SAN DIEGO COUNTY TREASURER'S
POOLED MONEY FUND
INVESTMENT POLICY

January 1, 2021

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

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

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

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

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

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

County Treasurer-Tax Collector
Assistant Treasurer-Tax Collector
Chief Deputy Treasurer
Chief Investment Officer
Investment Officers

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

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**2020 SAN DIEGO COUNTY TREASURER'S
POOLED MONEY FUND INVESTMENT POLICY**

The purpose of the County Treasurer's Investment Policy is to implement the legislated parameters of the investment authority of the Fund. As an elected official of the County of San Diego, the County Treasurer must manage public monies in a way that is consistent with its objectives, investment oversight, and sound investment practices and not solely to maximize returns. The basic concept of investment return is based on a risk/reward relationship; the higher the risk, the higher the expected return. Risk management must be an integral part of any investment policy. Risk management must include adequate internal controls so that Fund depositors and the public have confidence that public monies are secure. The policy stated below will concern itself with risk management.

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

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

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

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

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

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

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

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

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

    B. Limiting a majority of the investments to low-risk securities in anticipation of earning a fair return relative to the risk being taken.

4. MATURITY POLICY

A. The maximum maturity allowed by the California Government Code is 5 years, with shorter limitations specified for certain types of securities. The guidelines for maturities of investments and duration of the Fund, as established under this Policy, shall be:

- At least 35% of the Fund maturing within 1 year
- At least 15% of the Fund maturing within 90 days, and
- A maximum effective duration of 2.0 years

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

5. GENERAL STRATEGY

The County Treasurer will generally use a buy and hold investment strategy, where securities are purchased with the intent of holding them to maturity. The investment staff will update the Treasury Oversight Committee on its asset allocation and investment strategy at its regularly scheduled meetings. Securities may be sold prior to maturity when deemed prudent. Reasons for selling include, but are not limited to:

- A security with declining credit quality
- A financially advantageous sale and replacement of a security that improves the quality, yield, or target duration of the portfolio
- Meeting the liquidity needs of the portfolio
- Portfolio rebalancing to bring the portfolio back into compliance

6. PROHIBITED SECURITIES

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

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

7. CREDIT RATING POLICY

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

B. Minimum credit ratings:

a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one nationally recognized statistical rating organization (the "NRSRO").

b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

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

1. When a credit rating downgrade occurs which results in a rating below the minimum credit requirement, the Chief Investment Officer and staff will analyze and evaluate the credit to determine whether to hold or sell the security.

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

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

To ensure that the Fund maintains the highest overall credit rating with the contracted NRSRO, the asset allocation and portfolio holdings will be provided to the contracted NRSRO on a monthly basis.

8. INTERNAL CONTROLS

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

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

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

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

   1. Control of Collusion - Collusion is a situation where two or more employees are working in conjunction to defraud their employer. To achieve a segregation of duties, individuals who authorize investment transactions shall not also record or reconcile said transactions.

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

   3. Custodial Safekeeping - Securities purchased from any bank or dealer, including appropriate collateral (as defined by California Government Code), that are not

insured by the FDIC, shall be placed with an independent third party for custodial safekeeping.

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

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

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

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

9. **ANNUAL AUDIT** - The Treasury Oversight Committee shall cause an independent review to be conducted annually on a fiscal year basis by an external auditor to determine if the County Treasury is in compliance with the Investment Policy, other internal policies and procedures, and the California Government Code.

10. **PERMISSIBLE INVESTMENTS** - Government Codes 53601, 53601.1, 53601.2, 53601.8, 53635, 53635.8, 53637, 53638, 53651, 53652, and 53653 address permissible investments. These investment categories are addressed individually in sections 11-26 below.

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

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

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

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

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

1. Treasury - Unlimited

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

D. Minimum Credit Requirement - None

E. Liquidity Category - Liquid

12. **LOCAL AGENCY AND STATE OBLIGATIONS** -These include registered state warrants or treasury notes or bonds of the state of California and registered bonds of any of the other 49 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state and bonds, notes, warrants, or other evidences of indebtedness of a local agency within the state of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

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

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

D. Minimum Credit Requirement - Issuers must be at or above the following ratings:

a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one NRSRO.

b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

E. Liquidity Category - Moderately Liquid

13. **BANKER'S ACCEPTANCES** - This is a draft or bill of exchange accepted by a bank or trust company and brokered to investors in a secondary market. The purpose of the Banker's Acceptance (BA) is to facilitate trade and provide liquidity to the import-export markets. Acceptances are collateralized by the pledge of documents such as invoices, trust

receipts, and other documents evidencing ownership and insurance of the goods financed. Since their inception in 1914, there has been no known loss of principal to investors holding Banker's Acceptances.

A. Maximum Maturity - The maximum maturity of a security shall be 180 days from the settlement date.

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

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

D. Minimum Credit Requirement – The rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one NRSRO.

E. Liquidity Category – Liquid

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

A. Maximum Maturity - The maximum maturity of a security shall be 270 days from the settlement date.

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

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value, inclusive of any other non-CP investments with said issuer.

D. Minimum Credit Requirements - The Rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one NRSRO.

E. Liquidity Category - Liquid

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

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

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

C. Maximum Exposure Per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value, inclusive of any other non-MTN investments with said issuer.

D. Minimum Credit Requirements - Issuers must be at or above the following ratings**:**

a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one NRSRO.
b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

E. Liquidity Category - Liquid

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

A. Maximum Maturity

1. The maximum maturity of an NCD security shall be 5 years from the settlement date.
2. The maximum maturity of any FDIC insured CDs, whether directly placed or placed through a private sector entity, shall be 13 months.

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

D. Maximum Exposure per Issuer - The maximum exposure to a single issuer shall be 10% of the Fund value, inclusive of any other non-NCD investments with said issuer.

E. Minimum Credit Requirement – Issuers must be at or above the following ratings:

a. For securities with maturities of 13 months or less, the rating must be in the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one NRSRO.
b. For securities with maturities greater than 13 months, the rating must be "A" or higher by at least one NRSRO.

F. Liquidity Category - Liquid

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

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

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

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

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

E. Eligible Collateral - The securities eligible for repurchase agreement transactions shall be securities authorized in Section 53601 of the California Government Code. Collateral eligible for repurchase agreements maturing from 7 days to 1 year shall be Treasury and Agency obligations.

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

G. Liquidity Category - Liquid

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

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

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

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

C. Maximum Exposure Per Broker/Dealer – No more than 10% of the Fund shall be invested in RRPs with any one broker/dealer at any one time.

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

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

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

G. Liquidity Category - Liquid

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

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

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

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

D. Proceeds shall be invested in securities authorized by California Government Code and this Investment Policy.

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

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

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

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

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

E. Maximum Maturity – The maximum maturity of a collateralized CD shall be 13 months.

F. Maximum Exposure of Fund – The maximum exposure to the Fund for this category shall be 5%.

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

H. Institutions at or above the highest short-term rating category (without regard to qualification of such rating symbol such as "+" or "- ") by at least one NRSRO may pledge mortgage-based collateral for County deposits.

I. Liquidity Category - Illiquid

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

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

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

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

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

E. Maximum Exposure of Fund - The maximum exposure to the Fund for this category shall be 5%.

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

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

H. California Government Code Section 53636.8 shall remain in effect until January 1, 2021.

I. Liquidity Category - Illiquid

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

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

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

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

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

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

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

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

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

I. Counterparty Risk - Options shall only be written with primary broker/dealers of the Federal Reserve Bank of New York.

J. Liquidity Category - Liquid

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

A. Maximum Exposure - The maximum exposure to the Fund for this category shall be 20%.
B. Maximum Exposure Per Fund - The maximum exposure to a single mutual fund shall be 10% of the Fund value.

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

D. Minimum Credit Requirement - Mutual fund ratings must be in the highest rating category by at least two NRSROs or retain an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years of experience in managing money market mutual funds and with assets under management in excess of five hundred million dollars.

E. Liquidity Category - Liquid

24. **LOCAL GOVERNMENT INVESTMENT POOLS (LGIPs)** – These investments consist of (i)shares of beneficial interest issued by a joint powers authority (JPA) organized pursuant to Government Code Section 6509.7 and authorized by Government Code Section 53601(p) or (ii)the Local Agency Investment Fund (LAIF), established by Government Code Section 16429.1. The Fund shall only invest in LGIPs that comply with the California Government Code and all relevant sections of this Investment Policy and are managed to maintain a stable NAV.

A. Maximum Exposure - The maximum exposure to the Fund for this category shall be 5%.

B. Minimum Credit Requirement – LGIP ratings must be in the highest rating category by at least one NRSRO.

C. Liquidity Category - Liquid

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

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

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

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

D. Minimum Credit Requirement - The security must be rated "AA" or higher by at least one NRSRO.

E. Liquidity Category - Liquid

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

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

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

A. Maximum Maturity - The maximum maturity of a security shall be 5 years from the settlement date.

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

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

D. Minimum Credit Requirement - The security must be rated "AA "or higher by atleast one NRSRO.

E. Liquidity Category - Liquid

28. **QUALIFIED BROKERS AND DEALERS** - In order to minimize risk in executing security transactions under this Investment Policy, all transactions will be made only through qualified dealers.

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

B. Any dealer entering into a new business relationship to conduct security transactions with the County Treasurer is required to make application to the County Treasurer.

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

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

E. The dealer is required to have net capital in excess of $10 million with liquidity lines of $50 million or more.

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

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

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

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

J. Each dealer, at minimum every three years, or more frequently if requested, will be required to respond to the County's Request for Information (RFI) providing the County with up-to-date financial and investment experience information in order to continue in its role.

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

30. SAFEKEEPING AUTHORITY

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

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

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

31. **EXTERNAL OVERSIGHT** - The County Treasurer shall retain an independent third-party investment advisor to provide oversight and compliance monitoring.

The County Treasurer will also retain an NRSRO to provide a rating for the Fund and will have in place an internal system to provide credit and compliance monitoring.

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

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

A. The County Treasury Oversight Committee:

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

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

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

4. Contributions - A member may not directly or indirectly raise money for a candidate for County Treasurer or a member of the governing board of any local agency that has deposited funds in the County Treasury while a member of the Committee.

B. The County Treasurer and Designated Employees:

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

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

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

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

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

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

B. The report will include the following:

1. A summary of Fund statistics

2. The type of investment, issuer, maturity date, par value, and dollar amount invested for all securities, investments, and monies held by the Fund

3. A description of any of the Fund's investments or programs that are under management of contracted parties, including the securities lending program

4. Current market value and the source of the valuation as of the date of the report for all securities held by the Fund

5. Securities lending portfolio, if applicable

6. Pool purchases, sales, and maturities

7. Pooled Money Fund cash flow forecast demonstrating the Fund's ability to meet cash flow requirements for the next six months

8. Statement of compliance with the Investment Policy

35. COSTS AND EARNINGS APPORTIONMENT

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

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

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

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

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

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

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

1. The local agency must sign an Investment Management Agreement.

2. The local agency may be asked to provide cash flows on a quarterly basis indicating projected withdrawals from the Fund.

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

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

    a) be signed by an authorized official

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

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

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

2. Provide wire/ACH transfer instructions for cash withdrawals from the Fund. All withdrawals will be paid by electronic funds transfer.

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

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

A. Before a local agency withdraws monies from the Fund, it must submit a withdrawal request a minimum of 2 working days prior to the desired withdrawal date. Although not encouraged, shorter notice may be honored at the discretion of the County Treasurer's Office if the withdrawal does not cause the Fund to fall out of compliance with its maturity policy or jeopardize its ability to meet cash flow requirements.

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

38. GRANDFATHERED AGENCIES

A. Grandfathered agencies that use the services of the County to keep their records and/or issue warrants/wires for the agency can continue to function in this manner and will be treated as a mandatory participant (assuming the agency continues to make deposits into the Fund).

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

GLOSSARY OF TERMS

BID - The price offered by a buyer of securities.

CREDIT RATING - The alphanumeric score which provides an assessment of the credit opinion of one of the Nationally Recognized Statistical Rating Organizations for a particular investment or issuing entity.

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

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

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

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

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

GRANDFATHERED AGENCIES- Some fire districts and other agencies that use the County's banking and accounting services.

ILLIQUID – Investments for which 1) the secondary market is non-existent or thinly traded, 2) it is not possible to access funds prior to maturity, or 3) One cannot liquidate at the cost of principal.

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

INVESTMENT GROUP - Group consisting of the County Treasurer, Chief Deputy Treasurer, Chief Investment Officer, and Investment Officers.

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

LIQUID – Term for securities that can be converted to cash quickly.

MODERATELY LIQUID - Securities that can be converted to cash quickly with the potential for minimum loss of principal.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO) - A credit rating agency that issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes.

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

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

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

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

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

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

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

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

Appendix A
Approved Broker/Dealers

Link to approved broker/dealers

APPENDIX B - POLICY GUIDELINES

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

(1) *Government Code Section 53635(a) (1-2) specifies percentage limitations for this security type for county investment pools.*

(2) *10% issuer limit includes CP, MTN, and NCD exposure combined, if applicable.*

(3) *Maximum exposure per issue – The maximum exposure to a single Repurchase Agreement (RP) issue shall be 10% of the portfolio value for RPs with maturities greater than 5 days and 15% of the portfolio for RPs maturing in 5 days or less. The maximum exposure to a single broker/dealer of RPs shall be 10% of the portfolio value for maturities greater than 5 days and 15% of the portfolio value for maturities of 5 days or less.*