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

**June 23, 2020**

**FROM**
**ENSEN MASON, Auditor-Controller/Treasurer/Tax Collector**

**SUBJECT**
Treasurer's Statement of Investment Policy

**RECOMMENDATION(S)**
1. Renew Treasurer's authority to invest pursuant to Government Code Sections 27000.1 and 53607.
2. Approve the Treasurer's Statement of Investment Policy.

(Presenter: John Johnson, Chief Deputy Treasurer, 382-3002)

**COUNTY AND CHIEF EXECUTIVE OFFICER GOALS & 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**
California Government Code (CGC) 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 of authority.

On June 16, 2020, the Treasury Oversight Committee reviewed revisions to the County Investment Policy as recommended by the Treasurer, and noted no exceptions to the Treasurer's recommendations. The major changes recommended by the Treasurer are:

- Reformat document layout to better align with the Government Finance Officers Association's best practices.
- Remove the Bank of America Merrill Lynch 6-month Treasury Bill Index "G0O2" benchmark from Section 22.0 Performance Evaluation.
- Revise the audit requirement for security holdings in Section 25.0 Portfolio Reports/Auditing from quarterly to annually.
- Make the following changes to Section 31.0 Authorized Investments (Schedule I):
    - Bring the language for authorized investments of 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 in line with Government Code Section 53601(f), which allows for all GSE security types.
    - Increase the maximum maturity limits of negotiable CDs issued by approved banks from 36 months to 38 months in line with corporate notes.

  - Update the purchase restrictions on medium term notes of U.S. corporations and depository institutions and/or corporate or bank notes subject to percentage amounts instead of hard dollar limits.
  - Update the purchase restrictions on asset-backed securities subject to percentage amounts instead of hard dollar limits.
  - Update the purchase restrictions on JPA Investment Pools authorized under California Government Code Section 53601(p) subject to net asset value instead of hard dollar limits.
- Remove rating requirements for repo counter party from Section 34.0 Selection of Broker Dealers (Schedule IV), as ratings are not a relevant factor for determining guidelines as authorized under California Government Code 53601(j).
- Remove weighted average maturity from Section 35.0 Glossary of Terms.

Approval of Recommendation No. 2 will approve the Treasurer's Statement of Investment Policy, as detailed in the attachment.

**PROCUREMENT**
N/A

**REVIEW BY OTHERS**
This item has been reviewed by County Counsel (Robert F. Messinger, Principal Assistant County Counsel, 387-5455) on June 9, 2020; Finance (Carl Lofton, Administrative Analyst, 387-5404) on June 9, 2020; and County Finance and Administration (Robert Saldana, Deputy Executive Officer, 387-5423) on June 9, 2020.

Record of Action of the Board of Supervisors
County of San Bernardino

**APPROVED (CONSENT CALENDAR)**

Moved: Josie Gonzales  Seconded: Robert A. Lovingood
Ayes: Robert A. Lovingood, Janice Rutherford, Dawn Rowe, Curt Hagman, Josie Gonzales

Lynna Monell, CLERK OF THE BOARD

BY Lynna Monell
DATED: June 23, 2020

cc: File- Auditor-Controller/Treasurer/Tax Collector w/attach

la 06/25/2020

# Treasurer's Investment Policy

June 23

# 2020

**AUDITOR-CONTROLLER/TREASURER/TAX COLLECTOR**
**COUNTY OF SAN BERNARDINO**

Annual Statement of Investment Policy

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 23, 2020

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## 1.0 INTRODUCTION:

The County of San Bernardino (County) has a fiduciary responsibility to maximize the productive use of its liquid assets entrusted to its care and to manage those public funds wisely and prudently. The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities. Related activities which comprise good cash management include accurate cash projections, the expeditious collection of revenue, the control of disbursements, cost-effective banking relations, and short-term borrowing program which coordinates working capital requirements and investment opportunity. It is the policy of the County to invest public funds in a manner that will provide high investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds.

## 2.0 SCOPE:

The County of San Bernardino's Investment Policy Statement (IPS) has been prepared in accordance with California State law. 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.

## 3.0 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.

## 4.0 PORTFOLIO OBJECTIVES:

It is the policy of the Treasurer to invest public funds in a manner that 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.

**5.0 DELEGATION OF 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. The Treasurer has authorized funds covered under this IPS to be invested by the Auditor-Controller/Treasurer/Tax Collector, Chief Deputy Treasurer, Investment Officer, Assistant Investment Officer, Investment Analyst(s) and authorized contracted consultant(s) when applicable.

**6.0 STAFF AUTHORIZED TO MAKE INVESTMENTS:**
Only the Auditor-Controller/Treasurer/Tax Collector, Chief Deputy Treasurer, Investment Officer, Assistant Investment Officer, Investment Analyst(s) and authorized contracted consultant(s) may make investments and jointly order (with the settlement staff) 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).

**7.0 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, Chief Deputy Treasurer, Investment Officer, Assistant 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 Chief Deputy Treasurer, Investment Officer, Assistant Investment Officer, and Investment Analyst(s), are required to sign and abide by an Ethics Policy instituted by the Auditor-Controller/Treasurer/Tax Collector.

**8.0 AUTHORIZED INVESTMENTS:**
Investments shall be restricted to those authorized in the California Government Code and as further restricted by this IPS, 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.

**9.0 DIVERSIFICATION:**
County Treasurer staff shall diversify its investments by security type, issuer and maturity as specified in Schedule I. 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 Federal 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.

**10.0 MATURITY PARAMETERS:**
As stated in the Liquidity section of this IPS, the duration-to-maturity of the portfolio shall not exceed 2.00. 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. The County Board of Supervisors has given prior approval on specific securities to mature at 5 years and 6 months (Schedule I). Repurchase Agreements using longer-dated investments are not to exceed 5 years to maturity. Reserve funds may be invested based on the maturity parameters expressed in the legal document.

**11.0 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 have a maximum stated final maturity of 5 years. Collateral shall be marked to market by staff or by an independent third-party and the 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.

**12.0 INVESTMENT POOLS and MUTUAL FUNDS:**
A thorough investigation of the government sponsored pools and/or mutual funds is required prior to investing and on a continual basis. The County's due diligence resulted in investment parameters for JPA Investment Pools and Money Market Mutual Funds that are listed on Schedule I.

**13.0 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.

**14.0 AUTHORIZED INVESTMENT ADVISORS:**
The County may enter into an agreement with an investment advisor for investment management and/or investment advisory services. The investment advisor will operate under the direction of the County Treasurer. The investment advisor must be registered with the Securities and Exchange Commission (SEC) and submit forms ADV Part 1 and ADV Part 2A on an annual basis.

**15.0 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. Furthermore, 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.

**16.0 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.

**17.0 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, settled, accounted for, and audited by different people.

**18.0 SECURITY CUSTODY & DELIVERY:**
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. 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.

**19.0 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.

**20.0 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.

**21.0 LIQUIDITY:**
The duration-to-maturity of the portfolio shall not exceed 2.00. 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.

**22.0 PERFORMANCE EVALUATION:**
Portfolio performance is monitored daily by the Treasurer and monthly by third-party analysis, which includes security pricing, yield and total return, and performance attribution. The portfolio shall be designed to earn a market rate of investment income in relationship to our budgetary needs and economic developments**.**

In the event of a downgrade of a security held in the portfolio, the 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.

**23.0 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.

**24.0 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.

**25.0 PORTFOLIO REPORTS/AUDITING:**
On a monthly basis, the County Treasurer shall prepare and file with the Board of Supervisors, Chief Executive Officer, 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 IPS.
- A statement confirming the ability of the Pool to meet anticipated cash requirements for the next six months.

All security holdings shall be reconciled no less than monthly by the County Treasurer and, in accordance with California Government Code Sections **26920** and **26922**, audited at least annually by an independent certified public accounting firm selected in accordance with County procurement policy.

**26.0 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 IPS 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 of the Treasury Oversight Committee in accordance with California Government Code Section **27134**.

The Treasury Oversight Committee shall receive a copy of every Audit Report as prepared by an independent certified public accounting firm(s). 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.

**27.0 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.

**28.0 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/are 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).**

**29.0 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.

**30.0 POLICY ADOPTION & AMENDMENTS:**
This IPS will become effective immediately following adoption by the Board of Supervisors. This policy shall be reviewed annually by the County's Treasury Oversight Committee and approved by the County 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 IPS is subsequently amended in writing by the County Auditor-Controller/Treasurer/Tax Collector, reviewed by the Treasury Oversight committee and approval by the Board of Supervisors.

## 31.0 AUTHORIZED INVESTMENTS (SCHEDULE I)

| *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<br>**53601(b)** | 100% | None | | 5 years and 6 months | 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<br>**53601(f)** | 100% | Senior debt only | | 5 years and 6 months | 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<br>**53601(g)** | 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<br>**53601(e)** | 10% | With approval of Treasurer | | 5 years | AAA by at least 2 of the 3 rating agencies* |
| Commercial paper of U.S. Corps with total assets in excess of $500 MM<br>**53635(a)(1)** | 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<br>**53635(a)(1)** | 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<br>**53601(i)** | 30% | Max 5% of portfolio by any one issuer, subject to 5% overall corporate issuer limit | | 3 years and 2 months (38 months) 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, or higher (if rated)* |
| Collateralized Certificates of Deposit<br>**53630 et. seq. and 53601(n)** | 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<br>**53601(j)** | 40% | Repurchase Agreements (contracts) must be on file | | 180 days | Restricted to Primary Dealers on Eligible Broker/Dealer List |
| Reverse Repurchase Agreements<br>**53601(j)** | 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<br>**53601(k)** | 20% (shall not exceed 10% over 13 months) | Subject to 5% overall corporate issuer limit. | | 3 years and 2 months (38 months) from settlement date | Rated long-term A- and/or A3, or higher by at least 2 of the 3 rating agencies* |
| Asset-Backed Securities<br>**53601(o)** | 10% | Subject to 5% overall special purpose entity** limit | | 5 years | As per Section 53601(o) of the California Government Code |
| FDIC Insured Deposit Accounts Authorized under California Government Code **53601.8 & 53635.8** | 5% | Max $100MM 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% | 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 **53601(l) and 53601.6(b)** | 20% | 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. "New Issue" securities may be purchased and settled based on anticipated ratings.

** See Glossary Terms

## 32.0 REVERSE REPO AND SECURITIES LENDING AGREEMENTS (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.

## 33.0 COLLATERALIZED CERTIFICATES OF DEPOSIT (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 Approved Issuer 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.

## 34.0 SELECTION OF BROKER/DEALERS (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 and qualify under Rule 15C3-1 (uniform net capital rule) 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 IPS 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.

## 35.0 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.

ASSET-BACKED SECURITY (ABS) – A financial security backed by a loan, lease, or receivables against assets other than real estate and mortgage-backed securities.

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.

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)

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.

INVERSE FLOATERS – Floating rate notes that 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-THRU 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.

SPECIAL PURPOSE ENTITY (or TRUST) - A legally separated pass-through entity, trust or equivalent that makes its obligation secure and independent from the parent entity. This term is used to define purchase of Asset-Backed Securities at either the depositor or master trust level.

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.

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.