OFFICE OF THE
AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR
COUNTY OF SAN BERNARDINO

TREASURER'S STATEMENT OF INVESTMENT POLICY

As approved by the Board of Supervisors on June 28, 2016

SCOPE:

The County of San Bernardino's Investment Policy has been prepared in accordance with California State law. This policy shall be reviewed annually by the County's Treasury Oversight Committee and approved by the County Board of Supervisors. The purpose of this policy is to establish cash management and investment guidelines for the County Treasurer, who is responsible for the management and investment of the County Treasury Pool, which consists of the pooled monies held on behalf of the County, school districts, community college districts and certain special districts within the County.

This policy shall apply to all investments held within the County Treasury Pool and made on behalf of the County and member agencies of the Pool, with the exception of certain bond funds for which the Board of Supervisors may specifically authorize other allowable investments, consistent with State law. The Treasurer and Treasurer's staff are responsible for the full-time, active management of the Pool. All investments and activities of the Treasurer and staff are made with the understanding that the Treasurer holds a public trust with the citizens of the County, which shall not be compromised.

FIDUCIARY RESPONSIBILITY:

The California Government Code, Section 27000.3, declares each treasurer, or governing body authorized to make investment decisions on behalf of local agencies, to be a fiduciary subject to the prudent investor standard.

This standard requires that "*When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the county treasurer or the board of supervisors, as applicable, shall act with care, skill, prudence, and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the county and other depositors, 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 and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.*" This standard shall be applied in the context of managing the overall portfolio.

PORTFOLIO OBJECTIVES:
It is the policy of the Treasurer to invest public funds in a manner which will preserve the safety and liquidity of all investments within the County investment pool while obtaining a reasonable return within established investment guidelines. The portfolio should be actively managed in a manner that is responsive to the public trust and consistent with State law. Accordingly, the County investment pool will be guided by the following principles, in order of importance:

- The primary objective of the Treasurer's investment of public funds is to safeguard investment principal.
- The secondary objective is to maintain sufficient liquidity to insure that funds are available to meet daily cash flow requirements.
- The third and last consideration is to achieve a reasonable rate of return or yield consistent with these objectives.

AUTHORITY:
The Treasurer's authority for making investments is delegated by the Board of Supervisors in accordance with the California Government Code. Statutory authority for the investment and safekeeping functions are found in Sections 53600 et seq. and 53630 et seq. of the California Government Code.

AUTHORIZED INVESTMENTS:
Investments shall be restricted to those authorized in the California Government Code and as further restricted by this policy statement, with the exception of certain bond funds in which the Board of Supervisors has specifically authorized other allowable investments. All investments shall be further governed by the restrictions shown in Schedule I which defines the type of investments authorized, maturity limitations, portfolio diversification (maximum percent of portfolio), credit quality standards, and purchase restrictions that apply. Whenever a maximum allowable percentage of the portfolio is stated for any type of security as detailed above, the maximum allowable limit is determined by the portfolio size at the market close of the regular business day prior to the security purchase date. Maximum limits are applicable at the time of security purchase only unless otherwise noted or defined in Schedule I.

In conjunction with these restrictions, County Treasurer staff shall diversify its investments by security type, issuer and maturity. The purpose of this diversification is to reduce portfolio risk by avoiding an overconcentration in any particular maturity sector, asset class or specific issuer. As Agency security holdings are the largest portion of the pool, diversification among the Agency issuers should be considered to the extent practical when making investments.

PROHIBITED INVESTMENTS:
No investment shall be made that is prohibited by law. Thus, no investments are authorized in inverse floaters, range notes, interest-only strips that are derived from a pool of mortgages, nor in any other investment that could result in zero interest if held to maturity. Additionally, the following types of investments are also prohibited:

- Mutual bond funds that do not maintain a constant Net Asset Value (NAV).
- Illiquid investments which lack a readily available market for trading. These investments are defined to be: private placement notes or bonds, funding agreements, master notes, and loan participations.

STAFF AUTHORIZED TO MAKE INVESTMENTS:
Only the Auditor-Controller/Treasurer/Tax Collector, Assistant Auditor-Controller/Treasurer/Tax Collector with Treasury oversight responsibility, Cash Manager/Investment Officer, Assistant Cash Manager/Investment Officer, Investment Analyst(s) and authorized contracted consultant(s) may make investments and order the receipt and delivery of investment securities among custodial security clearance accounts. Authority granted to contracted consultant(s) shall be defined in their contract(s).

AUTHORIZED BROKER/DEALERS:
The County Treasurer shall maintain an 'Eligible Broker/Dealer List'. Security transactions are limited solely to those banks, direct issuers and dealers included on this list. All financial institutions must be approved by the County Treasurer before they receive County funds or are able to conduct business with the County Treasurer.

All firms with whom the County does business shall comply with the requirements set forth in Schedule IV. County Treasurer staff shall conduct an annual review of each Broker/Dealer's current financial condition and performance in servicing the County over the prior year. Further, in compliance with Section 27133(c) & (d) of the California Government Code, no dealer and/or securities firm shall be eligible if they have made a political contribution in excess of the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board or exceeded the limit on honoraria, gifts, and gratuities set by State law, by the Fair Political Practices Commission, or by County ordinance.

DUE DILIGENCE:
County Treasurer staff shall conduct a thorough review and perform due diligence of all brokers, dealers, issuers of securities, and mutual funds prior to investing or conducting transactions with these parties and on a continuing basis. This due diligence shall include a periodic review of recent news, financial statements and SEC filings related to each entity.

INTERNAL CONTROLS:
The County Treasurer has established a system of internal controls to provide reasonable assurance that the investment objectives are met and to ensure that the assets of the County Treasury Pool are protected from loss, theft or misuse. The concept of reasonable assurance recognizes that the cost of control shall not exceed the benefits likely to be derived and that the valuation of costs and benefits require estimates and judgments by management. The County Treasurer shall develop and maintain written procedures for the operation of the investment program which are consistent with this policy. These procedures shall include reference to separation of duties, safekeeping, collateralization, wire transfers and banking related activities.

Except for declared emergencies, the County Treasurer's Office shall observe the following procedures on a daily basis:

- Investment transactions in excess of overnight maturity conducted by the County Treasurer's office shall be documented and subsequently reviewed by the Treasurer.
- All investment transactions shall be entered into the Treasurer's accounting system.
- County investments shall be transacted, confirmed, accounted for, and audited by different people.

SECURITY CUSTODY & DELIVERIES:
All securities purchased shall be deposited for safekeeping with the custodial bank that has contracted to provide the County Treasurer with custodial security clearance services or with a tri-party custodian bank under a written tri-party custody agreement. All security holdings shall be reconciled monthly by the County Treasurer and audited at least quarterly by the independent certified public accounting firm approved by the County Board of Supervisors. These third party trust department arrangements provide the County with a perfected interest in, ownership of and control over the securities held by the bank custodian on the County's behalf and are intended to protect the County from the bank's own creditors in the event of a bank default and filing for bankruptcy. Securities are not to be held in investment firm/broker dealer accounts.

All security transactions are to be conducted on a "delivery-versus-payment basis". Confirmation receipts on all investments are to be reviewed immediately for conformity with County transaction documentation. Confirmations resulting from securities purchased under repurchase agreements should clearly state the exact and complete nomenclature of the underlying securities purchased, that these securities have been sold to the County under a repurchase agreement, and the stipulated date and amount of the resale by the County back to the seller of the securities.

REPURCHASE AGREEMENTS:
Repurchase agreements are restricted to primary dealers of the Federal Reserve Bank of New York. All counterparties must sign a Securities Industry & Financial Markets Association (formerly known as The Bond Market Association) Master Repurchase Agreement and, for tri-party repurchase agreements, a Tri-Party Repurchase Agreement as well before engaging in any repurchase agreement transactions. Collateral for repurchase agreements shall have a market value of at least 102% of the amount invested and must be marked to market by staff or by an independent third-party or custodial bank acting under contract to the County. Collateral for term repurchase agreements shall be marked to market no less than once weekly. Repurchase agreements are required to be collateralized by securities authorized under Section 53601 et seq. of the California Government Code.

COMPETITIVE PRICING:
Investment transactions are to be made at current market prices. When possible, competitive prices should be obtained through multiple bids or offers and documented on the trade ticket or other written forms. When possible, bids and offers for any investment security should be taken from a minimum of three security broker/dealers or banks and awards should be made to the best offer. When identical securities are not available from multiple sources, or investments are purchased directly from issuers (e.g. commercial paper and certificates of deposit), market prices may be documented by reference to offerings of similar securities that are of comparable rating and maturity by other issuers.

LIQUIDITY:
The duration-to-maturity of the portfolio shall not exceed 1.50. To provide sufficient liquidity to meet daily expenditure requirements for the following 12 months, the portfolio shall maintain at least 40% of its par value in securities having a maturity of 12 months or less.

PERFORMANCE EVALUATION:
Portfolio performance is monitored daily by the Treasurer and monthly by third-party analysis, which includes security pricing, evaluation, and a total return measurement using the Bank of America Merrill Lynch 6-month Treasury Bill Index "G0O2" as a benchmark.

MITIGATING MARKET & CREDIT RISKS:
Safety of principal is the primary objective of the portfolio. Each investment transaction shall seek to minimize the County's exposure to market and credit risks by giving careful and ongoing attention to the credit ratings issued by Standard & Poor's, Moody's and/or Fitch rating services on the credit worthiness of each issuer of securities, by limiting the duration of investments to the time frames noted in Schedule I, and by maintaining the diversification and liquidity standards expressed within this policy.

In the event of a downgrade of a security held in the portfolio, the Cash Manager/Investment Officer shall report the downgrade to the Treasurer promptly. In the event of a downgrade below the minimum credit ratings authorized by this policy, the security shall be evaluated to determine whether the security shall be sold or held. It is preferred to sell such a security if there is no book loss. In the event of a potential loss upon sale, the Treasurer will evaluate whether to hold or sell the security based on the amount of loss, remaining maturity and any other relevant factors.

TRADING & EARLY SALE OF SECURITIES:
Securities should be purchased with the intent of holding them until maturity. However, in an effort to minimize market risks, credit risks, and increase the total return of the portfolio, securities may be sold prior to maturity, either at a profit or loss, when market conditions or a deterioration in credit worthiness of the issuer warrant a sale of the securities to either enhance overall portfolio yield or to minimize loss of investment principal. In measuring a profit or loss, the sale proceeds shall be compared to the original cost as per the County's books of the security plus accrued interest earned and/or any accretion or amortization of principal on the security from the date of purchase or the last coupon date to the date of sale. However, the sale of a security at a loss can only be made with the approval of the County Treasurer or his designee.

PURCHASE OF SECURITIES FOR FORWARD SETTLEMENT:
Purchases of securities for forward settlement are only authorized as long as the intent of the purchase is to hold them in the portfolio and not for speculative trading, sufficient cash is available to consummate their acceptance into the Treasurer's portfolio on the settlement date, there is the ability at purchase to hold them in the portfolio to maturity without violating any of the diversification/maturity limits of this policy, and the forward settlement period does not exceed 21 days.

PORTFOLIO REPORTS/AUDITING:
On a monthly basis, the County Treasurer shall prepare and file with the Board of Supervisors, Chief Executive Officer, Assistant Auditor-Controller/Treasurer/Tax Collector with Treasury oversight responsibility, Chief Deputy Auditor, Superintendent of Schools and Treasury Oversight Committee a report consisting of, but not limited to, the following:

- All investments detailing each by type, issuer, date of maturity, and par value and stating the book vs. current market value together with all other portfolio information required by law.
- Compliance of investments to the existing County Investment Policy.
- A statement confirming the ability of the Pool to meet anticipated cash requirements for the next six months.

TREASURY OVERSIGHT COMMITTEE:
In accordance with California Government Code Section 27131, the Board of Supervisors has established a Treasury Oversight Committee. The Treasury Oversight Committee will render unbiased and objective opinions on matters involving the Treasurer's investment of public funds. Specifically, the law requires that the Treasury Oversight Committee meet to:

- Review the Treasurer's annual Investment Policy Statement and any subsequent changes thereto prior to submission to the Board of Supervisors for review and adoption.
- Review the Treasurer's investment portfolio reports and the portfolio's compliance with law and this Investment Policy.
- Cause an annual audit to be conducted on the Treasurer's p ooled investment portfolio.

The Treasury Oversight Committee shall receive a copy of every Audit Report as prepared by the independent certified public accounting firm approved by the County Board of Supervisors. Such reports are made in accordance with the California Government Code Sections 26920 and 26922 and County Board of Supervisor's resolution dated July 6, 1971, and which includes an evaluation of investments for compliance with California Government Code Section 53601 and 53635.

All meetings of the Oversight Committee are to be open to the public and subject to the Ralph M. Brown Act. By law, the Treasury Oversight Committee is not allowed to direct individual investment decisions, nor select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the County Treasury. Members of the Oversight Committee are prohibited from accepting gifts or gratuities from investment advisors, brokers, dealers, bankers or other persons with whom the county treasury conducts business.

QUARTERLY DISTRIBUTION OF INVESTMENT EARNINGS:
All moneys deposited in the pool by the participants represent an individual interest in all assets and investments in the pool based upon the amount deposited. Portfolio income shall be reconciled daily against cash receipts and quarterly prior to the distribution of earnings among those entities sharing in pooled fund investment income. It is the intent of this policy to safeguard and maintain the principal value of funds invested and to minimize "paper losses" caused by changes in market value. Nonetheless, actual portfolio income and/or losses, and net of any reserves, will be distributed quarterly among those participants sharing in pooled investment income in compliance with the California Government Code. Except for specific investments in which the interest income is to be credited directly to the fund from which the investment was made, all investment income is to be distributed pro-rata based upon each participant's average daily cash balance for the calendar quarter.

QUARTERLY APPORTIONMENT OF ADMINISTRATIVE COSTS:
Prior to the quarterly apportionment of pooled fund investment earnings, the County Treasurer is permitted, pursuant to the California Government Code, to deduct from investment earnings the actual cost of the investments, auditing, depositing, handling and distribution of such income. Accordingly, the Treasury shall deduct from pooled fund investment earnings the actual cost incurred for: banking services, wire transfers, custodial safekeeping charges, building remodeling costs and other capital outlays, the costs of investment advisory services, credit ratings, the pro-rata annual cost of the salaries including fringe benefits for the personnel in the Treasurer/Tax Collector's office engaged in the administration, investment, auditing, cashiering, accounting, reporting, remittance processing and depositing of public funds for investment, together with the related computer and office expenses associated with the performance of these functions.

WITHDRAWAL OF FUNDS:
Any depositor or public official having funds on deposit, either voluntarily or involuntarily, with this pool, that seeks to withdraw these funds for the purpose of investing or depositing them outside the Treasury Pool, shall first submit a request for withdrawal to the Treasurer for approval prior to withdrawing funds.

The request should be submitted and processed as follows:

- In writing, from the governing authority of the funds being withdrawn. The request should state the amount, date of transfer, where investment and/or deposit is to be made, and the reason for the request.
- The request must be received by the County Treasurer no less than thirty (30) days prior to the requested date of withdrawal.
- Prior to approving a withdrawal, the County Treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the County Treasury pool, in accordance with California Government Code section 27136(b).

CRITERIA FOR AGENCIES SEEKING VOLUNTARY ENTRY INTO THE TREASURY POOL:
The County Treasurer is not soliciting nor accepting any new agency's voluntary entry into the Treasury Pool.

ETHICS & CONFLICTS OF INTEREST:
Officers and staff members involved in the investment process shall refrain from any personal business activity that compromises the security and integrity of the County's investment program or impairs their ability to make impartial and prudent investment decisions. The Auditor-Controller/Treasurer/Tax Collector, Assistant Auditor-Controller/Treasurer/Tax Collector with Treasury oversight responsibility, Cash Manager/Investment Officer, Assistant Cash Manager/Investment Officer, and Investment Analyst(s) are required to file annually the applicable financial disclosure statements as mandated by the Fair Political Practices Commission (FPPC) and/or by County ordinance. In addition, the Assistant Auditor-Controller/Treasurer/Tax Collector with Treasury oversight responsibility, Cash Manager/Investment Officer, Assistant Cash Manager/Investment Officer, Investment Analyst(s), and any outside investment advisors or contracted consultants are required to sign and abide by an Ethics Policy instituted by the Auditor-Controller/Treasurer/Tax Collector.

POLICY ADOPTION & AMENDMENTS:
This policy statement will become effective immediately following adoption by the Board of Supervisors. It will remain in force as long as the delegation of authority to the Treasurer to invest is in effect and until the policy statement is subsequently amended in writing by the County Auditor-Controller/Treasurer/Tax Collector, reviewed by the Treasury Oversight Committee and approved by the Board of Supervisors.

COUNTY OF SAN BERNARDINO INVESTMENT POLICY				
OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR (SCHEDULE I)				
AUTHORIZED INVESTMENTS	DIVERSIFICATION	PURCHASE RESTRICTIONS	MATURITY (not to exceed)	MINIMUM ALLOWABLE CREDIT QUALITY (S&P/MOODY'S/FITCH)
United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the U. S. are pledged for the payment of principal and interest	100%	None	5 years	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by an agency of the Federal Government or U.S. government-sponsored enterprises (excluding mortgage-backed securities)	100%	Senior debt only	5 years	Not Applicable
Notes, participations or obligations issued or fully guaranteed as to principal and interest by the International Bank for Reconstruction and Development, the International Finance Corporation, and/or the Inter-American Development Bank	30%	US Dollar denominated Senior Unsecured debt only	5 years	AA by at least one rating agency
Bonds, notes, warrants or certificates of indebtedness issued by agencies of and/or within the County of San Bernardino	10%	With approval of Treasurer	5 years	AAA by at least 2 of the 3 rating agencies*
Bankers Acceptances issued by approved banks	30%	Max $100mm par value of any one issuer, subject to 5% overall corporate issuer limit.	180 Days	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 (if rated)*
Commercial paper of U.S. Corps with total assets in excess of $500 MM	40% total for all Commercial Paper	Max 5% of portfolio by any one issuer, subject to 5% overall corporate issuer limit	270 Days	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 (if rated)*

Asset-backed Commercial Paper	40% total for all Commercial Paper	Issuer must have program-wide credit enhancements	270 Days	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 (if rated)*
Negotiable CDs issued by approved banks	30%	Max 5% of portfolio by any one issuer, subject to 5% overall corporate issuer limit	3 years from settlement date	Rated by at least 2 of the 3 rating agencies, minimum A-1, P-1, and/or F1 short-term rating or long-term letter rating of A- and/or A3 (if rated)*
Collateralized Certificates of Deposit/Deposits	10%	As stipulated in Article 2, Section 53630 et al. of the Calif. Govt. Code	1 year from settlement date	See Section 53630 et al. of the California Government Code
Repurchase Agreements with 102% collateral	40%	Repurchase Agreements (contracts) must be on file	180 days	Restricted to Primary Dealers on Eligible Broker/Dealer List
Reverse Repurchase Agreements	10%	See Schedule II	92 days (See Schedule II)	Restricted to Primary Dealers on Eligible Broker/Dealer List
Medium Term Notes of U.S. Corporations & Depository Institutions and/or Corporate or Bank notes	10%	Max $100mm par value of any one issuer, subject to 5% overall corporate issuer limit	3 years from settlement date	Rated long-term A- and/or A3 by at least 2 of the 3 rating agencies*
FDIC Insured Deposit Accounts Authorized under California Government Code Sections 53601.8 & 53635.8	5%	Max $50MM per selected depository institution Max $100MM per placement service	Term Deposits not permitted	Not Applicable
JPA Investment Pools authorized under California Government Code Section 53601(p)	5%	Max $200MM per JPA Pool Maintain Constant Net Asset Value (NAV)	Immediate Liquidity	AAA by at least one rating agency
Money Market mutual funds that meet requirements of California Government Code	15%	Registered with SEC. No NAV adjustments. No loads. Max 10% per fund.	Immediate Liquidity	AAA by at least 2 of the 3 rating agencies*
* Standard & Poor's Ratings Services, Moody's Investors Service Inc., and Fitch Ratings Ltd.				

OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR
COUNTY OF SAN BERNARDINO
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SCHEDULE II

POLICY STATEMENT ON REVERSE REPURCHASE AGREEMENTS AND SECURITIES LENDING AGREEMENTS

The Treasurer hereby institutes the following policies as further safeguards governing investments in Reverse Repurchase Agreements and Securities Lending Agreements:

1. The total of Reverse Repurchase Agreement and Securities Lending Agreement transactions shall not exceed 10 percent of the base value of the portfolio.

2. The term of such agreements shall not exceed 92 calendar days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using such an agreement and the final maturity date of the same security.

3. All loaned securities subject to Reverse Repurchase Agreements or Securities Lending Agreements shall be properly flagged and immediately accounted for in the Treasurer's financial system.

4. Investments purchased from the loaned proceeds of the Reverse Repurchase Agreement shall have maturities not exceeding the due date for repayment of the Reverse Repurchase Agreement transaction.

5. Only U.S. Treasury Notes and Federal Agency securities owned, fully paid for, and held in the Treasurer's portfolio for a minimum of 30 days can be subject to Reverse Repurchase Agreement and Securities Lending Agreement transactions.

6. Reverse Repurchase Agreements and Securities Lending Agreements shall only be placed on portfolio securities that are intended to be held to maturity, have been fully paid for, and have been held in the portfolio for a minimum of 30 days.

7. Reverse Repurchase Agreements and Securities Lending Agreements shall only be made with primary dealers of the Federal Reserve Bank of New York.

8. A contractual agreement must be in place prior to entering into a Reverse Repurchase Agreement or Securities Lending Agreement with any authorized primary dealer.

9. Reverse Repurchase Agreement and Securities Lending Agreement transactions shall have the approval of the County Treasurer.

OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR
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SCHEDULE III

POLICY CRITERIA FOR COLLATERALIZED CERTIFICATE OF DEPOSITS

1. The bank must provide us with an executed copy of the authorization for deposit of moneys.

2. The money-market yield on the certificate of deposit must be competitive with negotiable CD's offered by banks on the county's pre-approved list in the maturities desired by the County. The County Treasurer's Office reserves the right to negotiate higher yields based on market conditions at the time.

3. Collateral Requirements: the County will only accept U.S. Treasury and/or Agency securities as collateral. The collateral must be held by a separate custodial bank in an account in the name of San Bernardino County. The County must have perfected interest in the collateral. The maximum maturity of securities is 5 years, the collateral must be priced at 110% of the face value of the CD on a daily basis, and the minimum face value per pledged security is $5 million. The County Treasury must receive written confirmation that these securities have been pledged in repayment of the time deposit. Additionally, a statement of the collateral shall be provided on a monthly basis from the custodial bank.

4. The County Treasurer must be given a current audited financial statement for the financial year just ended. The financial reports must both include a statement of financial condition as well as an income statement depicting current and prior year operations.

5. The County Treasurer must receive a certificate of deposit which specifically expresses the terms governing the transaction, such as: deposit amount, issue date, maturity date, name of depositor, interest rate, interest payment terms (monthly, quarterly, etc.).

6. Notwithstanding the above, the certificate of deposit must meet the requirements of Fitch Ratings Ltd. for the County to maintain its AAA pool rating. These requirements typically include an A-1/P-1 and/or F1 short-term rating. The County may rely on credit ratings of Standard & Poor's, Moody's and Fitch to determine the creditworthiness of an institution and/or may supplement this research with its own financial analysis.

7. Deposits will only be made with banks and savings and loans having branch office locations within San Bernardino County.

OFFICE OF THE AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR
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SCHEDULE IV

POLICY CRITERIA FOR SELECTION OF BROKER/DEALERS

1. All financial institutions wishing to be considered for the County of San Bernardino's Broker/Dealer List must confirm that they are a member of the Financial Industry Regulatory Authority (FINRA), registered with the Securities & Exchange Commission (SEC), and possess all other required licenses.

2. The County Treasurer's intent is to enter into a long-term relationship. Therefore, the integrity of the firm and the personnel assigned to our account is of primary importance.

3. The firm must acknowledge receipt of the County Treasurer's written Investment Policy guidelines.

4. It is important that the firm provide related services that will enhance the account relationship, which could include:

   (a) An active secondary market for its securities.
   (b) Internal credit research analysis on commercial paper, bankers' acceptances and other securities it offers for sale.
   (c) Be willing to purchase securities from our portfolio.
   (d) Be capable of providing market analysis, economic projections, and newsletters.

5. The firm must provide the County with annual financial statements. All firms with whom the County does business must have a stable financial condition.

6. The County Treasury is prohibited from the establishment of a broker/dealer account for the purpose of holding the County's securities. All securities must be subject to delivery at the County's custodial bank.

7. Without exception, all transactions are to be conducted on a delivery vs. payment (DVP) basis or, for repurchase agreements, on a tri-party basis.

8. The broker/dealer must have been in operation for more than five (5) years.

9. Firms must have adequate financial strength and capital to support the level of trading that is approved. Adequate financial strength will be assessed by a review of the balance sheet and income statement of the dealer. Broker/dealers with less than $10 million of net capital may be approved for trading that is limited in maturity or amount or may not be approved for extended settlement trades.

10. Repurchase agreement counterparties will be limited to primary government securities dealers who report to the Federal Reserve Bank of New York and meet the following criteria:

    (a) Counterparties must have a minimum of one short-term credit rating of at least A-1,P-1, and/or F1.
    (b) Counterparties and/or their parent must have a minimum of $25 billion in assets and $350 million in capital.

GLOSSARY OF TERMS

ACCRUED INTEREST – Interest that has accumulated but has not yet been paid from the most recent interest payment date or issue date to a certain date.

AGENCY ISSUES – Securities issued by federal agencies, those chartered by the federal government or Government Sponsored Enterprises that are considered to be backed by the federal government. See also Government Sponsored Enterprises.

AMORTIZED COST – The original cost of the principal adjusted for the periodic reduction of any discount or premium from the purchase date until a specific date (also called "Book Value").

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

BASIS POINT – A unit of measurement equal to 1/100 of 1 percent. As an example, the difference between a security yielding 3.25% and one yielding 3.20% is five basis points.

BENCHMARK – An index or security used to compare the performance of a portfolio.

BOND – A long-term debt instrument of a government or corporation promising payment of the original investment plus interest by a specified future date.

BULLET – A colloquial term for a bond that cannot be redeemed, or called, prior to maturity.

CALLABLE BOND – A bond in which all or a portion of its outstanding principal may be redeemed prior to maturity by the issuer under specified conditions.

COLLATERALIZATION – Process by which a borrower pledges securities, property or other deposits for the purpose of securing the repayment of a loan and/or security.

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 an unsecured short-term promissory note of a corporation at a specified rate of return for a specified period of time.

COUPON – The stated interest rate on a debt security that an issuer promises to pay.

CREDIT QUALITY – An indication of risk that an issuer of a security will fulfill its obligation, as rated by a rating agency.

CREDIT RATING – A standardized assessment, expressed in alphanumeric characters, of a company's creditworthiness.

CREDIT RISK – The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

CUSIP – A unique identifier for a security developed by the Committee on Uniform Security Identification Procedures (CUSIP). The identifier is a nine-digit alphanumeric character. The first six characters identify the

issuer, the following two identify the issue, and the final character is a check digit.

DERIVATIVES – Securities which derive their value from that of another security or an underlying index, currency or other measure. Floating rate notes (also "floaters") are not considered derivatives.

DISCOUNT INSTRUMENTS – Securities that are sold at a discount to face value.

DIVERSIFICATION – The practice or concept of investing in a range of securities by sector, maturity, asset class or credit quality in order to reduce and spread financial risk.

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 that 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 the 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 Treasurer are deducted from the interest earnings of the Pool.

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.

GOVERNMENT SPONSORED ENTERPRISES (GSE'S) – Private, shareholder-owned companies with a relationship with government agencies. These agencies generally are viewed to have an implied guarantee of the U.S. government. These include:

Federal National Mortgage Association (FNMA)
Federal Home Loan Bank (FHLB)
Federal Farm Credit Bank (FFCB)
Federal Home Loan Mortgage Corporation (FHLMC)

HIGHLY LIQUID – The most eminent type of security that is easily converted to cash because there are many interested buyers and sellers to trade large quantities at a reasonable price.

ILLIQUID – A security that is difficult to buy or sell or has a wide spread between the bid price and offer price in the secondary market. There are few buyers and sellers willing to trade large quantities at a reasonable price.

INTEREST RATE RISK – The risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value. Also called "Market Risk".

INVERSE FLOATERS – Floating rate notes which pay interest in inverse relationship to an underlying index.

LIQUID – A security that is easily bought and sold because of the willingness of interested buyers and sellers to trade large quantities at a reasonable price.

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.

MARKET VALUE – An estimate of the value of a security at which the principal would be sold from a willing seller to a willing buyer at the date of pricing.

MEDIUM TERM NOTES – These are Corporate Notes and Bank 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.

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.

PAR – The stated maturity value, or face value, of a 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.

POOL – In this context, the pooled monies of different government agencies administered by the County Treasurer. Each pool member owns a fractional interest in the securities held in the Pool.

PORTFOLIO VALUE – The total book value amount of all the securities held in the Treasurer's Pooled Money Fund.

PRIMARY DEALER – A group of dealers and banks that can buy and sell securities directly with the Federal Reserve Bank of New York.

PRIVATE PLACEMENTS – Securities that do not have to be registered with the Securities and Exchange Commission because they are offered to a limited number of sophisticated investors.

RANGE NOTES – Notes which pay interest only if the underlying index upon which it is benchmarked, falls within a certain range.

REPURCHASE AGREEMENT – A repurchase agreement consists of two simultaneous transactions. One is the purchase of securities by an investor (i.e., the County), 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 County Pool 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 Treasurer's Pool 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.

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

TOTAL RETURN – The sum of all investment income plus changes in the capital value of a portfolio for a given period.

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

WEIGHTED AVERAGE MATURITY – The remaining average maturity of all securities held in a portfolio. See Dollar Weighted Average Maturity.

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.

YIELD – The gain, expressed as a percentage that an investor derives from a financial asset.

YIELD TO MATURITY – The percentage rate of return paid if the security is held to its maturity date. The calculation is based on the coupon rate, length of time to maturity, and market price. It assumes that coupon interest paid over the life of the security is reinvested at the same rate.

REPORT/RECOMMENDATION TO THE BOARD OF SUPERVISORS OF SAN BERNARDINO COUNTY, CALIFORNIA AND RECORD OF ACTION

June 28, 2016

FROM: **OSCAR VALDEZ, Auditor-Controller/Treasurer/Tax Collector**
Auditor-Controller/Treasurer/Tax Collector

SUBJECT: **TREASURER'S STATEMENT OF INVESTMENT POLICY**

RECOMMENDATION(S)

1. Renew Treasurer's authority to invest per Government Code sections 27000 et seq. and 53607.
2. Approve the Treasurer's Statement of Investment Policy.

(Presenter: Oscar Valdez, Auditor-Controller/Treasurer/Tax Collector 382-7000)

BOARD OF SUPERVISORS COUNTY GOALS AND OBJECTIVES

Operate in a Fiscally-Responsible and Business-Like Manner.

FINANCIAL IMPACT

Approval of this item will not impact Discretionary General Funding (Net County Cost).

BACKGROUND INFORMATION

Government Code sections 27000.1 and 53607 provide for an annual renewal by the Board of Supervisors of its delegation of investment authority to the County Treasurer. Approval of Recommendation No. 1 will effectuate this renewal.

On June 21, 2016, the Treasury Oversight Committee reviewed the current County Investment Policy and concurred with the Treasurer's recommendation that no changes are necessary at this time. Approval of Recommendation No. 2 will approve the Treasurer's Statement of Investment Policy.

PROCUREMENT

N/A

REVIEW BY OTHERS

This item has been reviewed by County Counsel (Phebe Chu, Deputy County Counsel, 387-5455) on June 2, 2016; Finance (Stephenie Shea, Administrative Analyst, 387-4919) on June 3, 2016; and County Finance and Administration (Mary Jane Olhasso, Assistant Executive Officer, 387-5423) on June 14, 2016.

cc: ATC-Valdez
CAO-Shea
File - Auditor-Controller/Treasurer/Tax Collector w/attach
jr 7/7/16

ITEM 20

Record of Action of the Board of Supervisors

APPROVED (CONSENT CALENDAR)
COUNTY OF SAN BERNARDINO
Board of Supervisors

MOTION	AYE	SECOND	ABSENT	MOVE	ABSENT
	1	2	3	4	5

LAURA H. WELCH, CLERK OF THE BOARD

BY _____

DATED: June 28, 2016

Rev 7-14-15