Lynch 1-5 year, U.S. Composite Agency Index
10.0%	CVA0	BofA Merrill Lynch 1-5 year, U.S. Corporate Index

On 12/31/2009, the composition of the Benchmark was changed to:

30.0%	G0QA	BofA Merrill Lynch 0-1 year, U.S. Treasury Index
30.0%	GVQA	BofA Merrill Lynch 0-5 year, U.S. Treasury Index
40.0%	UAGV	BofA Merrill Lynch 1-5 year, U.S. Composite Agency Index

Rebalancing
Benchmark replication necessitates rebalancing. Rebalancing can be done in two ways: you can buy and hold securities and rebalance when you have maturities, or you can sell securities prior to maturity and rebalance with sales proceeds. Currently, the County rebalances the portfolio when it has a maturity, sometimes with a short delay due to market conditions or characteristics. It is understood this may affect the ability to match the target

benchmark, since the benchmark portfolio rebalances daily. However, the goal is to approximate the benchmark over time, rather than match it exactly at all times.

Deviation Triggers
The portfolio is checked at a minimum, weekly. If the performance is 15% or more off the benchmark, analysis will be run to determine what, if any, action should be taken to bring the portfolio closer to the benchmark.

Appendix B – Approved Broker/Dealers

Link to approved broker/dealers

APPENDIX C - POLICY GUIDELINES

Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum % With One Issuer	Minimum Rating
US Treasury Obligations	5 years	No Limit	No Limit	No Limit
Agency Obligations	5 years	No Limit	35%	No Limit
Local Agency Obligations	5 years	15%	5%	A
Banker's Acceptances	180 days	40%	5%	A-1
Commercial Paper (1)	270 days	40%	5%	A
Medium Term Notes	5 years	30%	5%	A
Negotiable Certificate of Deposits	5 years	30%	5%	A
Repurchase Agreements	1 year	40%	Note (2)	No Limit
Reverse Repurchase Agreements	92 days	20%	10%	No Limit
Collateralized Certificates of Deposit	13 months	5%	5%	No Limit
FDIC & NCUA Insured Deposit Accounts	13 months	5%	5%	No Limit
Money Market Funds	NA	15%	10%	AAAm
Investment Trust of California (CalTrust)	NA	2.5%	2.5%	No Limit
Pass Thru Securities (3)	5 years	20%	5%	A/AA
Supranationals	5 years	30%	10%	AA

(1) *Government Code Section 53635(a) (1-2) specifies percentage limitations for this security type for county investment pools.*
(2) *Maximum exposure per issue – The maximum exposure to a single Repurchase Agreement (RP) issue shall be 10% of the portfolio value for RP's with maturities greater than 5 days, and 15% of the portfolio for RP's maturing in 5 days or less. The maximum exposure to a single broker/dealer of RP's shall be 10% of the portfolio value for maturities greater than 5 days, and 15% of the portfolio value for maturities of 5 days or less.*
(3) *Rating of "A" required for issuer, if rated; and rating of "AA" required for issue.*