



**Agenda Item No. 5  
May 1, 2013 Meeting**

**DATE:** April 16, 2013

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

**FROM:** Christina Altmayer, Executive Director 

**SUBJECT:** Annual Consideration of Commission Investment Policy, Delegation of Investment Authority to County Treasurer and Quarterly Investment Report

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**SUMMARY:**

The Children and Families Commission of Orange County annually reviews the Commission's Investment Policy Statement and the delegation of the investment authority to its designated Treasurer. The Commission does not operate a separate investment program. All Commission funds are managed as part of the Orange County Investment Fund (OCIF). Pursuant to California Government Code Section 53646, a Quarterly Investment Report is presented to the Commission to summarize investment activities and report on overall performance of OCIF for the period. This item reconfirms the delegated investment authority to the Orange County Treasurer, the Orange County Treasurer's Investment Policy Statement for 2013, and the Quarterly Investment Report for January – March 2013.

**BACKGROUND:**

**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 year. In May 2012 the Orange County Treasurer was designated to serve as the Commission's Treasurer for the balance of Fiscal Year 2012-13, and investment authority was delegated to the Orange County Treasurer. The delegation included the authority to manage, deposit and invest Commission funds, not required for the immediate needs of the Commission. Formally reappointing the Orange County Treasurer as the Commission Treasurer and delegating authority to manage, deposit, and invest Commission funds for Fiscal Year 2013-14, in accordance with Government Code Section 53607 is recommended.

**Adoption of Investment Policy Statement**

By statute, the annual consideration of the Orange County Treasurer Investment Policy Statement is required and the Orange County Treasurer Investment Policy Statement for 2013 is included as Attachment 1.

**Commissioners**

**Executive Director**

**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:**

- May 2013 - Considered the Orange County Treasurer Investment Policy Statement for Fiscal Year 2012-13 and delegated annual investment authority to the Orange County Treasurer.
- January 2012 - Reconsidered the Investment Policy Statement for Fiscal Year 2011-12, as recommended by the Investment Oversight Committee, and designated Commission Executive Director as Commission Treasurer for remainder of Fiscal Year 2011-12.

**RECOMMENDED ACTIONS:**

1. Receive and review the Orange County Treasurer Investment Policy Statement for 2013
2. Adopt resolution (Attachment 3) to acknowledge receipt of and consider the Orange County Treasurer Investment Policy Statement and affirm delegation of authority to the Orange County Treasurer as the Commission Treasurer to manage, deposit, and invest Commission funds, not required for the immediate needs of the Commission, for Fiscal Year 2013-14.
3. Direct Commission/Orange County Treasurer to continue to report Commission investment transactions and activities in the Quarterly Investment and Financial Highlights Reports.

**ATTACHMENTS:**

1. Orange County Treasurer Investment Policy Statement
2. Quarterly Investment Report, January – March 2013
3. Resolution

**Contact:** Michael Garcell

# Orange County Treasurer



# Investment Policy Statement

(APPROVED BY B.O.S. 01/08/2013)

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# **ORANGE COUNTY TREASURER INVESTMENT POLICY STATEMENT**

## **PURPOSE**

This policy is intended to provide the structure for the prudent investment of the cash balances entrusted to the Orange County Treasurer (Treasurer) and outline the policies to assist in maximizing the efficiency of the Treasurer's cash management system while meeting the daily cash flow demands of the County, the School Districts, Community Colleges, voluntary participants and other County-related agency funds. The Treasurer's Investment Policy Statement is approved annually by the County Board of Supervisors as required by California Government Code Section 53646 (a) (1) and reviewed annually by the Treasury Oversight Committee, pursuant to the requirements of California Government Code Section 27133.

## **I. POLICY STATEMENT**

The Investment practices and policies of the Treasurer are based on compliance with State law and prudent money management. The primary goal is to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to Pool Participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

The Orange County Investment Fund (the "OCIF"), which includes all cash balances entrusted to the Treasurer as noted above, is designed to meet both the investment and cash requirements of our participants. If separate funds are established, 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 as indicated in II.1 below.

### **1. FUNDS:**

The Treasurer is responsible for investing the unexpended cash of the OCIF, defined as all moneys under the investment authority of the Treasurer, including funds, and subsets of funds, for the Orange County Department of Education; and excluding the County employee's pension and medical trust funds which are invested separately by Orange County Employees Retirement System (OCERS), and those funds which are invested separately by the County Treasurer under bond indenture agreements. The County Funds are accounted for in the County's CAFR and include:

- Governmental Funds, including the General Fund
- Enterprise Funds
- Fiduciary Funds

Any other funds or new funds created by the County, unless specifically exempted.

**a) Pooled Funds:**

It is the Treasurer's policy to pool certain funds for investment purposes to provide efficiencies and economies of scale. Investing through pooled funds will provide for greater use for funds by allowing for more efficient cash flows, a reduction in transaction costs and improved access to the market. OCIF may be split into different pools to meet the specific needs of participants such as short-term money pools and longer-term pools. Each pool established will be reviewed separately for purposes of determining compliance with the Investment Policy Statement. These pools are based on the investment requirements detailed in California Government Code Section 53601 and 53635.

- i. If a longer-term pool such as an extended fund is established by the Treasurer, it will be utilized for investment requirements between one and five years. It will be invested primarily in high grade securities.
- ii. If short-term pools such as money market funds are established, they can be established as a single money market pool or as separate money market pools depending on the needs of the Pool Participants. These pools will be utilized for shorter-term investment requirements and providing liquidity for immediate cash needs. They will be invested primarily in cash-equivalent securities, commensurate with safety and liquidity.

**b) 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 the County, a local school district, voluntary participant or other local 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 as allowed by Government Code. 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 has granted express authority to make such an investment specifically or as part of an investment program. Board of Supervisor's approval must occur at least three months prior to the investment or investment programs being effective. Strategies for such deposits may include 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.

**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. Within the limitation of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.

As outlined in Government Code Section 27000.3, the standard of prudence to be used by the Treasurer shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. In addition, the Treasurer will follow the "Prudent Investor Rule" which provides that pursuant to California Government Code Section 53600.3, that investments shall be made with judgment and care - under circumstances then prevailing - which person of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the safety of their capital as well as the probable income to be derived.

The Treasurer and those delegated staff 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.

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

Annually, the County Board of Supervisors delegates to the Treasurer the 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.

#### **V. OBJECTIVES**

Criteria for selecting investments and the absolute order of priority are:

##### **1. SAFETY**

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

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

- a) **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.
- b) **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 or duration for the portfolio. Occasional

## **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. A portion of OCIF, which may be in a separate pool, will maintain liquidity for the purpose of meeting all operating requirements and reasonably anticipated cash flow needs.

## **3. YIELD**

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

## **4. MARK-TO-MARKET**

To the extent reasonably possible and consistent with the Treasurer's trust and fiduciary duty, any funds in a 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 any short-term pools such as a 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**

The County is authorized by California Government Code Section 53600 et seq. to invest in specific types of securities. Investments not specifically listed below are prohibited. Consistent with the requirements of law and this Investment Policy Statement, 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 at 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 pools may invest in the following areas.

### **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. There is no limit on the percentage of portfolio that can be invested in this category.

### **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. There is no limit on the percentage of

the pool that can be invested in this category, but each issuer is limited to 30% of any individual pool's total assets.

### **3. COMMERCIAL PAPER**

Eligible commercial paper shall be of "prime" quality of the highest ranking or of the highest letter and number rating as provided by a Nationally Recognized Statistical Rating Organization (NRSRO), shall not exceed 270 days maturity and shall not exceed 40% of the fund. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (a) or paragraph (b):

- a) Has total assets in excess of five hundred million dollars (\$500,000,000), is organized and operating within the United States as a general corporation, and has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.
- b) Is organized in the United States as a special purpose corporation, trust, or limited liability company, has program-wide credit enhancements including, but not limited to overcollateralization, letters of credit or a surety bond, has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Split ratings (i.e. A2/P1) are not allowed. No more than 5% of the total assets of any individual pool may be invested in any one issuer's commercial paper.

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

Negotiable certificates of deposit issued by a U.S. national or state-chartered bank, savings bank, savings and loan association, or credit union in this state 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. Issuing banks must have a short-term rating of not less than A1/P1 and a long-term rating of not less than an "A" from a NRSRO, if any. No more than 30% of any individual pool's total assets may be invested in negotiable certificates of deposit.

### **5. REPURCHASE AGREEMENTS**

Investments in repurchase agreements for the purpose of this Investment Policy Statement (as defined by section 53601(j) of the California Government Code) means a purchase of securities by the 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 term of a repurchase agreement shall not exceed one year. The term "securities," for the purpose of repurchase agreements, means securities of the same issuer, description, issue date, and maturity.

To participate in repurchase agreements, a master repurchase agreement must be completed and signed by all parties involved. The 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(j) (2).

## **1. Collateralization:**

In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value 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 U.S. Treasury and U.S. Government Agency securities. For compliance purposes, U.S. Treasury and/or U.S. Government Agency collateral are exempt from the issuer limits as stated in Section VIII.2 . 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 Treasurer retains the right to substitute or grant substitutions of collateral.

Investments in repurchase agreements may be collateralized by any securities authorized within this section, but are limited to no more than 20% of any individual pool's total assets. Agreements are subject to California Government Code Section 53601 and must comply with the delivery requirements and the maturity provision from Section 53601.

## **6. BANKERS ACCEPTANCES**

Bankers acceptances, also known as time drafts (bills of exchange) are 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 NRSRO and have a short-term rating of at least A1/P1 and a long-term rating of not less than "A" from a NRSRO, if any. Bankers' acceptances are limited to no more than 40% of any individual pool's total assets.

## **7. MONEY MARKET MUTUAL FUNDS**

Shares of beneficial interest issued by diversified management companies that are mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq), which only invest in direct obligations in U.S. Treasury bills, notes and bonds, U.S. Government Agencies and repurchase agreements with a weighted average maturity of 60 days or less. Mutual funds are not required to conform to the restrictions detailed in this Investment Policy Statement, but are limited to no more than 20% of any individual pool's total assets with no more than 10% of any individual pool's total assets in a single money market fund. At a minimum, approved mutual funds 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 NRSROs.
- b). Retained an investment advisor registered or exempt from registration with the Securities and Exchange Commission with not less than five years experience managing money market mutual funds with assets under management in excess of \$500,000,000.

## **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.

Issuing municipalities must have a short-term rating of not less than A1/P1 and a long-term rating of not less than an “A” from a NRSRO, if any. Municipal debt issued by the County of Orange, California is exempt from this credit rating requirement.

## **9. MEDIUM-TERM NOTES**

Medium-term notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of not more than 397 days for any short-term pools such as money market funds and five years for any longer-term pools such as an extended fund. 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. Notes eligible for investment shall be rated not less than “A” or its equivalent from two NRSROs. Investments in medium-term notes are limited to no more than 30% of any individual pool’s total assets.

## **10. INVESTMENT POOLS/MUTUAL FUNDS**

Shares of beneficial interest issued by diversified management companies, or a joint powers authority organized pursuant to Government Code Section 6509.7 that invest in the securities and obligations as authorized under 53601 (l) (a) to (o), inclusive, and that comply with the investment restrictions of this article and Article 2. The Treasurer shall be required to investigate all local government investment pools and money market funds prior to investing and performing at least a quarterly review thereafter while the funds are invested in the pool or the money market fund.

The analysis shall include the following characteristics of a pool/fund as part of its investigation and quarterly review:

- Eligible securities
- Maximum maturity
- REPO collateral/counter-party
- Size of the pool/fund

- Limits on withdrawal/deposit
- Expense ratio

Investments in this investment type are limited to no more than 20% of any individual pool's total assets and no more than 10% of a single issuer.

## **VII. INVESTMENT RESTRICTIONS**

### **1. CREDIT RATINGS:**

Credit ratings will be applied at the time of purchase of a security. 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 the County of Orange, California is exempt from the credit rating requirements listed below. U.S. Government obligations (as defined in Section VI (1) and VI (2)) are exempt from the credit rating requirements listed below.

The credit ratings referred to below must be assigned by one of the following Nationally Recognized Statistical Rating Organizations (NRSRO): Standard & Poor's Corporation "S&P", Moody's Investors Service, Inc. "Moody's" Fitch Ratings "Fitch".

**a) Short-term debt ratings** – (two of the following and not less than 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)

Split ratings are not allowed, i.e. A-1/P-1/F2 or similar. An issuer of short-term debt must have no less than an "A" on long-term debt, if any.

**b) Long-term debt ratings-** (if separate short-term and long-term pools exist)

Investments purchased for short-term pools - shall be rated by at least two NRSROs and no less than "A" by any.

Investments purchased for long-term pools, such as the extended fund, – shall be rated by at least two NRSROs and no less than "AA" by any.

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 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 two NRSROs 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 an AA or Aa2 long-term rating.

**VIII. DIVERSIFICATION AND MATURITY RESTRICTIONS**

It is the policy of the Treasurer to diversify the funds’ portfolios. 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 and periodically reviewed.

**1. AUTHORIZED INVESTMENTS:**

Type of Investment	Cal Gov Code % of Funds Permitted	Orange County IPS	Cal Gov Code Maximum Final Maturity	Orange County IPS Maximum Final Maturity (Long-Term-Extended Fund)	Orange County IPS Maximum Final Maturity (Short-Term – Money Market Fund)
U.S. Treasury Securities	100%	100%	5 Years	5 Years	397 Days
U.S. Government Agency Securities	100%	100% Total, no more than 30% in one issuer	5 Years	5 Years	397 Days
Municipal Debt	100%	30% Total, no more than 5% in one issuer except 10%-County of Orange	5 Years	5 Years	397 Days
Medium-Term Notes	30%	30% Total, no more than 5% in one issuer	5 Years	5 Years	397 Days
Bankers Acceptances	40%, 30% of a single issuer	40% Total, no more than 5% in one issuer	180 Days	180 Days	180 Days
Commercial Paper	40%, 10% of a single issuer	40% Total, no more than 5% in one issuer	270 Days	270 Days	270 Days
Negotiable Certificates of Deposits	30%	30% Total, no more than 5% in one issuer	5 Years	5 Years	397 Days
Repurchase Agreements	100%	20% Total, no more than 10% in one issuer	1 Year	1 Year	1 Year
Investment Pools / Mutual Funds	20%, 10% in a single fund	20% Total, no more than 10% in one fund	N/A	N/A	N/A

**2. ISSUER CONCENTRATION:**

a). Only debt issued by firms listed on the Approved Issuer List may be purchased.

b). No more than 5% of any individual pool’s total 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 any individual pool’s total market value may be invested in securities of any one U.S. Government Agency, or U.S. government-sponsored enterprise.

At the time of purchase, an individual pool may invest up to ten percent (10%) of its total market value in a single issuer for a period up to three business days only with approval of the Treasurer . The fund may not invest in the securities of more than one issuer under this provision at any time.

No more than 10% of any individual pool's total market value may be invested in any one Money Market Mutual Fund.

No more than 10% of an individual pool's market value may be invested in Repurchase Agreements of any one issuer.

### **3. MATURITY:**

- a) The weighted average maturity (WAM) of any Money Market Funds, on a dollar- weighted basis, shall not exceed 60 days.
- b) The maximum maturity of any investment purchased will be five years and if short-term and long-term pools are used the following restrictions will apply:

Short-term - <b>Money Market Fund</b>	13 months (397 days)
Long-term - <b>Extended Fund</b>	5 years

- c) For purposes of calculating final maturity, the earlier of final maturity date or mandatory put or tender option date will be used.
- d) For purposes of calculating the weighted average maturity of the portfolio, the maturity of a variable-rate security will 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.

### **4. DURATION:**

- a) The long-term pools, such as an extended fund, shall have duration not to exceed a leading 1-3 Year index +25%.

## **IX. PROHIBITED TRANSACTIONS**

At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy Statement and with applicable provisions of the California Government Code, 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 and cannot be cancelled without penalty **at time of purchase** must be documented and approved by the Treasurer in writing as soon as possible. Thereafter, action shall be taken by the 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.

**1. The following transactions are prohibited:**

- a) Borrowing for investment purposes ("Leverage).
- b) Reverse Repurchase Agreements, as defined by California Government Code Section 53601(j) (3) and (j) (4) or otherwise.
- c) Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities,). 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.

- d) Structured Investment Vehicles (SIV).
- e) Derivatives (e.g. options, futures, swaps, swap options, spreads, straddles, caps, floors, collars) shall be prohibited.

**X. ETHICS AND CONFLICT OF INTEREST**

The Treasurer and all persons involved in the investment process 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, broker dealers and vendors 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 by filing Form 700 annually.

On May 10, 1993, the Orange County Board of Supervisors passed the "Orange County Gift Ban Ordinance" (see Exhibit A 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 Chief Assistant Treasurer-Tax Collector, the Assistant Treasurer-Tax Collectors, all Investment staff, all Financial/Credit Analysts, all Cash Managers, and all Accounting and Compliance staff. The Treasurer will review this list annually and shall submit any proposed changes to the Treasury Oversight Committee (TOC) as part of the IPS review.

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

A list of broker/dealers and financial institutions (Qualified Institutions) authorized to provide investment and/or depository services and products to the Treasurer shall be maintained. Any permitted investment, not purchased directly from an approved 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(c) which include prohibiting the selection of any broker, brokerage, dealer or securities firm that has made a contribution to the Treasurer, any member of the Board of Supervisors, or any candidate for those offices, within any consecutive 48 month period following January 1, 1996). A detailed questionnaire is required to be completed by securities dealers and financial institutions wishing to be approved. The Treasurer shall conduct an annual review of each Qualified Institution’s financial condition and registrations to determine whether it should remain on the approved list and require annual audited financial statements to be on file for each company. The County shall annually send a copy of the current investment policy to all Qualified Institutions approved to do business with the County and they shall notify the Treasurer’s office in writing of receipt and that they have read it.

## **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 investments shall have the County of Orange and the specific pool name as its registered owner.

All securities shall be held by a third party custodian designated by the Treasurer and approved by the Treasury Oversight Committee (does not apply to money market funds or investment pools). 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.

#### **XIV. 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.

#### **XV. 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. The Treasurer shall evaluate audit reports in a timely manner with the Treasury Oversight Committee. The quarterly audit reports of the Treasury shall be provided as required by California Government Code Section 26920-26922. Daily compliance of the investment portfolio shall be performed by the Treasurer's Compliance Division. Compliance will be determined on a fair market value basis. Cash held at the bank will not be included in the pool balance. All agreements, statements and trade packets will be subject to review annually by auditors in conjunction with their audit.

##### **1. INVESTMENT PROCEDURES:**

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, 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.

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 all Treasury and Investment personnel.

#### **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 Treasurer will be required to annually reconcile the estimated charges and actual costs incurred and adjust participant accounts accordingly.

Investment earnings and the above estimated fee charge will be allocated to the Pool Participants on at least a quarterly basis. As of the first working day of the following period, the Pool Participants' account will reflect the gross investment earnings and the estimated monthly administrative and overhead costs.

NOTE: The current administrative fee range is estimated to be between five and ten basis points. Please consult the Treasurer's Monthly Investment Report 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. The Treasurer shall approve or disapprove such agency's request in writing. Upon the Treasurer's approval of voluntary participants to join the pool, the Treasurer will notify the Board of Supervisors within 5 days.

Monies deposited by local agencies approved for entry into the Treasurer's Investment Pool will be invested in the Orange County Investment Pool and shall be invested by the Treasurer in accordance with the policies contained in the Orange County Treasurer Investment Policy, as now in effect and as may be revised from time to time. This agreement specifies the contractual terms and conditions by which the Treasurer will manage and invest Local Agency's excess funds which have been deposited for investment with the Treasurer.

## **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 or designee. 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 or designee 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(c))

## **XIX. PERFORMANCE STANDARDS**

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs, but focusing on preservation of capital and then liquidity as the most important objectives, with yield as the least important objective.

The Treasurer's investment strategy is to actively manage the portfolios to create less risk than a benchmark comparable index and to use economies of scale to invest and administer the program at a reasonable cost. 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. or other bond fund indices. The standards enumerated herein do not constitute a guarantee of the fund's performance.

## **XX. INVESTMENT POLICY REVIEW**

This Investment Policy shall be reviewed on an annual basis by the Treasury Oversight Committee prior to being presented to, and annually reviewed and approved by the Board of Supervisors in an open session.

## **XXI. FINANCIAL REPORTING**

The monthly Treasurer's Management Report and all compliance Audit Reports 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.

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.

## **XXII. LEGISLATIVE CHANGES**

Any State of California law that further restricts allowable maturities, investment type, percentage allocations, or any other provision of this Investment Policy Statement will, upon effectiveness, be incorporated into this Investment Policy Statement and supersede any and all previous applicable language.

### **XXIII. DISASTER RECOVERY PROGRAM**

The Treasurer's Disaster Plan includes critical phone numbers and addresses of key treasury and investment personnel, as well as, currently approved bankers and broker/dealers. Three copies of the Disaster Plan for home, office and car have been distributed to key treasury and investment personnel. The plan provides for an offsite location to be communicated at the time of readiness if our offices are uninhabitable.

In the event the Treasurer or authorized staff is unable to invest the portfolio, the Treasurer has an agreement with the custodian for a daily sweep of 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 and would be required to be reported to the Board of Supervisors and Pool Participants in a timely manner.

### **XXIV. INVESTMENT POLICY ADOPTION:**

By virtue of a resolution by the Board of Supervisors, the Board shall acknowledge the receipt and filing of this annual statement of investment policy for the respective fiscal year.

## **INVESTMENT POLICY GLOSSARY**

This Glossary is for general reference purposes only and does not constitute an exhaustive or exclusive list of terms and definitions applicable to this IPS. The definitions included herein do not modify any of the terms of this IPS or applicable law.

**ACCRUED INTEREST:** The amount of interest that is earned but unpaid since the last interest payment date.

**ADJUSTABLE RATE NOTE:** (See Floating Rate Note)

**AGENCY SECURITIES:** (See U.S. Government Agency Securities)

**AMORTIZATION:** The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

**AVERAGE LIFE:** The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

**ASKED PRICE:** The price at which securities are offered from a seller.

**ASSET BACKED SECURITIES (ABS):** (See Receivable-Backed Securities)

**BANKERS ACCEPTANCE (BA):** A negotiable money market instrument issued primarily to finance international trade. These are time drafts in which a bank “accepts” as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer.

**BASIS POINT:** When a yield is expressed as 7.32%, the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

**BID PRICE:** The price at which a buyer offers to buy a security.

**BOOK ENTRY:** The system, maintained by the Federal Reserve, by which most money market securities are “delivered” to an investor’s custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities, and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). The owners of these securities do not receive physical certificates.

**BOOK VALUE:** The original cost of the investment, plus accrued interest and amortization of any premium or discount.

**BROKER:** A broker brings buyers and sellers together and is compensated for his/her service.

**CALLABLE BONDS:** Bonds that may be redeemed by the issuing company prior to the maturity date.

**CALL PRICE:** The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

**CALL RISK:** The risk to a bondholder that a bond may be redeemed prior to maturity.

**CAPITAL GAIN/LOSS:** The profit or loss realized from the sale of a capital asset.

**CERTIFICATE OF DEPOSIT (CD or NCD):** A deposit of funds at a bank for a specified period of time that earns interest at a specified rate. Commonly known as "CDs" or "negotiable CDs."

**COLLATERAL:** Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public moneys.

**COMMERCIAL PAPER (CP):** Short-term unsecured promissory notes issued by corporations for maturities of 180 days or less.

**CONSUMER RECEIVABLE-BACKED BONDS:** (See Receivable-Backed Securities)

**CONVEXITY:** A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

**CREDIT OUTLOOK:** (See Rating Outlook)

**CREDIT QUALITY:** The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

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

**CREDIT WATCH:** indicates that a company's credit is under review and credit ratings are subject to change.

+ (positive)	Credit is under review for possible upgrade.
- (negative)	Credit is under review for possible downgrade.
Evolving/ Neutral	Credit is under review, direction uncertain.

**COUPON:** The rate at which a bond pays interest.

**CURRENT YIELD:** The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

**CUSTODIAN:** A bank or other financial institution that keeps custody of stock certificates and other assets.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

**DELIVERY VERSUS PAYMENT (DVP):** Delivery of securities with a simultaneous exchange of money for the securities.

**DERIVATIVE:** A security whose interest rate of principal amount may vary and are determined by a market index or a combination of market indexes.

**DISCOUNT:** The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers acceptances, are known as **discount securities**. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

**DIVERSIFICATION:** An investment principle designed to spread the risk in a portfolio by dividing investments among different sectors, industries and companies.

**DOLLAR-WEIGHTED AVERAGE MATURITY:** A calculation that expresses the "average maturity" of an investment portfolio using each investment's maturity weighted by the size of that investment.

**DOMINION BOND RATING SERVICE, LTD:** (see NRSRO)

**DURATION:** A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

**FEDERAL FUNDS RATE:** Interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. A target rate is set by the FOMC.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** A U.S. centralized banking system which has supervisory powers over the 12 Federal Reserve banks and about 6,000 member banks.

**FITCH, INC:** (see NRSRO)

**FIXED-INCOME SECURITIES:** Securities that return a fixed income over a specified period.

**FLOATING RATE NOTE:** A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, LIBOR, etc.).

**INTEREST:** The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

**INTERNAL CONTROLS:** An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is 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.

**INVESTMENT COMPANY ACT OF 1940:** Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

**LIQUIDITY:** The speed and ease with which an investment can be converted to cash.

**LOCAL AGENCY:** 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 schools, or any public or municipal corporation.

**MARK TO THE MARKET:** The market valuation for every security in a portfolio used in determining Net Asset Value (NAV).

**MARKET RISK:** The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract between the parties of a repurchase agreement establishing each party's rights in all current and future transactions until termination of the contract by either party.

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**MEDIUM TERM NOTES (MTN):** Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term "medium-term note" refers to the time it takes for an obligation to mature, and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five year maturity range. MTNs issued by banks are also called "bank notes."

**MONEY MARKET:** The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper, bankers acceptances, etc.) are issued and traded.

**MONEY MARKET MUTUAL FUNDS:** An investment company that pools money from investors and invest in a variety of short-term money market instruments.

**MOODY'S INVESTORS SERVICE, INC:** (See Nationally Recognized Rating Services)

**MUNICIPAL DEBT:** Bonds, notes and other securities by public entities

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO):** Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.) The primary rating agencies are the following: Standard & Poor's Corporation; Moody's Investor Services, Inc.; Fitch, Inc.; and Dominion Bond Rating Service, Ltd.

**NEGOTIABLE CD:** (See Certificates of Deposit)

**NET ASSET VALUE (NAV):** A per-share valuation of a mutual fund based on total assets minus total liabilities.

**NONCALLABLE:** Bond that cannot be called at the option of the issuer.

**OFFER PRICE:** The price asked by a seller of securities.

**PAR or PAR VALUE:** The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

**PHYSICAL DELIVERY:** The delivery of an investment to a custodian bank in the form of a physical certificate and/or supporting documents evidencing the investment (as opposed to "book entry" delivery).

**PORTFOLIO:** A group of securities held by an individual or institutional investor.

**PREMIUM:** The difference between the par value of a bond and the market value of the bond, when the market value is above par.

**PRICE RISK:** The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

**PRIMARY DEALER:** One of 22 banks and securities brokerages authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Federal Open Market Operations.

**PRIME RATE:** The base rate that banks use in pricing commercial loans to their best and most creditworthy customers.

**PRINCIPAL:** The face value or par value of an investment.

**PROSPECTUS:** A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information of the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

**RATING OUTLOOK:** The potential direction of the credit rating assigned by a NRSRO for a specific company.

**REINVESTMENT RISK:** The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

**RECEIVABLE-BACKED SECURITIES:** Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

**RECEIVABLE PASS-THROUGH CERTIFICATE:** A debt obligation that is backed by a portfolio of receivables, normally issued by a bank or financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

**REGISTERED STATE WARRANT:** A short-term obligation of a state governmental body issued in anticipation of revenue.

**REPURCHASE AGREEMENT (RP OR REPO):** The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities back at a later date at a specified price that includes interest for the buyer's holding period.

**RULE 2a-7 OF THE INVESTMENT COMPANY ACT:** Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13 month maturity limit and a 90 day average maturity on investments, to help maintain a constant net asset value of one dollar (\$1.00).

**RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD:** Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

**SAFEKEEPING:** Storage and protection of a customer's financial assets, valuables, or documents, provided as a service by an institution serving as Agent or Custodian and, where control is delegated by the customer.

**SECURITIES & EXCHANGE COMMISSION (SEC):** The federal agency responsible for supervising and regulating the securities industry.

**SINKING FUND:** Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

**STANDARD & POOR'S CORPORATION:** (See Nationally Recognized Rating Services)

**STRUCTURED INVESTMENT VEHICLE:** A pool of investment assets that attempts to profit from credit spreads between short-term debt and long-term structured finance products such as asset-backed securities (ABS). Funding for SIVs comes from the issuance of commercial paper that is continuously renewed or rolled over; the proceeds are then invested in longer maturity assets that have less liquidity but pay higher yields. SIVs often employ great amounts of leverage to generate returns.

**THIRD-PARTY CUSTODIAL AGREEMENT:** (See Custodian)

**TOTAL RETURN:** The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period.

$$(\text{Price Appreciation}) + (\text{Dividends paid}) + (\text{Capital gains}) = \text{Total Return}$$

**TRADE DATE:** The date and time corresponding to an investor's commitment to buy or sell a security.

**U. S. GOVERNMENT AGENCY SECURITIES:** Debt securities issued by U.S. Government sponsored enterprises and federally related institutions. These government agencies include: Federal Home Loan Banks (FHLB); Federal Home Loan Mortgage Corporation (FHLMC, or Freddie Mac); Federal National Mortgage Association (FNMA, or Fannie Mae); Federal Farm Credit Banks (FFCB); Resolution Trust Corporation (RTC); and Tennessee Valley Authority (TVA).

**U.S. TREASURY SECURITIES:** Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

**Treasury bills:** non-interest-bearing discount securities with maturities under one year issued by the U.S. Treasury to finance the national debt.

**Treasury notes:** interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from date of issue.

**Treasury bonds:** interest-bearing obligations issued by the U.S. Treasury with maturities that range from ten to thirty years from date of issue.

**UNIFORM NET CAPITAL RULE:** SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

**VARIABLE RATE NOTE:** (See Floating Rate Note)

**VOLATILITY:** A degree of fluctuation in the price and valuation of securities.

**WEIGHTED AVERAGE MATURITY (WAM):** The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money

market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

**WHEN ISSUED (WI):** A conditional transaction in which an authorized new security has not been issued. All “when issued” transactions are settled when the actual security is issued.

**YIELD:** The annual rate of return on a debt investment computed as though held to maturity expressed as a %.

**YIELD TO CALL (YTC):** The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**YIELD TO MATURITY (YTM):** The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

**ZERO-COUPON BONDS/U.S. TREASURY STRIPS:** A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. Zeros or strips mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.

**Children and Families Commission of Orange County**  
**Quarterly Investment Report**  
**January 1, 2013 through March 31, 2013**

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**OVERVIEW**

Pursuant to the Commission's Investment Policy Statement dated May 2, 2012, the Treasurer submits this Quarterly Investment Report to the Commission. This Investment Report summarizes investment activities for the Commission for the three-month period from January 1 through March 31, 2013.

The Commission has invested 100% of its fund in the Orange County Investment Pool (OCIP). All funds are managed by the Office of the Orange County Treasurer.

**Orange County Investment Pool**

The primary goal of the OCIP is to invest public funds in a manner which will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to Pool Participants and lastly to achieve a market rate of return. The Commission's investment in the OCIP as of March 31, 2013 totaled \$73,594,755.22.

**PORTFOLIO PERFORMANCE SUMMARY**

The following table presents an overview of the OCIP for the months of January, February and March 2013.

Month Ended	OCIP Market Value	OCIP Monthly Gross Yield	OCIP Average Days to Maturity	Commission's Month End Balance
January	\$3,122,231,262	0.40%	291 days	\$74,656,238
February	\$3,262,114,980	0.41%	300 days	\$73,603,083
March	\$3,421,265,374	0.34%	306 days	\$73,594,755

**ECONOMIC UPDATE**

From January through March, U.S. economic data showed continued modest economic growth. The job market added 148,000 new jobs in January, 268,000 in February and 88,000 in March. The unemployment rate started the quarter at 7.9% in January dropped to 7.7% in February and ended the quarter at 7.6%. In addition, after declining 8.1% in January, housing starts increased 7.3% in February and 7.0% in March.

The Federal Reserve met twice during the quarter and voted to continue its support for stronger economic growth by purchasing \$40 billion per month in agency mortgage-backed securities and \$45 billion per month in longer-term Treasury securities.

**U.S. Treasury Yield Curve:** Treasury yields increased slightly except for the 2-year maturity.

	Quarter Ended March 31, 2013	Quarter Ended December 31, 2012
3-Month	0.07%	0.04%
2-Year	0.24%	0.25%
5-Year	0.77%	0.72%
10-Year	1.85%	1.76%
30-Year	3.10%	2.95%

Source: Bloomberg World Markets

### COMPLIANCE MONITORING

The investment portfolios had no compliance exceptions for the three months ending March 2013. In January, the Auditor-Controller Internal Audit unit issued their Initial Follow-up Audit of Management Letter on Audit of the Statement of Assets Held by the County Treasury as of December 31, 2010. The management letter contains one control deficiency related to an untimely review of electronic deposits. The County Treasurer is in the process of updating these policies on timely review of bank reconciliation items. In addition, the Auditor-Controller Report on Compliance Monitoring for the Quarter of July through September 2012 identified no compliance deficiencies. In March, the Auditor-Controller Internal Audit unit issued their Report on Review of the Statement of Assets Held by the County Treasury as of September 30, 2012 which stated that no material modifications needed to be made to the financial statements prepared on a modified cash basis. In addition, the Auditor-Controller Report on Compliance Monitoring for the Quarter of October through December 2012 identified no compliance deficiencies.

### SUMMARY STATEMENTS

Attached for further information and reference is the OCIP Statement of Activity for the months of January, February and March 2013.

- A. Statement of Activity: This Statement reports the beginning and ending balances of the Commission's funds invested in the OCIP. All deposits, withdrawals, investment earnings, and administrative fees for the reporting period are also posted. The Commission's month end balances for January, February and March were \$74,656,237.90, \$73,603,083.48, and \$73,594,755.22 respectively. The estimated treasury administrative fee is 8.2 basis points and the year to date net yield as of March 31, 2013 is 0.35%.

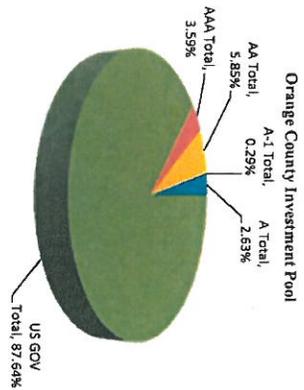
### Attachments:

- A. Orange County Investment Pool Summary
- B. Statement of Activity for the months of January, February and March 2013

ORANGE COUNTY TREASURER-TAX COLLECTOR  
ORANGE COUNTY INVESTMENT POOL  
INVESTMENT POOL SUMMARY  
AT MARCH 31, 2013

Security Type	PORTFOLIO COMPOSITION		Unrealized Gain/(Loss)	% of Market Value
	Market Value	Book Value		
CERTIFICATES OF DEPOSIT	\$ 152,979,812	\$ 153,000,069	\$(20,257)	4.47%
COMMERCIAL PAPER	9,999,530	9,998,950	580	0.29%
U.S. GOVERNMENT AGENCIES	2,723,899,065	2,722,142,397	1,756,668	79.62%
MONEY MARKET FUNDS	88,780,208	88,780,208	-	2.59%
MEDIUM - TERM NOTES	96,389,306	95,918,177	471,129	2.82%
MUNICIPAL DEBT	74,720,236	74,643,663	76,573	2.18%
U.S. TREASURIES	274,497,216	274,405,167	92,049	8.02%
<b>TOTAL</b>	<b>\$ 3,421,285,374</b>	<b>\$ 3,418,888,632</b>	<b>\$ 2,376,742</b>	<b>100.00%</b>

CREDIT QUALITY BY MARKET VALUE



US GOV includes Agency & Treasury Debt  
AA includes AA+, AA-, & AA  
A-1 includes A+, A-, & A  
AAA includes AAA, P-1, A-1 & F-1

SUMMARY OF INVESTMENT DATA  
INVESTMENT TRENDS

	MARCH 2013	FEBRUARY 2013	INCREASE (DECREASE)	NET CHANGE %	MARCH 2012	INCREASE (DECREASE)	NET CHANGE %
<b>Orange County Investment Pool</b>							
End Of Month Market Value <sup>1</sup>	\$ 3,421,285,374	\$ 3,262,114,980	\$ 159,150,394	4.88%	\$ 3,577,741,434	\$ (156,476,060)	-4.37%
End Of Month Book Value	\$ 3,418,888,632	\$ 3,259,429,933	\$ 159,458,699	4.89%	\$ 3,572,888,043	\$ (153,999,411)	-4.31%
Monthly Average Balance	\$ 3,282,737,972	\$ 3,129,617,366	\$ 133,120,605	4.25%	\$ 3,274,895,571	\$ (12,157,599)	-0.37%
Year-To-Date Average Balance	\$ 3,182,499,211	\$ 3,172,469,366	\$ 10,029,845	0.32%	\$ 3,242,170,638	\$ (59,671,427)	-1.84%
Monthly Accrued Earnings <sup>2</sup>	\$ 934,859	\$ 991,309	\$ (56,451)	-5.69%	\$ 1,310,374	\$ (375,515)	-28.66%
Monthly Net Yield <sup>2a</sup>	0.28%	0.33%	-0.08%	-22.83%	0.40%	-0.14%	-36.16%
Year-To-Date Net Yield <sup>2</sup>	0.35%	0.36%	-0.01%	-3.23%	0.46%	-0.11%	-24.28%
Annual Estimated Gross Yield <sup>3</sup>	0.38%	0.38%	-0.03%	-8.34%	0.55%	-0.17%	-30.91%
Weighted Average Maturity (WAM) <sup>4</sup>	306	300	6	2.13%	286	40	15.04%

<sup>1</sup> Market values provided by Bloomberg and Northern Trust.  
<sup>2</sup> In March 2012, OCEIP and OCEIP held higher yielding securities, which over time have matured and were reinvested in lower yielding securities. As a result, the overall earnings and yield have dropped since March 2012.  
<sup>3</sup> Annual Estimated Gross Yield for March 2012 is reported at the actual annual gross yield for FY 2011-12. During FY 2011-12, the OCEIP and OCEIP held higher yielding securities, which over time have matured and were reinvested in lower yielding securities. As a result, the actual yield in OCEIP and OCEIP has dropped, and we have adjusted the estimated gross yield for FY 2012-13 accordingly.  
<sup>4</sup> In March 2012, the WAM was lower in the OCEIP and OCEIP because of a higher percentage of shorter-term securities. In March 2013, the WAM in the OCEIP increased from the prior month primarily due to the purchase of longer term maturities.  
<sup>5</sup> In March 2013, the OCEIP balance increased and earnings decreased primarily due to incoming secured property tax receipts that were deposited and invested in short-term maturities with lower yields. Over 65% of these funds will be paid out to the County agencies and school districts in April.



COUNTY OF ORANGE  
**OFFICE OF THE TREASURER-TAX COLLECTOR**

Shari L. Freidenrich, CPA, CCMT, CPFA, ACPFIM  
 P. O. BOX 4515  
 SANTA ANA, CA 92702-4515

<http://www.ocgov.com/ocinvestments>

January 31, 2013

**ORANGE COUNTY CHILDREN AND FAMILIES COMMISSION**

Attn: Christina Altmayer, Executive Director  
 17320 Redhill Avenue, #200  
 Irvine, CA 92614

Monthly Apportionment Gross Yield: 0.395%  
 Administration Fee: -0.082%  
 Monthly Apportionment Net Yield: 0.313%

**Fund Number : 225**

**JANUARY 2013 STATEMENT**

**CASH IN TREASURY**

**Transactions**

Transaction Date	Transaction Description	Tran Type	Authorized Signer	Amount
01/01/13	December 2012 Admin Fee	AF		\$ (5,423.17)
01/28/13	December 2012 Interest	IN		\$ 21,679.47

**Summary**

Total Deposit:	\$ 1,657,138.31	Beginning Balance:	\$ 75,458,368.67
Total Withdrawal:	\$ (2,459,269.08)	Ending Balance:	\$ 74,656,237.90

**ACCRUED INVESTMENT INCOME**

**Transactions**

Transaction Date	Transaction Description	Tran Type	Authorized Signer	Amount
01/28/13	December 2012 Interest	IN		\$ (21,679.47)
02/01/13	January 2013 Interest	IN		\$ 25,403.60

**Summary**

Total Accrual:	\$ (21,679.47)	Beginning Balance:	\$ 21,679.47
Total Payment:	\$ 25,403.60	Ending Balance:	\$ 25,403.60



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February 28, 2013

**ORANGE COUNTY CHILDREN AND FAMILIES COMMISSION**

Attn: Christina Altmayer, Executive Director  
 17320 Redhill Avenue, #200  
 Irvine, CA 92614

Monthly Apportionment Gross Yield: 0.413%  
 Administration Fee: -0.082%  
 Monthly Apportionment Net Yield: 0.331%

**Fund Number : 225**

**FEBRUARY 2013 STATEMENT**

**CASH IN TREASURY**

**Transactions**

Transaction Date	Transaction Description	Tran Type	Authorized Signer	Amount
02/01/13	January 2013 Admin Fee	AF		\$ (5,268.89)
02/19/13	January 2013 Interest	IN		\$ 25,403.60

**Summary**

Total Deposit:	\$ 2,903,130.80	Beginning Balance:	\$ 74,656,237.90
Total Withdrawal:	\$ (3,956,285.22)	Ending Balance:	\$ 73,603,083.48

**ACCRUED INVESTMENT INCOME**

**Transactions**

Transaction Date	Transaction Description	Tran Type	Authorized Signer	Amount
02/19/13	January 2013 Interest	IN		\$ (25,403.60)
02/01/13	February 2013 Interest	IN		\$ 24,217.71

**Summary**

Total Accrual:	\$ (25,403.60)	Beginning Balance:	\$ 25,403.60
Total Payment:	\$ 24,217.71	Ending Balance:	\$ 24,217.71



COUNTY OF ORANGE  
**OFFICE OF THE TREASURER-TAX COLLECTOR**

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 P. O. BOX 4515  
 SANTA ANA, CA 92702-4515

[ocgov.com/ocinvestments](http://ocgov.com/ocinvestments)

March 31, 2013

**ORANGE COUNTY CHILDREN AND FAMILIES COMMISSION**

Attn: Christina Altmayer, Executive Director  
 17320 Redhill Avenue, #200  
 Irvine, CA 92614

Monthly Apportionment Gross Yield: 0.337%

Administration Fee: -0.082%

Monthly Apportionment Net Yield: 0.255%

**Fund Number : 225**

**MARCH 2013 STATEMENT**

**CASH IN TREASURY**

**Transactions**

Transaction Date	Transaction Description	Tran Type	Authorized Signer	Amount
03/01/13	February 2013 Admin Fee	AF		\$ (4,813.10)
03/15/13	February 2013 Interest	IN		\$ 24,217.71

**Summary**

Total Deposit:	\$ 2,487,604.07	Beginning Balance:	\$ 73,603,083.48
Total Withdrawal:	\$ (2,495,932.33)	Ending Balance:	\$ 73,594,755.22

**ACCRUED INVESTMENT INCOME**

**Transactions**

Transaction Date	Transaction Description	Tran Type	Authorized Signer	Amount
03/15/13	February 2013 Interest	IN		\$ (24,217.71)
04/01/13	March 2013 Interest	IN		\$ 21,375.28

**Summary**

Total Accrual:	\$ 21,375.28	Beginning Balance:	\$ 24,217.71
Total Payment:	\$ (24,217.71)	Ending Balance:	\$ 21,375.28

**CHILDREN AND FAMILIES COMMISSION ORANGE COUNTY**

**RESOLUTION NO. \_\_\_-13-C&FC**

**May 1, 2013**

**A RESOLUTION OF THE CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY RELATIVE TO INVESTMENT POLICY AND TREASURER FUNCTION; AND MAKING CERTAIN FINDINGS IN CONNECTION THEREWITH**

**WHEREAS**, in order to facilitate the creation and implementation of an integrated, comprehensive, and collaborative system of information and services to enhance optimal early childhood development, the legislature adopted legislation set forth in the California Children and Families Act of 1998, Health and Safety Code Section 130100, *et seq.* (as amended, the “Act”) implementing the Children and Families First Initiative passed by the California electorate in November, 1998 and establishing the California Children and Families Commission and County Children and Families Commissions, including this Children and Families Commission of Orange County (“Commission”); and

**WHEREAS**, pursuant to the Act and Article 25 of the Codified Ordinances of the County of Orange (“County Ordinance”), there is created the Children and Families Trust Fund (“Trust Fund”) of the Commission, and the Commission administers the revenues in the Trust Fund; and

**WHEREAS**, pursuant to the County Ordinance the Commission is empowered to enter into contracts with the County of Orange for specific staff purposes; and

**WHEREAS**, Commission desires to designate the Orange County Treasurer to perform all treasury related functions of the Commission pursuant to existing County Support Services Agreement and Section 4.4 of the Administrative Policy Guidelines of the Commission (as amended and approved by the Commission); and

**WHEREAS**, pursuant to California Government Code Section 53607 and California Government Code Section 53646(a)(2) the Treasurer of the Commission, if any, is authorized to invest or reinvest Commission funds and is directed to make monthly reports of investment transactions to the legislative body of the Commission and to annually render to the legislative body of the Commission a statement of investment policy, which the legislative body shall consider at a public meeting; and

**WHEREAS**, Commission has received from the Treasurer her statement of investment policy and has considered it at the public meeting at which this resolution is adopted.

**NOW, THEREFORE BE IT RESOLVED BY THE COMMISSIONERS OF THE CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY AS FOLLOWS:**

**Section 1** The Commission finds and determines the foregoing Recitals are true and correct and are a substantive part of this Resolution.

**Section 2** The Commission hereby designates the Orange County Treasurer as the Treasurer of the Commission. The Treasurer shall perform the duties imposed upon the office by law and Section 4.4 of the Administrative Policy Guidelines of the Commission. The Commission acknowledges receipt of and has considered its Treasurer's statement of investment policy. The Commission hereby affirms the delegation of authority to its Treasurer to invest moneys in accordance with the Orange County Investment Policy and to perform all other treasurer functions, as described in Section 4.4 of the Administrative Policy Guidelines and applicable provisions of California Government Code, including the making of periodic reports to the governing board of the Commission.

**Section 3** The Commission specifically determines that excess funds, comprising all the moneys in the Trust Fund are available for investment pursuant to Government Code Section 53684. The persons at the Commission authorized to coordinate transactions are the Executive Director and Finance Director. The Commission agrees to be bound by the withdrawal provisions of California Government Code Section 27136, and the Commission acknowledges that administrative charges will be deducted as permitted by Section 53684(b) and 27013. Investments in the Orange County Investment Fund in accordance with existing Commission practice is ratified and affirmed, and the Executive Director is authorized and directed to execute any instrument required by the Investment Policy indicating an undertaking of the possible net asset value risk involved as a result of such investment.

**Section 4** In addition to the authorization of Sections 2 and 3 above, the Commission Executive Director (or his designee) is hereby authorized, on behalf of the Commission, (i) to sign all documents and to take all other actions reasonably necessary and appropriate to carry out and implement the Agreement or as may be reasonably requested by its Treasurer or other County official relative to the provision of services by the County related to the treasury function, (ii) to cause the issuance of warrants, and (iii) to administer the Commission's obligations, responsibilities and duties to be performed under the Agreement.

**Section 5** The Clerk of the Commission shall certify to the adoption of this Resolution.

The foregoing resolution was passed and adopted by the following vote of the Children and Families Commission of Orange County on May 1, 2013 to wit:

AYES: Commissioners: \_\_\_\_\_

NOES: Commissioner(s): \_\_\_\_\_

EXCUSED: Commissioner(s): \_\_\_\_\_

ABSTAINED: Commissioner(s) \_\_\_\_\_

\_\_\_\_\_  
CHAIR

STATE OF CALIFORNIA    )  
  )  
COUNTY OF ORANGE    )

I, SUSAN NOVAK, Clerk of the Commission of Orange County, California, hereby certify that a copy of this document has been delivered to the Chair of the Commission and that the above and foregoing Resolution was duly and regularly adopted by the Children and Families Commission of Orange County.

**IN WITNESS WHEREOF**, I have hereto set my hand and seal.

\_\_\_\_\_  
SUSAN NOVAK  
Clerk of the Commission, Children and Families Commission of  
Orange County, County of Orange, State of California

Resolution No: \_\_-13-C&FC

Agenda Date: May 1, 2013

Item No. \_\_\_\_



I certify that the foregoing is a true and correct copy of the Resolution adopted by the

SUSAN NOVAK, Clerk of the Commission

By: \_\_\_\_\_  
Deputy