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Agenda Item No. 4  
March 4, 2009 Meeting

CLERK OF THE BOARD  
ORANGE COUNTY  
BOARD OF SUPERVISORS

**DATE:** March 4, 2009

**TO:** Children and Families Commission of Orange County

**FROM:** Michael M. Ruane, Executive Director

A handwritten signature in black ink, appearing to read "Michael M. Ruane".

**SUBJECT:** Consideration of Revised Commission Investment Policy and Annual Delegation of Investment Authority to Commission Treasurer

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**SUMMARY:**

Each year the Commission's Investment Oversight Committee reviews the Commission Investment Policy Statement ("the Policy"). The five-member Committee was established in 2006 to ensure oversight and public transparency regarding the investment structure and activities related to the investment of available Commission funds.

Pursuant to Government Code Section 53646, the Commission's Treasurer submits the Policy for Commission consideration at a public meeting. The Investment Oversight Committee ("IOC") has reviewed both the proposed Policy for FY 2009 – 2010, as well as the Commission's investments, which are managed by the Orange County Treasurer, and recommends the Policy for the Commission consideration.

**ORANGE COUNTY TREASURER'S INVESTMENT POLICY STATEMENT:**

On December 16, 2008, the Board of Supervisors adopted an updated Orange County Treasurer's Investment Policy Statement which enhances the County Treasurer's ability to invest in "authorized investments" and maturities permissible under the California Government Code, but which were not previously allowed by the County's Investment Policy. Changes to the Orange County Treasurer's Investment Policy Statement, and operating procedures of the Orange County Treasurer's Office, are based on recommendations of the January 29, 2008 "Final Report on Risk Analysis of the Treasurer's Investment Pools," prepared by PFM Asset Management.

**INVESTMENT OVERSIGHT COMMITTEE:**

The Commission's Investment Oversight Committee met on January 20, 2009, to initiate their 2009 review of the Investment Policy Statement and investment program. The Committee received status reports about the Commission's investments in the Orange County Investment Pool Money Market Fund, and the Specific Long-Term Investment Program, and about the County Treasurer's updated Investment Policy.

Following discussion, the Investment Oversight Committee directed staff to prepare an updated Investment Policy that would be similar to the County's, and return the draft Policy Statement for Committee consideration at their February 24, 2009 meeting.

improved supplemental funding for the long-term sustainability of Commission programs, by taking advantage of the updated provisions of the County Treasurer's Investment Policy, including a five-year maximum maturity (increased from three years), and the ability to include a broader range of authorized investments in the Commission's Specific Long-term Investment Program (currently limited to U.S. Treasuries).

**INVESTMENT POLICY STATEMENT FOR FY 2009 – 2010:**

Previous Investment Policy Statements have incorporated all sections of the Orange County Treasurer's Investment Policy Statement by reference. As directed by the Investment Oversight Committee, the proposed Policy for FY 2009 – 2010 (Attachment 1) mirrors the Orange County Treasurer's Investment Policy Statement with respect to authorized investments (with the exception of minor differences), credit quality, maturities, and diversification. At the same time, the proposed Policy reflects the Commission's unique program funding and timing requirements, including declining projections for tobacco tax revenues, and the Commission's need to invest funds today in order to be able to sustain its long-term program funding commitments.

A summary sheet is attached (Attachment 2) which describes the details of the proposed Investment Policy Statement for FY 2009 – 2010. Also attached (Attachment 3), is a mark-up copy of the Orange County Treasurer's Investment Policy Statement to show the similarities and differences between the County Investment Policy and the updated Investment Policy Statement.

**SPECIFIC LONG-TERM INVESTMENT PORTFOLIO AGREEMENT:**

When the Commission was formed, all available funds were invested in the Orange County Investment Pool ("OCIP") with short-term maturities. In November 2005, the Commission authorized the formation of a specific investment portfolio of laddered medium-term U.S. Treasury notes with up to three-year maturities to be managed by the Orange County Treasurer. The laddered investment strategy allows the Commission's Sustainability Fund Reserves to earn a higher rate of return from the longer maturity investments.

To implement the long-term investment portfolio, the Commission approved an Agreement with the Orange County Treasurer authorizing the Specific Long-Term Investment Program, describing its structure, and defining the duties and responsibilities of both parties for operation of the Program under the County Treasurer's Investment Policy.

The proposed Investment Policy will require certain technical updates to the Agreement so that it will conform to the Commission's new Investment Policy. Therefore, staff recommends that the Commission authorize the Executive Director or his designee, to execute an amendment to implement required technical updates (i.e. five-year maximum maturity and authorized investments in addition to U.S. Treasuries) to the Specific Long-Term Investment Portfolio Agreement with the Orange County Treasurer.

**ANNUAL DELEGATION OF INVESTMENT AUTHORITY TO COMMISSION TREASURER:**

Pursuant to Government Code Section 53607, the Commission may delegate the investment authority to its designated Treasurer for a one-year period and can renew the delegation of authority each fiscal year. In November 2005, the Commission initially designated the Chief Operations Officer to serve as the Commission's Treasurer, and delegated investment authority

to the Treasurer. The delegation includes the authority to manage, deposit and invest Commission funds, not required for the immediate needs of the Commission. It is recommended that the Commission renew designation of the Commission Treasurer and delegation of authority to manage, deposit, and invest Commission funds, not required for the immediate needs of the Commission, for FY 2009 - 10 in accordance with Government Code Section 53607.

**STRATEGIC PLAN & FISCAL SUMMARY:**

The recommended actions presented in this staff report have been reviewed in relation to the Commission's Strategic Plan and are consistent with all strategic goals.

**PRIOR COMMISSION ACTIONS:**

On May 7, 2008, the Commission adopted the Investment Policy Statement for FY 2008 – 2009, as recommended by the Investment Oversight Committee, and delegated annual investment authority to the Commission Treasurer.

**RECOMMENDED ACTIONS:**

1. Receive staff report and consider the Investment Policy Statement for FY 2009 – 2010.
2. Authorize the Executive Director or his designee, to execute an amendment consistent with this staff report for required technical updates to the Specific Long-Term Investment Portfolio Agreement with the Orange County Treasurer.
3. Approve the annual delegation of investment authority to Commission Treasurer for FY 2009 -2010.
4. Direct the Commission Treasurer to continue to report Commission's investment transactions and activity in the Quarterly Investment and Financial Highlights Reports submitted to the Commission.

**ATTACHMENTS:**

1. Proposed Investment Policy Statement for FY 2009 – 2010
2. Summary Sheet, Proposed Annual Investment Policy Statement for FY 2009 – 2010
3. Orange County Treasurer's Investment Policy Statement, Mark-Up Version

**Contact:** Steve Kozak, Chief Operations Officer

# Investment Policy Statement

DRAFT FEBRUARY 2009

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**CHILDREN & FAMILIES COMMISISON OF ORANGE COUNTY  
ANNUAL INVESTMENT POLICY STATEMENT  
ADOPTED ON \_\_\_\_\_, \_\_ 2009**

**INTRODUCTION**

The Children and Families Commission of Orange County ("the Commission") Annual Investment Policy Statement (the "Policy") provides for the prudent investment of the Commission's funds and the effective management of investment activities. The Commission's Board of Directors shall adopt the Commission's Policy annually at a public hearing. Any future modifications made thereto must be approved by a resolution of the Commission's Board of Directors.

**I. POLICY**

It is the Policy of the Commission to invest its funds in a manner which will provide the maximum safety of principal, liquidity and yield while conforming to all applicable statutes and resolutions governing the investment of public funds.

**II. SCOPE**

This Policy applies to all financial assets of the Commission that are not immediately required to fund the Commission's operations and expenditures. These funds are accounted for in the Commission's Annual Operating Budget and Annual Financial Statements.

**III. PRUDENCE**

The Commission's investment officers shall use the "prudent investor" standard as referenced in Government Code Section 53600.2 and 27000.3 which shall be applied in the context of managing the Commission's investments. The Commission's investment officers shall act in accordance with the Policy, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.

When investing, reinvesting, or managing public funds, the Commission's investment officers 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 Commission that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of local agency of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Commission.

**IV. DELEGATION OF AUTHORITY**

The Commission has designated the Chief Operations Officer to act as Treasurer of the Commission. In this capacity, the Treasurer is charged with fulfilling the duties and

responsibilities required in the investment of the Commission's funds and insuring compliance with this Policy, including all investment management and reporting requirements. The Treasurer is delegated the authority to manage, deposit and invest funds of the Commission, not required for the immediate needs of the Commission, in accordance with this Policy and all applicable provisions of law. The Treasurer shall develop and enforce written procedures to fully implement this Policy in accordance with this delegation of authority, and shall periodically report to the Commission in accordance with the requirements of law and this Policy.

The Orange County Treasurer shall accept the direction of the Chief Operations Officer acting in the capacity as Treasurer, and in his absence, the Director of Finance, directing the Orange County Treasurer to invest funds on behalf of the Commission, consistent with the restrictions and limits of this Policy.

**Until changed by the Commission's Board of Directors, this Policy restricts the investment of Commission funds in Authorized Investments to investments in the Orange County Investment Pool Money Market Fund and the Specific Long-Term Investment Program as described below:**

**Orange County Investment Pool (OCIP) Money Market Fund**

Pursuant to the Support Services Agreement between the Commission and the County of Orange, the Treasurer may direct the Orange County Treasurer to invest monies not immediately required to fund Commission expenditures in the OCIP's Money Market Fund in accordance with the Orange County Treasurer's Investment Policy Statement (Exhibit 1), as it may be revised from time to time.

The Treasurer shall match investments with anticipated cash flow requirements and anticipated liquidity needs.

**Specific Long-Term Investment Program (SL-TIP)**

The Treasurer shall estimate the Commission's funds that can be prudently designated as "Sustainability Funds" and, thus, invested for use in future fiscal years. Pursuant to the "Agreement for Specific Long-Term Investment Program for the Children and Families Commission of Orange County," the Treasurer may direct the Orange County Treasurer to invest Sustainability Funds in the SL-TIP in accordance with this Policy, as it may be revised from time to time.

The Treasurer shall match investments with anticipated cash flow requirements and anticipated liquidity needs. The Treasurer shall not invest in securities maturing more than five years from the date of purchase unless specifically approved by the Commission Board of Directors in accordance with applicable law.

The Treasurer will consult with the Orange County Treasurer and the Commission's Financial Advisors, if any, about appropriate Authorized Investments for the SL-TIP and then will submit recommendations to the Orange County Treasurer.

## **V. OBJECTIVES**

The primary objectives, in priority order, of the Commission's investment activities shall be safety of principal, liquidity, and yield.

### **1. SAFETY OF PRINCIPAL**

Safety of principal and liquidity shall be the foremost objectives of the Treasurer. The Treasurer shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

**Credit Risk:** Defined as an issuer(s) ability and willingness to repay interest and principal. Credit risk shall be mitigated by diversifying the investments among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal.

**Market Risk:** Defined as the risk of market value fluctuations due to changes in the general level of interest rates.

### **2. LIQUIDITY**

Liquidity refers to the recurring maturity of a portion of the investments, as well as the ability to sell an investment at any given moment with a minimal chance of principal loss. The OCIP Money Market Fund's investments will be substantially liquid for the purpose of meeting all operating requirements and reasonably anticipated cash flow needs.

### **3. YIELD**

Yield refers to the objective of attaining a competitive rate of return commensurate with the risk profile and cash flow characteristics of an investment throughout budgetary and economic cycles. Although the Treasurer may employ certain indices to gauge the Commission's investment rate of return, such indices shall be used solely for comparative purposes and do not constitute a warranty or guarantee or expectation of actual portfolio performance.

## **VI. AUTHORIZED INVESTMENTS**

The Commission's funds may only be invested in the following Authorized Investments including the Orange County Investment Pool Money Market Fund.

### **1. U. S. TREASURY SECURITIES**

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest.

### **2. U. S. GOVERNMENT AGENCY SECURITIES**

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise.

### 3. **COMMERCIAL PAPER**

Eligible commercial paper shall not exceed 270 days maturity. For Asset-backed commercial paper, the Liquidity Provider must also be an approved issuer and subject to the issuer diversification requirements of the Orange County Treasurer.

- **Requirements for the Extended Fund:**

Issuers must be a corporation with total assets in excess of \$500 million dollars, or be organized within the United States as a special purpose corporation, trust, or limited liability company, having program-wide credit enhancements such as over-collateralization, letters of credit or surety bonds.

- **Requirements for the Money Market Fund:**

Issuers must be organized and operating in the United States as a general corporation and have total assets in excess of \$500 million.

### 4. **NEGOTIABLE CERTIFICATES OF DEPOSIT**

Negotiable certificates of deposit issued by a U.S. national or state-chartered bank or state or federal association (as defined by Section 5102 of the California Financial Code) or by a state-licensed branch of a foreign bank. The Money Market Fund is authorized to purchase U.S. Dollar denominated certificates of deposit issued from the London, England branch of foreign and U.S. domestic banks (Euro certificates of deposit). Eligible foreign banks must have branches or agencies in the U.S.

### 5. **REPURCHASE AGREEMENTS**

Investments in repurchase agreements may be made on any securities authorized herein. Agreements are subject to California Government Code Section 53601.7 and must comply with the delivery requirements and the maturity provision from Section 53601.

Investments in repurchase agreements for the purpose of this Policy (as defined by section 53601 and 53601.7(e) (8) of the California Government Code) means a purchase of securities by the Orange County Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The final maturity of repurchase agreements shall not exceed one year. The term "securities," for the purpose of repurchase agreements, shall mean securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a Securities Industry Association (SIA) agreement must be completed and signed by all parties involved. The Orange County Treasurer will maintain a signed copy of the agreement. Repurchase agreements are required to be collateralized by securities or cash authorized under California Government Code Section 53601.7(e). In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the collateralization level will be a minimum of 102% of market value of the principal and accrued interest and shall be adjusted no less frequently than weekly. Since the

market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Collateral will be limited to US Treasury and US Government Agency securities. For compliance purposes, the investment restrictions from Section VIII.2 herein consider U.S. Treasury and/or US Government Agency collateral exempt from issuer limits. Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to and retained by the Orange County Treasurer. The Orange County Treasurer retains the right to substitute or grant substitutions of collateral.

**6. BANKERS ACCEPTANCES**

Primarily used to finance international trade, banker's acceptances are time drafts (bills of exchange) drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Issuing banks must be rated by at least two Nationally Recognized Statistical Rating Agencies (NRSRO).

**7. MONEY MARKET MUTUAL FUNDS**

Shares of beneficial interest issued by diversified management companies, also known as mutual funds, invest in the securities and obligations authorized by California Government Code Sections 53601(k) (for the Extended Fund) or 53601.7(e) (10) (for the Money Market Fund). Mutual funds are not required to conform to the restrictions detailed in this Policy. At a minimum, approved mutual funds will be registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.) and shall have met either of the following criteria:

- a. Attained the highest ranking or the highest letter and numerical rating provided by no less than two Nationally Recognized Statistical Rating Agencies (NRSRO).
- b. Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations authorized by California Government Code Section 53601 subdivisions (a) to (j) and (m) to (n) and with assets under management in excess of \$500 million.

**8. MUNICIPAL DEBT**

Such instruments are defined as being issued by a local or state agency, including:

- a. 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.

- b. Registered state warrants or treasury notes or bonds, 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 a state.
- c. Bonds, notes, warrants, or other evidences of indebtedness of any local agency within a state, 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.

**9. ASSET-BACKED SECURITIES**

Securities eligible for investment under this section shall be issued by an issuer whose unsecured debt is rated no less than “A,” and the issue must be rated “AAA” by at least two NRSROs. Securities shall have a maximum remaining maturity of five years.

The allowable types of Asset-backed securities include the following:

- U.S. Government Agency Mortgage pass-through securities
- Collateralized Mortgage Obligations (CMO)
- Private label mortgage-backed or other pass-through securities
- Equipment lease-backed certificates
- Consumer receivable-backed bonds
- Auto loan receivable-backed bonds

**10. MEDIUM-TERM NOTES**

Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for the Money Market Fund and five years for the Specific Long-Term Investment Program. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

**11. ORANGE COUNTY INVESTMENT POOL (OCIP)**

The OCIP is a pooled fund managed by the Orange County Treasurer and is comprised of two funds, the Money Market Fund and Extended Fund. The Money Market Fund is invested in cash equivalent securities and is based on the investment guidelines detailed in the Code section 53601.7, which parallels Rule 2a-7. The Extended Fund is for cash requirements past one year and is based on the Code Sections 53601 and 53635.

**VII. INVESTMENT RESTRICTIONS**

**1. CREDIT RATINGS:**

Credit rating requirements set forth below will be applied at the time of purchase of a security. In the event of split-rated securities, the lowest ratings will be used. A subsequent downgrade in a security’s credit rating will not constitute a violation of

the Policy. Securities which are downgraded below the minimum acceptable rating levels must be reviewed for possible sale within a reasonable amount of time.

The credit ratings referred to below must be assigned by a Nationally Recognized Statistical Rating Organization (NRSRO).

**a. Short-term debt** – (two of the following)

“A-1” or “SP-1”	Standard & Poor’s Corporation (S&P)
“P-1” or “MIG 1/VMIG 1”	Moody’s Investors Service, Inc. (Moody’s)
“F1”	Fitch Ratings (Fitch)

An issuer of short-term debt must have no less than an “A” on long-term debt, if any.

**b. Long-term debt**

- Money Market Fund - shall be rated no less than “A” by at least two NRSROs.
- Extended Fund - shall be rated no less than “AA” by at least two NRSROs.

“AAA” up to 100% of the par value of assets may be invested in securities with this rating

“AA” up to 50% of the par value of assets may be invested in securities with at least one of this rating

- These ratios will be determined based on the month-end portfolio market value.
- If an issuer of long-term debt has a short-term rating, then it may not be less than A-1/SP-1 or P-1/MIG1/VMIG1 or F1.

**c. Counterparties**

- Repurchase Agreement counterparties shall have a minimum short-term rating, or counterparty rating, of no less than A-1 or equivalent by a Nationally Recognized Statistical Rating Agency (NRSRO) and have capital of no less than \$500 million.

**d. Credit Watch**

- Any issuer that has been placed on “Credit Watch-Negative” by NRSRO will be removed from our approved list unless the following criteria are met:

The issuer has (a) an A-1+ or F1+ short-term rating; or (b) at least a AA or Aa2 long-term rating.

## **VIII. DIVERSIFICATION AND MATURITY RESTRICTIONS**

The Commission's investments shall be diversified to minimize the risk of loss resulting in over concentration of assets in a specific maturity, specific issuer, or a specific class of securities.

### **1. AUTHORIZED INVESTMENTS:**

Investment Type	% of Market Value
A. U.S. Treasuries and securities having principal and/or interest guaranteed by the U.S. Government	up to 100%
B. U.S. Government agencies, and government sponsored enterprises	up to 100%
C. Commercial Paper	no more than 25%
D. Negotiable Certificates of Deposit	no more than 30%
E. Repurchase Agreements	no more than 50%
F. Bankers' Acceptances	no more than 40%
G. Money Market Mutual Funds	no more than 20%
H. Municipal Debt	no more than 30%
I. Asset-Backed Securities	no more than 10%
J. Medium-Term Notes	no more than 30%
K. Orange County Investment Pool	up to 100%

### **2. ISSUER CONCENTRATION:**

- No more than 5% of an investment's market value may be invested in securities of any one issuer. U.S. Treasury securities are exempt from this restriction.
- No more than 30% of an investment's market value may be invested in securities of any one U.S. Government Agency, or U.S. government-sponsored enterprise.
- No more than 10% may be invested in any one Money Market Mutual Fund.

### **3. MATURITY:**

- The maximum maturity of any investment purchased will be:
  - A. OCIP Money Market Fund 13 months (397 days)
  - B. SL-TIP 5 years consistent with the Orange County Treasurer's Investment Policy Statement

- For purposes of calculating final maturity, the earlier of final maturity date or mandatory put or tender option date may be used.
- For purposes of calculating the weighted average maturity of an investment, the maturity of a variable-rate security may be considered its next interest rate reset date, if there is a reasonable expectation that the security will maintain an approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.
- The Orange County Treasurer may not invest over the maximum maturity criteria or weighted average maturity limitations. The Orange County Treasurer's monthly management report will specify any investing under the above provision.

#### 4. SPECIFIC LONG-TERM INVESTMENT PROGRAM

- The Treasurer shall direct the Orange County Treasurer to invest funds in the Specific Long-Term Investment Program in Authorized Investments as defined herein at appropriate intervals and in appropriate amounts such as to provide for a laddered investment structure that reflects the Commission's investment strategy.

### **IX. PROHIBITED TRANSACTIONS**

At the time of purchase, all permitted investments shall conform in all respects with this Policy and with California Government Code Sections 53601, 53601.1, 53601.2, 53601.6, 53601.7, 53631.5, and 53635 as may be amended from time to time. No investment prohibited by California Government Code shall be permitted herein.

Any investment transactions, credit risk criterion, percentage limitations or market valuation that are not in compliance with this Policy **at time of purchase** must be documented and approved by the Orange County Treasurer in writing. Thereafter, action shall be taken by the Orange County Treasurer to correct such matter as soon as practical. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.

#### **The following transactions are prohibited:**

1. Borrowing for investment purposes ("Leverage).
2. Reverse Repurchase Agreements, as defined by California Government Code Section 53601.7(e) (8) or otherwise.
3. Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities, structured investment vehicles (SIV)). This includes all floating-rate, adjustable-rate or variable-rate

securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple “floating rate notes,” whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds, U.S. Treasury and Agency strips, Resolution Funding Corporation (REFCORP) strips or other callable securities which otherwise meet the quality, maturity and percent limitations assigned to their respective security category, are exempt from this section.

4. Derivatives (e.g. options, futures, swaps, swaptions, spreads, straddles, caps, floors, collars) shall be prohibited.

## **X. ETHICS AND CONFLICT OF INTEREST**

Commission investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions.

Commission investment personnel shall be in compliance with the Commission’s Conflict of Interest Policy (7.5) and Gift Ban Policy (7.6).

## **XI. AUTHORIZED FINANCIAL DEALERS AND QUALIFIED INSTITUTIONS**

The Orange County Treasurer is the Commission’s Investment Officer and on behalf of the Commission shall only utilize authorized financial dealers and qualified institutions as defined in the Orange County Treasurer’s Investment Policy Statement for all of the securities purchased on behalf of the Commission.

## **XII. MAINTAINING THE PUBLIC TRUST**

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

## **XIII. INTERNAL CONTROLS**

The Treasurer shall establish a system of written internal controls, which will be reviewed annually with the County’s independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes or imprudent actions by employees of the Commission. The Treasurer shall evaluate any audit reports in a timely manner with the Investment Oversight Committee.

No Commission investment personnel may engage in an investment transaction except as provided under terms of this Policy and the procedures established by the Orange County Treasurer.

#### **XIV. POLICY REVIEW**

The Commission's Policy shall be presented to and annually reviewed and approved by the Board of Directors at a public meeting. The Board of Directors also reviews and approves any changes to the investment Policy. The Policy shall also be reviewed on an annual basis by the Investment Oversight Committee.

#### **XV. FINANCIAL REPORTING**

The Treasurer shall prepare a quarterly report which summarizes the Commission's investments in the OCIP and SL-TIP which shall be provided to the Commission's Board of Directors, Executive Director, and Investment Oversight Committee.

All reports filed by the Treasurer in accordance with California Government Code Section 53646 shall, among other matters, state compliance of the portfolio with the Policy, or the manner in which the portfolio is not in compliance.

#### **XVI. LEGISLATIVE CHANGES**

Any State of California legislative action that further restricts allowable maturities, investment type or percentage allocations, will, upon effectiveness, be incorporated into the Policy and supersede any and all previous applicable language.

SUMMARY SHEET  
PROPOSED INVESTMENT POLICY, FY 2009 – 2010

	Existing FY 2008-09 Commission Policy	Proposed FY 2009-2010 Commission Policy
Authorized Investments	County Policy incorporated by reference	More restrictive than County Policy adopted December 16, 2008
Maximum Maturity <ul style="list-style-type: none"><li>• Money Market Fund</li><li>• Extended Fund</li></ul>	397 days 3 years	397 days 5 years
Average Maturity (WAM) for Money Market Fund	90 days	60 days
Minimum Credit Quality <ul style="list-style-type: none"><li>• Money Market Fund</li><li>• Extended Fund</li></ul>	“A-“ “AAA”	“A” “AA” (by at least 2 credit rating agencies)
Specific Long-Term Investment Fund	U.S. Treasury securities with 3-year maximum maturities	U.S. Treasuries plus additional Authorized Investments (eg. U.S. Govt. Agencies) with 5-year maximum maturities

# Orange County Treasurer



# Investment Policy Statement

(APPROVED BY B.O.S. 12/16/2008)

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**ORANGE COUNTY TREASURER  
INVESTMENT POLICY STATEMENT**

**INTRODUCTION**

~~The Orange County Treasurer's Investment Policy Statement is filed annually with the County Board of Supervisors as required by California Government Code Section 53646 (a) (1) and the Treasury Oversight Committee, pursuant to the requirements of California Government Code Section 27133.~~

The Children and Families Commission of Orange County ("the Commission") Annual Investment Policy Statement (the "Policy") provides for the prudent investment of the Commission's funds and the effective management of investment activities. The commission's Board of Directors shall adopt the Commission's Policy annually at a public hearing. Any future modifications made thereto must be approved by a resolution of the Commission's Board of Directors.

**I. POLICY STATEMENT**

~~It is the policy of the Orange County Treasurer ("the Treasurer") Commission to invest its public funds in a manner which will provide the maximum security safety of principal invested with secondary emphasis on providing adequate liquidity to pool participants, achieving the highest possible yield while conforming to all applicable statutes and resolutions governing the investment of public funds.~~

~~The Orange County Investment Funds ("the Funds") are designed to meet both the investment and cash requirements of our participants. The Treasurer shall determine on a cash flow basis what percent of available cash will be invested in each Fund.~~

**II. SCOPE**

~~The scope of this Investment Policy Statement applies to all financial assets of the Commission that are not immediately required to fund the Commission's operations and expenditures. These funds are accounted for in the Commission's Annual Operating Budget and Annual Financial Statements. Orange County Investment Funds, which are comprised of the Extended Fund and the Money Market Fund, and are managed by the Orange County Treasurer's office. Each fund will be reviewed separately for purposes of determining compliance with the Investment Policy Statement.~~

- ~~• The **Extended Fund** will be utilized for investment requirements between one and five years. It will be invested primarily in high grade securities commensurate with achieving a higher yield, while also considering preservation of capital. This fund is based on California Government Code Section 53601 and 53635.~~

● ~~The Money Market Fund is comprised of three separate Pools:~~

- ~~1. The Orange County Investment Pool~~
- ~~2. The Orange County Educational Investment Pool~~
- ~~3. John Wayne Airport Investment Pool~~

~~The Money Market Fund will be utilized for shorter term investment requirements and providing liquidity for immediate cash needs. It will be invested primarily in cash equivalent securities, commensurate with safety and liquidity. This fund is based on the investment guidelines detailed in California Government Code Section 53601.7, which parallels SEC Rule 2a-7.~~

● ~~Specific Investments~~

~~From time to time, the Treasurer may be authorized by a participant's governing board to manage other "specific investments" or to manage bond proceeds issued by a local city or agency. This may include deposits that are set aside for future needs of a long term nature and may be appropriately invested in longer term securities. No investment will be made in any security with a remaining maturity in excess of five years at the time of purchase unless the Board of Supervisors gives authority to make that investment, either specifically or as part of an investment program approved by the Board of Supervisors.~~

~~Strategies for such deposits may include, but are not limited to, matching maturities with long term liabilities. Participating agencies will sign a written agreement acknowledging that there may be risk to principal should they desire to redeem funds early, thereby forcing an early sale of securities rather than holding investments to maturity. This agreement will be reviewed with the participating agency on an annual basis.~~

~~While the management of "specific investments" will be within the scope of this Investment Policy, bond proceeds will be managed outside this scope in accordance with the bond's official documents.~~

### III. PRUDENCE

~~When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer 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.~~

~~As outlined in Government Code section 27000.3, the standard of prudence to be used by County investment officers shall be the "prudent investor" standard and shall be applied in~~

~~the context of managing an overall portfolio. Investment officers shall act in accordance with written procedures and investment policy, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.~~

When investing, reinvesting, ~~purchasing, acquiring, exchanging, selling,~~ or managing public funds, the ~~Treasurer~~ Commission's investment officers 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~~ Commission that a prudent person acting in a like capacity and familiarity with these matters would use in the conduct of funds local agency of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the ~~County and the other depositors~~ Commission.

~~As outlined in Government Code Section 27000.3, the standard of prudence to be used by County investment officers shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. The Commission's investment officers shall use the "prudent investor" standard as referenced in Government Code section 53600.2 and 2700.3 which shall be applied in the context of managing the Commission's investments. The Commission's investment officers shall act in accordance with written procedures and investment the Policy, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.~~

#### **IV. DELEGATION OF AUTHORITY**

~~By County Resolution #08-561, effective December 16, 2008, the County Board of Supervisors has delegated to the Treasurer authority to invest and reinvest the funds of the County and other depositors as specified in California Government Code Sections 27000.1, 53607 and 53608. Such delegation is conditioned upon the Treasurer submitting any and all investment policies and amendments thereto to the Board for review and approval. The Treasurer may further delegate investment authority to such persons within the Treasurer's Department as deemed appropriate.~~

The Commission has designated the Chief Operations Officer to act as Treasurer of the Commission. In this capacity, the Treasurer is charged with fulfilling the duties and responsibilities required in the investment of the Commission's funds and insuring compliance with this Policy, including all investment management and reporting requirements. The Treasurer is delegated the authority to manage, deposit and invest funds of the commission, not required for the immediate needs of the Commission, in accordance with this Policy and all applicable provisions of law. The Treasurer shall develop and enforce written procedures to fully implement this Policy in accordance with this delegation of authority, and shall periodically report to the Commission in accordance with the requirements of law and this Policy.

The Orange County Treasurer shall accept the direction of the Chief Operations Officer acting in the capacity as Treasurer, and in his absence, the Director of Finance, directing the

Orange County Treasurer to invest funds on behalf of the Commission, consistent with the restrictions and limits of this Policy.

At this time, the Policy restricts the investment of the Commission's funds in Authorized Investments to investments in the Orange County Investment Pool Money Market Fund and the Specific Long-Term Investment Program as described below:

**Orange County Investment Pool (OCIP) Money Market Fund**

Pursuant to the Support Services Agreement between the Commission and the County of Orange, the Treasurer may direct the Orange County Treasurer to invest monies not immediately required to fund Commission expenditures in the OCIP's Money Market Fund In accordance with the Orange County Treasurer's Investment Policy Statement (Exhibit 1), as it may be revised from time to time.

The Treasurer shall match investments with anticipated cash flow requirements and anticipated liquidity needs.

**Specific Long-Term Investment Program (SL-TIP)**

The Treasurer shall estimate the Commission's funds that can be prudently designated as "Sustainability Funds" and, thus, invested for use in future fiscal years. Pursuant to the "Agreement for Specific Long-Term Investment Program for the Children and Families Commission of Orange County," the Treasurer may direct the Orange County Treasurer to invest Sustainability Funds in the SL-TIP in accordance with this Policy, as it may be revised from time to time.

The Treasurer shall match investments with anticipated cash flow requirements and anticipated liquidity needs. The Treasurer shall not invest in securities maturing more than five years from the date of purchase unless specifically approved by the Commission.

The Treasurer will consult with the Orange County Treasurer and the Commission's Financial Advisor about appropriate Authorized Investments for the SLP-TIP and then will submit recommendations to the Orange County Treasurer.

**V. OBJECTIVES**

The primary objectives ~~of the Treasurer's investment activities shall be~~ in priority order, of the Commission's investment activities shall be safety of principal, liquidity, and yield.

**1. SAFETY OF PRINCIPAL ~~and LIQUIDITY~~**

Safety of principal and liquidity shall be the foremost objectives of the Treasurer.

The Treasurer shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

**Credit Risk:** Defined as an issuer(s) ability and willingness to repay interest and principal. Credit risk shall be mitigated by diversifying the fund among issues

and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants.

**Market Risk:** Defined as the risk of market value fluctuations due to changes in the general level of interest rates. ~~Because longer-term securities generally have greater market risk than shorter-term securities, market risk will be mitigated by establishing a maximum weighted average maturity for the portfolio. Occasional market losses on individual securities are inevitable with active portfolio management and must be considered within the context of the overall investment return.~~

**2. LIQUIDITY**

Liquidity refers to the recurring maturity of a portion of the investment portfolio, as well as the ability to sell an investment at any given moment with a minimal chance of principal loss. The OCIP Money Market Fund's investments will be substantially liquid for the purpose of meeting all operating requirements and reasonably anticipated cash flow needs.

**3. YIELD**

Yield refers to the objective of attaining a competitive rate of return commensurate with the risk profile and cash flow characteristics of the portfolio an investment throughout budgetary and economic cycles. Although the Treasurer may employ certain indices to gauge the Funds' Commission's rate of return, such indices shall be used solely for comparative purposes and do not constitute a warranty or guarantee of actual Fund portfolio performance.

~~3. MARK-TO-MARKET~~

~~To the extent reasonably possible and consistent with the Treasurer's trust and fiduciary duty, the Money Market Fund will attempt to stabilize at a \$1.00 net asset value (NAV). If the ratio of the market value of the Money Market Fund divided by the book value of the Money Market Fund is less than \$.995 or greater than \$1.005, holdings may be sold as necessary to maintain the ratio between \$.995 and \$1.005.~~

~~The Treasurer will act on a "best efforts" basis to stabilize the Money Market Fund within the \$.995 to \$1.005 range, however, the \$1.00 NAV is not guaranteed or insured by the Treasurer.~~

**VI. AUTHORIZED INVESTMENTS**

~~Consistent with the requirements of law and this Investment Policy, the Treasurer may place orders for the execution of transactions with or through such broker/dealers, banks or counterparties as may be selected from time to time in his/her discretion. All securities must be U.S. dollar denominated.~~

~~To the extent consistent with the objectives stated above, the investment restrictions outlined below, and the investment limitations specified in Section VII and VIII, the~~

~~Funds may invest in the following areas. Any investment types not specifically authorized under this section must be approved by the Treasury Oversight Committee and the Orange County Board of Supervisors prior to the Treasurer executing transactions.~~

The Commission's funds may only be invested in the following Authorized Investments including the Orange County Investment Pool Money Market Fund.

**1. U. S. TREASURY SECURITIES**

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest.

**2. U. S. GOVERNMENT AGENCY SECURITIES**

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise.

**3. COMMERCIAL PAPER**

Eligible commercial paper shall not exceed 270 days maturity. For Asset-backed commercial paper, the Liquidity Provider must also be an approved issuer and subject to the issuer diversification requirements of the Orange County Treasurer.

○ **Requirements for the Extended Fund:**

Issuers must be a corporation with total assets in excess of five hundred million dollars (\$500,000,000), or be organized within the United States as a special purpose corporation, trust, or limited liability company, having program-wide credit enhancements such as over-collateralization, letters of credit or a surety bond.

○ **Requirements for the Money Market Fund:**

Issuers must be organized and operating in the United States as a general corporation and have total assets in excess of five hundred million dollars (\$500,000,000).

**4. NEGOTIABLE CERTIFICATES OF DEPOSIT**

Negotiable certificates of deposit issued by a U.S. national or state-chartered bank or state or federal association (as defined by Section 5102 of the California Financial Code) or by a state-licensed branch of a foreign bank. The Money Market Fund is authorized to purchase U.S. Dollar denominated certificates of deposit issued from the London, England branch of foreign and U.S. domestic banks (Euro certificates of deposit). Eligible foreign banks must have branches or agencies in the U.S.

**5. REPURCHASE AGREEMENTS**

Investments in repurchase agreements may be made on any securities authorized herein. Agreements are subject to California Government Code Section 53601.7 and must comply with the delivery requirements and the maturity provision from Section 53601.

Investments in repurchase agreements for the purpose of this Policy (as defined by section 53601 and 53601.7(e) (8) of the California Government Code) means a purchase of securities by the Orange County Treasurer pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the Treasurer by book entry, physical delivery, or by third party custodial agreement. The final maturity of repurchase agreements shall not exceed one year. The term "securities," for the purpose of repurchase agreements, shall mean securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a Securities Industry Association (SIA) agreement must be completed and signed by all parties involved. The Orange County Treasurer will maintain a signed copy of the agreement. Repurchase agreements are required to be collateralized by securities or cash authorized under California Government Code Section 53601.7(e). In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the collateralization level will be a minimum of 102% of market value of the principal and accrued interest and shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day.

Collateral will be limited to US Treasury and US Government Agency securities. For compliance purposes, the investment restrictions from Section VIII.2 herein consider U.S. Treasury and/or US Government Agency collateral exempt from issuer limits. Collateral will be held by an independent third party with whom the Treasurer has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the Treasurer and retained. The Orange County Treasurer retains the right to substitute or grant substitutions of collateral.

**6. BANKERS ACCEPTANCES**

Primarily used to finance international trade, banker's acceptances are time drafts (bills of exchange) drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity. Issuing banks must be rated by at least two ~~of the nationally recognized rating agencies~~ Nationally Recognized Statistical Rating Agencies (NRSRO).

**7. MONEY MARKET MUTUAL FUNDS**

Shares of beneficial interest issued by diversified management companies, also known as mutual funds, invest in the securities and obligations authorized by California Government Code Sections 53601(k) (for the Extended Fund) or 53601.7(e) (10) (for the Money Market Fund). Mutual funds are not required to conform to the restrictions detailed in this ~~Investment Policy Statement~~. At a minimum, approved mutual funds will be registered with the Securities and Exchange

Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.) and shall have met either of the following criteria:

- a. Attained the highest ranking or the highest letter and numerical rating provided by no less than two Nationally Recognized Statistical Rating Agencies (NRSRO).
- b. Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations authorized by California Government Code Section 53601 subdivisions (a) to (j) and (m) to (n) and with assets under management in excess of \$500,000,000 million.

**8. MUNICIPAL DEBT**

Such instruments are defined as being issued by a local or state agency, including:

- a. 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.
- b. Registered state warrants or treasury notes or bonds, 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 a state.
- c. Bonds, notes, warrants, or other evidences of indebtedness of any local agency within a state, 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.

**9. ASSET-BACKED SECURITIES**

Securities eligible for investment under this section shall be issued by an issuer whose unsecured debt is rated no less than “A,” and the issue must be rated “AAA” by at least two NRSROs. Securities shall have a maximum remaining maturity of five years.

The allowable types of Asset-backed securities include the following:

- U.S. Government Agency Mortgage pass-through securities
- Collateralized Mortgage Obligations (CMO)
- Private label mortgage-backed or other pass-through security
- Equipment lease-backed certificates
- Consumer receivable-backed bonds
- Auto Loan receivable-backed bonds

**10. MEDIUM-TERM NOTES**

Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for the Money Market Fund and five years for the ~~Extended Fund~~ Specific Long-Term Investment Program. Medium-term notes must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.

~~11. FUNDING AGREEMENTS~~

~~Contracts issued by insurance companies provide the holder with the right to receive a fixed or variable rate of interest and the full return of principal at the maturity date. Only the Money Market Fund may invest in Funding Agreements.~~

**11. ORANGE COUNTY INVESTMENT POOL (OCIP)**

The OCIP is a pooled fund managed by the Orange County Treasurer and is comprised of two funds, the Money Market Fund and Extended Fund. The Money Market Fund is invested in cash equivalent securities and is based on the investment guidelines detailed in the Code section 53601.7, which parallels Rule 2a-7. The Extended Fund is for cash requirements past one year and is based on the Code Sections 53601 and 53635.

**VII. INVESTMENT RESTRICTIONS**

**1. CREDIT RATINGS:**

Credit ratings will be applied at the time of purchase of a security. In the event of split-rated securities, the lowest ratings will be used. A subsequent downgrade in a security's credit rating will not constitute a violation of the Investment Policy. Securities which are downgraded below the minimum acceptable rating levels must be reviewed for possible sale within a reasonable amount of time.

~~Municipal debt issued by a local agency located in the County of Orange, California is exempt from the credit rating requirements listed below. As provided for in Government Code section 53600, "local agency" means county, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of school, or any public or municipal corporation.~~

The credit ratings referred to below must be assigned by a Nationally Recognized Statistical Rating Organization (NRSRO).

**a. Short-term debt – (two of the following)**

"A-1" or "SP-1"

Standard & Poor's Corporation (S&P)

"P-1" or "MIG 1/VMIG 1"

Moody's Investors Service, Inc. (Moody's)

"F1"

Fitch Ratings (Fitch)

An issuer of short-term debt must have no less than an "A" on long-term debt, if any.

**b. Long-term debt**

- Money Market Fund - shall be rated no less than “A” by at least two NRSROs.
- Extended Fund - shall be rated no less than “AA” by at least two NRSROs.

“AAA” up to 100% of the par value of assets may be invested in securities with this rating

“AA” up to 50% of the par value of assets may be invested in securities with at least one of this rating

- These ratios will be determined based on the month-end portfolio market value.
- If an issuer of long-term debt has a short-term rating, then it may not be less than A-1/SP-1 or P-1/MIG1/VMIG1 or F1.

**c. Counterparties**

- Repurchase Agreement counterparties shall have a minimum short-term rating, or counterparty rating, of no less than A-1 or equivalent by a Nationally Recognized Statistical Rating Agency (NRSRO) and have capital of no less than \$500 million.

**d. Credit Watch**

- Any issuer that has been placed on “Credit Watch-Negative” by a NRSRO will be removed from our approved list unless the following criteria are met:

The issuer has (a) an A-1+ or F1+ short-term rating; or (b) at least a AA or Aa2 long-term rating.

**VIII. DIVERSIFICATION AND MATURITY RESTRICTIONS**

~~It is the policy of the Treasurer to diversify the Funds’ portfolios. The Commission’s investments are diversified to minimize the risk of loss resulting in over concentration of assets in a specific maturity, specific issuer, or a specific class of securities. Diversification strategies shall be established by the Treasurer’s Investment Committee and periodically reviewed.~~

**1. AUTHORIZED INVESTMENTS:**

% of Market Value:

1. U.S. Treasuries and securities having principal and/or interest guaranteed by the U.S. Government	100%
2. U.S. Government agencies, and government sponsored enterprises	100%
3. Commercial Paper — Money Market Funds	no more than 45%
— Commercial Paper — Extended Fund	25%
4. Negotiable Certificates of Deposit	no more than 40%
5. Repurchase Agreements	no more than 30%
6. Bankers' Acceptances	no more than 50%
7. Money Market Funds	no more than 40%
8. Municipal Debt	no more than 20%
9. Asset-Backed Securities	no more than 30%
10. Medium-Term Notes	no more than 10%
11. Funding Agreements and Other	no more than 30%
K. Orange County Investment Pool	no more than 10%
	Up to 100%

**2. ISSUER CONCENTRATION:**

- No more than 5% of the Fund's an investment's market value may be invested in securities of any one issuer. U.S. Treasury securities are exempt from this restriction.
- No more than 30% of the Fund's an investment's market value invested in securities of any one U.S. Government Agency, or U.S. government-sponsored enterprise.
- ~~At the time of purchase, a fund may invest up to twelve and a half percent (12.5%) of its market value in a single issuer for a period up to three business days. The fund may not invest in the securities of more than one issuer under this provision at any time.~~
- No more than 10% may be invested in any one Money Market Mutual Fund.

**3. MATURITY:**

- ~~The weighted average maturity (WAM) of the Money Market Funds, on a dollar-weighted basis, shall not exceed 60 days~~
- The maximum maturity of any portfolio instrument purchased by the Funds will be:

A. OCIP Money Market Fund	13 months (397 days)
B. <del>Extended Fund-SL-TIP</del>	5 years consistent with the Orange County Treasurer's Investment Policy Statement

- For purposes of calculating final maturity, the earlier of final maturity date or mandatory put or tender option date may be used.
- For purposes of calculating the weighted average maturity of ~~the portfolio~~, an investment, the maturity of a variable-rate security may be considered its next interest rate reset date, if there is a reasonable expectation that the security will maintain an approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.
- The Orange County Treasurer may not invest over the maximum maturity criteria or weighted average maturity limitations. The Orange County Treasurer's monthly management report will specify any investing under the above provision.

~~4. DURATION:~~

- ~~The Extended Fund shall have a duration not to exceed a leading 1-3 Year index +25%.~~

4. SPECIFIC LONG-TERM INVESTMENT PROGRAM

- The Treasurer shall direct the Orange County Treasurer to invest funds in the Specific Long-Term Investment Program in Authorized Investments as defined herein at appropriate intervals and in appropriate amounts such as to provide for a laddered investment structure that reflects the Commission's investment strategy.

~~5. OTHER:~~

~~The Money Market Fund is authorized to purchase an additional 5% of total assets in any authorized investment type except commercial paper, for a period not to exceed 30 business days.~~

**IX. PROHIBITED TRANSACTIONS**

At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy Statement and with California Government Code Sections 53601, 53601.1, 53601.2, 53601.6, 53601.7, 53631.5, and 53635 as may be amended from time to time. No investment prohibited by California Government Code shall be permitted herein.

Any investment transactions, credit risk criterion, percentage limitations or market valuation that are not in compliance with this Investment Policy Statement **at time of**

**purchase** must be documented and approved by the Orange County Treasurer in writing. Thereafter, action shall be taken by the Orange County Treasurer to correct such matter as soon as practical. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction.

**The following transactions are prohibited:**

1. Borrowing for investment purposes ("Leverage").
2. Reverse Repurchase Agreements, as defined by California Government Code Section 53601.7(e) (8) or otherwise.
3. Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities, structured investment vehicles (SIV)). This includes all floating-rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple "floating rate notes," whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate or LIBOR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds, U.S. Treasury and Agency strips, Resolution Funding Corporation (REFCORP) strips or other callable securities which otherwise meet the quality, maturity and percent limitations assigned to their respective security category, are exempt from this section.

4. Derivatives (e.g. options, futures, swaps, swaptions, spreads, straddles, caps, floors, collars) shall be prohibited.

**X. ETHICS AND CONFLICT OF INTEREST**

~~The Treasurer and all Commission investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The Treasurer and all investment personnel shall disclose to the Treasury Oversight Committee any material financial interests in financial institutions which conduct business with the County of Orange and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the County of Orange's investment portfolio.~~

~~On May 10, 1993, the Orange County Board of Supervisors passed the "Orange County Gift Ban Ordinance" (see Exhibit B attached). This ordinance prohibits the receipt of specified gifts to "designated employees" including members of the Treasury Oversight Committee. All designated employees shall complete on an annual basis the State of California Form 700, Statement of Economic Interests Disclosure. In addition, designated~~

~~employees are subject to the State Gift Ban restrictions. Should any conflicts be disclosed, the Treasurer will resolve such matters as soon as practical.~~

~~For the purposes of this section, “designated employees” include the following employees of the Treasurer’s office: the Treasurer Tax Collector, the Assistant Treasurer Tax Collector, the Deputy Treasurer, all Investment Officers, all Financial Analysts, all Cash Managers, and all Accounting and Compliance Officers. The Treasurer will review this list annually and he shall submit any proposed changes to the Treasury Oversight Committee (TOC) for concurrence and adoption.~~

Commission investment personnel shall be in compliance with the Commission’s Conflict of Interest Policy (7.5) and Gift Ban policy (7.6).

## **XI. AUTHORIZED FINANCIAL DEALERS AND QUALIFIED INSTITUTIONS**

~~A list of broker/dealers (Qualified Institutions) authorized to provide investment products to the Treasurer shall be maintained. Any permitted investment, not purchased directly from the issuer, shall be purchased either from a “primary” or regional broker/dealer qualifying under SEC Rule 15c3-1 (uniform net capital rule) or a “well capitalized” financial institution, as defined in Title 12 of the Code of Federal Regulations (CFR) Part 6.4. Qualified institutions must comply with the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board (Section 27133(e)). A detailed questionnaire is required to be completed by securities dealers and financial institutions wishing to be approved (see attached Exhibit A). The Treasurer shall make a best effort to conduct an annual review of each Qualified Institution’s financial condition and registrations to determine whether it should remain on the approved list.~~

The Orange County Treasurer is the Commission’s Investment Officer and on behalf of the Commission shall only utilize authorized financial dealers and qualified institutions as Defined in the Orange County Treasurer’s Investment Policy Statement for all of the securities purchased on behalf of the Commission.

## **XII. PERFORMANCE EVALUATION**

~~The Treasurer shall submit monthly, quarterly and annual reports (in compliance with Government Code Sections 53607, 53646, and 27134) to the Treasury Oversight Committee, the Pool participants, the Chief Executive Officer, the Internal Audit Director, the Auditor Controller and the Board of Supervisors. These reports shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall be in compliance with Government Code. In accordance with GASB Statements 31 and 40, the Treasurer shall provide financial information on the treasury for the County’s Comprehensive Annual Financial Report.~~

## **XIII. SAFEKEEPING**

~~All security transactions, including collateral for repurchase agreements, entered into by the Treasurer shall be conducted on a delivery versus payment (DVP) basis.~~

~~All securities shall be held by a third party custodian designated by the Treasurer and approved by the Treasury Oversight Committee. The third party custodian shall be required to issue a safekeeping statement to the Treasurer listing the specific instrument, rate, maturity and other pertinent information.~~

**XII. MAINTAINING THE PUBLIC TRUST**

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

**XIII. INTERNAL CONTROLS**

The Treasurer shall establish a system of written internal controls, which will be reviewed annually with the County's independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes or imprudent actions by employees of the Treasurer's Office Commission. The Treasurer shall evaluate any audit reports in a timely manner with the Treasury Investment Oversight Committee. ~~The quarterly audit reports of the Treasury shall be provided as required by California Government Code Section 26920-26923. Daily compliance of the investment portfolio shall be performed by the Treasurer's Compliance Division.~~

~~The Treasurer shall develop and maintain written administrative procedures for the operation of the investment program which are consistent with this investment policy. Procedures will include reference to safekeeping, Securities Industry Association Master Repurchase Agreements, wire transfer agreements, collateral and depository agreements, banking service contracts, and other investment and banking related activities. Such procedures shall include explicit delegation of authority to personnel responsible for investment transactions.~~

~~The Treasurer shall designate a staff person as a liaison/deputy in the event circumstances require timely action and the County Treasurer is not present. No investment personnel may engage in an investment transaction except as provided under terms of this policy and the procedures established by the County Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of Treasury personnel.~~

No Commission investment personnel may engage in an investment transaction except as provided under terms of this Policy and the procedures established by the Orange County Treasurer.

**XVI. COMPENSATION AGREEMENT**

~~As authorized by California Government Code Section 27013, the Treasurer will charge all pool participants for administrative and overhead costs. Costs include, but are not limited to, portfolio management, bank and custodial fees, software maintenance fees, and other indirect costs incurred from handling or managing funds. In addition, the costs of compliance with the Treasury Oversight provisions of Government Code §27130-27137 shall be included as administrative costs. The Treasurer shall annually prepare a proposed budget revenue estimate, providing a detailed itemization of all estimated costs which comprise the administrative fee charged in accordance with California Government Code Section 27013.~~

~~The administrative fee will be subject to change; the administrative and overhead fees will be reviewed by the Treasury Oversight Committee on an annual basis.~~

~~Investment earnings and the above fee charge will be allocated to the pool participants on a monthly basis. As of the first working day of the next month, the pool participants' account will reflect the gross investment earnings and the monthly administrative and overhead costs.~~

~~NOTE: The current administrative fee range is estimated to be between ten and twenty basis points. Please consult the monthly Summary of Apportionment Yields for the most recent charge.~~

**XVII. VOLUNTARY PARTICIPANTS**

~~Should a local agency within Orange County, or a Joint Powers Agency (JPA) consisting of at least one public agency from within Orange County, not required by California law to deposit monies with the Treasurer desire entry into the Treasurer's Investment Pool, the agency shall comply with the requirements of Section 53684 of the California Government Code and provide to the Treasurer a resolution adopted by its governing board stating that excess funds are available for the purpose of investment. The resolution shall specify that the local agency authorizes the investment of excess funds pursuant to Section 53684, those persons authorized at the agency to coordinate the transactions, the agency's willingness to be bound by the withdrawal provisions of California Government Code Section 27136, and the agency's understanding that administrative charges will be deducted by the Treasurer as permitted by Sections 53684(b) and 27013. Subject to the approval/disapproval of the County Board of Supervisors, the Treasurer shall approve or disapprove such agency's request in writing.~~

~~Monies deposited by local agencies approved for entry into the Treasurer's Investment Pool will be invested in the Money Market Fund. To participate in the Extended Fund, the local agency must sign a waiver indicating their understanding of the possible NAV risk involved.~~

**XVIII. WITHDRAWAL**

~~Withdrawal of participant funds for the purpose of investing or depositing these funds outside the County treasury shall require prior written approval from the Treasurer. The Treasurer shall thereafter review the withdrawal request consistent with his/her trust and fiduciary duties. Prior to approving or disapproving the withdrawal request, the Treasurer shall make a finding of the effect on the stability and predictability of the investments and on the interests of the other depositors in the County treasury. (California Government Code Sections 27000.3, 27133(h), 27136, 53684(e).)~~

**XIX. PERFORMANCE STANDARDS**

~~The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs.~~

~~The Treasurer's investment strategy is active. Given this strategy, the basis used by the Treasurer to determine whether market yields are being achieved shall be the indices most comparable to the Fund, such as money rate data published in Barron's, The Wall Street Journal, Bloomberg, etc. The standards enumerated herein do not constitute a guarantee of the Fund's performance.~~

**XIV. INVESTMENT POLICY REVIEW**

~~The Treasurer's investment Commission's Policy shall be presented to and annually reviewed and approved by the Board of Supervisors Directors in an open session. The Board of Supervisors Directors also reviews and approves any changes to the investment Policy. The Policy shall also be reviewed on an annual basis by the Treasury Investment Oversight Committee.~~

**XV. FINANCIAL REPORTING**

~~The monthly Treasurer's Management Report and any Audit Report shall be provided to the Orange County Board of Supervisors, Chief Executive Officer, Chief Financial Officer, Internal Audit Director, Auditor-Controller, Treasury Oversight Committee and the director or director executive officer of any local agency who has investments in the County's Investment Funds as required by California Government Code Sections 53646 and 53686.~~

~~The Treasurer shall prepare a quarterly report which summarizes the Commission's investment in the OCIP and SL-TIP which shall be provided to the Commission's Board of Directors, Executive Director, and Investment Oversight Committee.~~

~~All reports filed by the Treasurer in accordance with California Government Code Section 53646 shall, among other matters, state compliance of the portfolio with the Investment Policy Statement, or the manner in which the portfolio is not in compliance. A statement~~

will also be filed by the Treasurer in accordance with California Government Code 53646 (b) denoting the ability of each pool to meet its expenditure requirements for the next six months or provide an explanation of why sufficient money may not be available.

**XVI. LEGISLATIVE CHANGES**

Any State of California legislative action that further restricts allowable maturities, investment type or percentage allocations, will, upon effectiveness, be incorporated into the ~~Orange County Treasurer's Investment Policy Statement~~ and supersede any and all previous applicable language.

**XXIII. DISASTER RECOVERY PROGRAM**

~~The County of Orange Treasurer Tax Collector's Disaster Plan includes critical phone numbers and addresses of key personnel, as well as, active bankers and broker/dealers. Three copies of the Disaster Plan for home, office and car have been distributed to department officers including the Investment Officer. The plan provides for an offsite location to be communicated at the time of readiness if our offices are uninhabitable.~~

~~In the event the Investment Officer is unable to invest the portfolio, the Bank of New York Cash Reserve Account will automatically sweep all uninvested cash with the custody bank into an interest bearing account. Until normal operations of the Treasurer's office have been restored, the limitations on the size of an Individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Investment Policy Statement.~~