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Investment Policy and Guidelines

Calaveras County Treasury Funds



INVESTMENT POLICY AND GUIDELINES

Calaveras County Treasury Funds

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GLOSSARY OF INVESTMENT TERMS

- Banker's acceptance.** A high quality, short term money market instrument used to finance international trade. There has never been an instance of a failure to pay a banker's acceptance in full at its maturity date.
- Benchmark.** A segment of the securities market with characteristics similar to the subject portfolio. It is used to compare portfolio performance to the performance of the appropriate segment of the market.
- Commercial paper.** Short term, negotiable unsecured promissory notes of corporations.
- Duration.** See modified duration.
- Local agency investment fund (LAIF).** A pooled investment vehicle for local agencies in California sponsored by the State of California and administered by the State Treasurer.
- Market cycle.** A market cycle is defined as a period of time which includes a minimum of two consecutive quarters of falling interest rates followed by a minimum of two consecutive quarters of rising interest rates.
- Modified duration.** A measure of exposure to market risk of a security or a portfolio. It is the percent change in the price of a security (portfolio) for a 100 basis point change in the security's (portfolio's) yield.
- Money market mutual fund.** A mutual fund which invests in short term money market instruments only.
- Negotiable certificate of deposit.** A large denomination certificate of deposit which can be sold in the open market prior to maturity.
- Repurchase agreement.** An investment transaction wherein an investor agrees to purchase securities at an agreed upon price, and simultaneously agrees to sell the securities back to the counter party on an agreed upon future date at an agreed upon price.
- Temporary Liquidity Guarantee Program (TLGP).** Notes issued by corporations through a program of the Federal Deposit Insurance Corporation (FDIC) that are backed by the full faith and credit of the United States Government. These FDIC Insured notes are treated under the category of Federal Agency securities for compliance purposes beginning July 1, 2009.
- Time certificate of deposit.** A non-negotiable certificate of deposit which cannot be sold prior to maturity.
- Time-weighted total rate of return.** A measurement of portfolio return which eliminates the effect of the timing of contributions to and withdrawals from the fund. It measures the internal rate of return which equates the period-ending market value of the portfolio with its period-beginning market value, with adjustments for cash contributions to and withdrawals from the portfolio.

I. Investment Philosophy

A. Policy

1. This Investment Policy is set forth by the County, for the following purposes:
 - a. To establish a clear understanding for the governing body, management, employees, citizens and third parties of the objectives, policies and guidelines for the investment of public funds.
 - b. To offer guidance to investment staff and any external investment advisers on the investment of County funds; and
 - c. To establish a basis for evaluating investment results.
2. The County establishes investment policies that meet its current investment goals. The County shall review this policy annually, and may change its policies as its investment objectives change.

B. Objectives

The objectives of this investment policy are, in order of priority:

1. To ensure safety of invested funds;
2. To maintain sufficient liquidity to meet cash flow needs;
3. To attain a “market average rate of return” consistent with the primary objectives of safety and liquidity. The expected rate of return on the County’s portfolio is more specifically defined in Section IV; and
4. To assure ongoing compliance with all Federal, State and local laws governing the investment of moneys under the control of the County Treasurer.

C. Prudence

1. **The Prudent Investor Standard:** When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, that a prudent person 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 County. Within the limitations of this section and considering individual investments as part of an overall strategy, a trustee is authorized to acquire investments as authorized by law.
2. **The Prudent Investor Standard** shall be used by investment officials, and shall be applied in the context of managing an overall portfolio. Investment staff acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for each security’s credit risk or market price changes, provided deviations from expectations are reported within 30 days and appropriate action is taken to control adverse developments.

D. Ethics and Conflicts of Interest

Officers and employees, including members of the Oversight Committee involved in the investment process, shall refrain from personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions.

II. Operational and Procedural matters

A. Scope

This investment policy applies to all financial assets and investment activities of the County with the following exceptions:

1. Proceeds of debt issuance shall be invested in accordance with the general investment philosophy of the County as set forth in this policy; however, such proceeds are invested in accordance with permitted investment provisions of their specific bond indentures.

B. Oversight Committee

An Oversight Committee will consist of the Treasurer-Tax Collector, and a representation by the County Administrative Officer, Auditor-Controller, Board of Supervisors, Superintendent of Schools or their respective appointees.

The Oversight Committee shall:

- A. Annually review the investment policy and submit it to the Board of Supervisors for approval each year.
- B. Annually review the investments and rate of return.
- C. Request the Grand Jury Auditor to annually audit the application of the policy.
- D. Conduct regular meetings as determined by the committee—currently this is quarterly.
- E. Meet on other matters as necessary.

Members of the committee may not accept any gift, honoraria, gratuity or service which would be in violation of the regulations set forth by the Fair Political Practices Commission, the Government Code or County Ordinance. Members may not raise money directly or indirectly for the Treasurer or a member of the Board of Supervisors while a member of the committee. A member may not secure employment with bond underwriters, bond counsel, security brokerages or dealers, or with financial services firms for 1 year after leaving the committee.

C. Depositors 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, will be invested. The Treasurer must take into account

the current financial condition of the sum total of the Pool's cash needs. The Treasurer must not only protect each individual local agency, but 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.

The Treasurer has determined that withdrawals of less than \$1 million will not affect the stability and predictability of the investments in the county Treasury. The Treasurer's Office requires 48 hours notice on withdrawals of \$1 million to \$5 million, and at least 30 days notice for amounts over \$5 million. 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 others affected.

1. The Investment pool is designed as an operating fund for Calaveras County departments and entities that by law are required to deposit with the County's investment pool. By approval of the Treasurer, voluntary depositors may be accepted providing the agency's administrative body has agreed to the terms of the Calaveras County Investment Policy. The depositor shall deliver to the County Treasurer and Auditor, a resolution accepting the terms of the Calaveras County Investment Policy and identifying the authorized official(s) acting on behalf of the agency.

D. Delegation of Authority

1. The County Treasurer is responsible for investing the surplus funds, money not required for the immediate necessities of the County, in the County Treasury in accordance with the California Government Code, Section 53601 et seq. and 53635 et seq.
2. Authority to manage the County's investment program is derived from the California Government Code Sections 53600 et seq.
3. The County may engage the services of one or more external investment managers to assist in the management of the County's investment portfolio in a manner consistent with the County's objectives. Such external managers may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such managers must be registered under the Investment Advisers Act of 1940.

E. Authorized Financial Dealers and Institutions

1. Selection of financial institutions and broker/dealers authorized to engage in transactions with the County shall be at the sole discretion of the County, within the requirements of the California Government Code Section 53600 *et seq.*
2. All financial institutions which desire to become qualified bidders for investment transactions (and which are not dealing only with the investment adviser) must supply the County Treasurer with a statement certifying that the institution has reviewed the California Government Code Section 53600 *et seq.* and the County's

Investment Policy and that all securities offered to the County shall comply fully and in every instance with all provisions of the Code and with this Investment Policy.

3. Public deposits shall be made only in qualified public depositories within the State of California as established by State law. Deposits shall be insured by the Federal Deposit Insurance Corporation, or, to the extent the amount exceeds the insured maximum, shall be collateralized with securities in accordance with State law.
4. Selection of broker/dealers used by external investment advisers retained by the County shall be at the sole discretion of the investment advisers, after consultation with the County Treasurer.

F. Apportioning of Costs and Interest

Interest earnings on the County's pooled investments shall be credited quarterly. Earnings are based on the average daily cash balance of funds on deposit during the quarter on the County Treasury. Authorized costs of investing, depositing, auditing, reporting or otherwise handling or managing funds, and the costs of the county treasury oversight committee will be subtracted from the total interest earnings before the interest earnings are apportioned.

G. Delivery vs. payment

All investment transactions of the County shall be conducted using standard delivery-vs.-payment procedures.

H. Safekeeping of securities

To protect against potential losses by collapse of individual securities dealers, and to enhance access to securities, interest payments and maturity proceeds, all securities owned by the County shall be held with a third party safekeeper, acting as agent for the County under the terms of a custody agreement executed by the bank and by the County.

III. Permitted investments and portfolio risk management

A. Authorized Investments

All investments shall be made in accordance with Sections 53600 *et seq.* of the Government Code of California and as described within this Investment Policy. Permitted investments under this policy shall include:

1. **Securities issued by the US Treasury**, provided that there shall be no maximum allowable investment in US Treasury securities;
2. **Securities issued and fully guaranteed as to payment of principal and interest by the US Government**, provided that there shall be no maximum allowable investment in such securities.
3. **Securities issued and fully guaranteed as to payment by an agency of the US Government**, provided that there shall be no maximum allowable investment in such securities.

4. **Banker's acceptances** provided that:
 - a. They are issued by institutions the short term obligations of which are rated a minimum of P1 by Moody's or A1 by S&P; or, if the short term obligations are unrated, the long-term obligations of which are rated a minimum of A by Moody's and S&P;
 - b. The maturity does not exceed 180 days; and
 - c. No more than 40% of the total portfolio may be invested in banker's acceptances;
5. **Federally insured time deposits** (Non-negotiable certificates of deposit) in California banks with a maximum maturity of 180 days;
6. **Time deposits (Non-negotiable certificates of deposit)** in California banks in excess of insured amounts which are fully collateralized with securities in accordance with California law, provided that:
 - a. No more than 20% of the portfolio shall be invested in a combination of federally insured and collateralized time deposits; no more than 5% of investment funds invested in any one bank.
 - b. They are issued by institutions which have long term debt rated "A" or higher by S&P or "A2" or higher by Moody's; and/or have short term debt rated at least A1 by S&P or P1 by Moody's; and
 - c. The maturity of such deposits does not exceed 180 days;
7. **Negotiable certificates of deposit (NCDs)** provided that:
 - a. They are issued by institutions which have long term debt rated "A" or higher by S&P and Moody's; and/or have short term debt rated at least A1 by S&P or P1 by Moody's;
 - b. The maturity does not exceed two years; and
 - c. No more than 30% of the total portfolio may be invested in NCDs;
8. **Repurchase agreements** collateralized with securities authorized under Sections III(A1-2) of this policy maintained at a level of at least 102% of the market value of the repurchase agreements, provided that:
 - a. The maximum maturity of repurchase agreements shall be 30 days;
 - b. No more than 10% of the portfolio shall be invested in repurchase agreements;
 - c. Securities used as collateral for repurchase agreements, shall be delivered to the County's custodian bank, except that securities used as collateral for the one to seven day repurchase agreements with the County's depository bank may be held in safekeeping by the depository bank's trust department in the name of the County, as evidenced by appropriate receipts of trust (See Section II E); and
 - d. The repurchase agreements are the subject of a master repurchase agreement between the County and the provider

of the repurchase agreement. The master repurchase agreement shall be substantially in the form developed by the Public Securities Association;

9. **Commercial paper** provided that:
 - a. The maturity does not exceed 270 days from the date of purchase;
 - b. The issuer is a corporation organized and operating in the United States with assets in excess of \$500 million;
 - c. The paper is rated a minimum of P1 by Moody's Investor Services (Moody's) and A1 by Standard & Poor's Inc. (S&P); and
 - d. No more than 40% of the portfolio is invested in commercial paper;
10. **State of California Local Agency Investment Fund (LAIF)**, provided that
 - a. The County may invest up to the maximum permitted amount in LAIF; and
 - b. LAIF's investments in instruments prohibited by or not specified in the County's policy do not exclude it from the County's list of allowable investments, provided that the fund's reports allow the County Treasurer to adequately judge the risk inherent in LAIF's portfolio;
11. **Corporate medium term notes**, provided that:
 - a. Such notes have a maximum maturity of five years;
 - b. are issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States;
 - c. are rated in a rating category of "A" or its equivalent or better by Moody's and S&P; and
 - d. holdings of medium-term notes may not exceed 30 percent of the portfolio;
12. **Money market mutual funds**, provided that such funds
 - a. Are registered with the Securities and Exchange Commission and are rated AAA by S&P or Aaa by Moody's; and
 - b. Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code Section 53601 (a through j) and with assets under management in excess of \$500 million.
13. **California Asset Management Program (CAMP)** California Asset Management Trust, a professionally managed Money Market portfolio established in 1989 as a Joint Powers Authority, provided that:
 - a. The County may invest in CAMP as approved by the County Treasurer.

B. Prohibited investment vehicles and practices

1. State law notwithstanding, any investments not specifically described herein are prohibited, including, but not limited to, mutual funds (other than government money market funds as described in Section III A(12), unregulated and/or unrated investment pools or trusts, collateralized mortgage obligations and futures and options.
2. In accordance with Government Code Section 53601.6, investment in inverse floaters, range notes, or mortgage derived interest-only strips is prohibited.
3. Investment in any security that could result in a zero interest accrual if held to maturity is prohibited.
4. Trading securities for the sole purpose of speculating on the future direction of interest rates is prohibited.
5. Purchasing or selling securities on margin is prohibited.
6. The use of reverse repurchase agreements, securities lending or any other form of borrowing or leverage is prohibited.
7. Prohibited investments held in the portfolio at the time of adoption of this policy may be held until maturity at the discretion of the Treasurer.

C. Mitigating credit risk in the portfolio

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. The County shall mitigate credit risk by adopting the following strategies:

1. The diversification requirements included in Section III (A) are designed to mitigate credit risk in the portfolio;
2. No more than 5% of the total portfolio, at the time of purchase, may be invested in securities of any single issuer, other than the US Government, its agencies and instrumentalities. As a guideline, the maximum exposure to any single US Agency issuer should not exceed 30% of the total portfolio.
3. The County may elect to sell a security prior to its maturity and record a capital gain or loss in order to improve the quality, liquidity or yield of the portfolio in response to market conditions or the County's risk preferences; and
4. If securities owned by the County are downgraded by either Moody's or S&P to a level below the quality required by this Investment Policy, it shall be the County's policy to review the credit situation and make a determination as to whether to sell or retain such securities in the portfolio.
 - a. If a security is downgraded two grades below the level required by the County, the security shall be sold immediately.
 - b. If a security is downgraded one grade below the level required by this policy, the County Treasurer will use discretion in determining whether to sell or hold the security based on its current maturity, the loss in value, the economic outlook for the issuer, and other relevant factors.

- c. If a decision is made to retain a downgraded security in the portfolio, its presence in the portfolio will be monitored and reported monthly to the Oversight Committee.

D. Mitigating market risk in the portfolio

Market risk is the risk that the portfolio will decline in value (or will not optimize its value) due to changes in the general level of interest rates. The County recognizes that, over time, longer-term portfolios achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The County shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making some longer-term investments only with funds that are not needed for current cashflow purposes. The County further recognizes that certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments. The County, therefore, adopts the following strategies to control and mitigate its exposure to market risk:

1. The maximum stated final maturity of individual securities in the portfolio shall be five years;
2. The County shall maintain a minimum of three months of budgeted operating expenditures in short term investments; and
3. The duration of the portfolio shall at all times be approximately equal to the duration of an index of US Treasury and/or Federal Agency Securities with maturities which meet the County's needs for cashflow and level of risk tolerance (the Benchmark Index) plus or minus 10%.

E. Performance Standards

The County's investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the county's investment risk constraints and cash flow. In order to assist in the evaluation of the portfolio's performance, the County will use a performance benchmark for the portion of the portfolio that is not required for short term liquidity. The market-average rate of return for benchmark purposes will be the Merrill Lynch 1-3 Year Treasuries Index. The Merrill Lynch 1-3 Year Treasuries Index represents all U.S. Treasuries securities maturing over one year, but less than 3 years. The maturity range is an appropriate benchmark based on the objectives and risk tolerance of the County.

IV. Specific objectives and expectations

- A. Overall objective.** The investment portfolio shall be designed with the overall objective of obtaining a total rate of return throughout economic cycles, commensurate with investment risk constraints and cash flow needs.
- B. Specific objective.** The investment performance objective for the portfolio shall be to earn a total rate of return over a market cycle which is approximately equal to the return on the Benchmark Index (see III E1).

V. Reporting, disclosure and program evaluation

A. Monthly reports

Monthly investment reports shall be submitted by the County Treasurer to the County Board of Supervisors. These reports shall disclose, at a minimum, the following information about the risk characteristics of the County's portfolio:

1. An asset listing showing par value, cost and accurate and complete market value of each security, type of investment, issuer, interest rate, and rating;
2. A one-page summary report which shows:
 - a. Average maturity of the portfolio and modified duration of the portfolio;
 - b. Maturity distribution of the portfolio;
 - c. Time-weighted total rate of return for the portfolio for the prior three months, twelve months, year to date, and since inception compared to the Benchmark Index returns for the same periods;
3. A statement of compliance with investment policy, including a schedule of any transactions or holdings which do not comply with this policy or with the California Government Code, including a justification for their presence in the portfolio and a timetable for resolution; and
4. A statement that the County has adequate funds to meet its cash flow requirements for the next six months.

B. Annual reports

The investment policy shall be reviewed and adopted at least annually within 120 days of the end of the fiscal year to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

C. Internal controls

The County 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. Internal controls shall be in writing and shall address the following points: control of collusion, separation of transaction authority from accounting and record keeping, safekeeping of assets and written confirmation of telephone transactions for investments and wire transfers.

D. Annual audit

The County Treasurer shall establish an annual process of independent review by the County's external auditor to assure compliance with internal controls. Such audit will include tests deemed appropriate by the auditor.

E. Special audits

The County Board of Supervisors may at any time order an audit of the investment portfolio and/or the County Treasurer's investment practices.

CALAVERAS COUNTY INVESTMENT POLICY
Treasurer's Investment Types, Policies and Guidelines

U.S. Treasuries/U.S. Govt Guarantee/Agencies	Securities issued by the Federal Government	-No more than 30% of investment funds in any one agency at any one time -No restriction on amount of funds invested
Banker's Acceptances	Time draft drawn by a bank for payment of shipment or storage of merchandise	-No more than 5% of county portfolio in any one bank -Maximum 40% of county portfolio
Time Certificates of Deposit	Non-negotiable instrument evidencing a deposit for a fixed period and fixed interest rate	-No more than 5% of investment funds invested in any one bank -Maximum 20% of county portfolio
Negotiable Certificates of Deposit (NCD's)	Instrument evidencing a deposit for a fixed period of time of no less than 3 months and no more than 3 years	-No more than 30% of the county portfolio
Commercial Paper	Negotiable corporate debt usually secured, and issued continually for a short time frame	-No more than 5% of investment funds in any single corporation -No more than 40% of county portfolio
Corporate Medium Term Notes (MTN's)	Negotiable instruments issued by corporations with maturities from 9 months to 15 years	-30% of county portfolio -No more than 5% of the investment portfolio placed in a single issuer at any one time
Repurchase Agreements	A two transaction process involving the sale of securities (as collateral) and a commitment by the borrower to repurchase the securities at the same price plus predetermined interest on an agreed future date	-For repos of 30 days or less no more than 5% of investment funds invested in an institution
Money Market	Regulated by the S.E.C.	-No more than 20% of investment funds to be invested in Money Market Funds
LAIF	A State Treasurer pooled investment	-May invest the maximum allowed by LAIF
CAMP	A Joint Powers Authority pooled investment	-Limit will be determined by the County Treasurer