

# Orange County Treasurer



# Investment Policy Statement

TABLE OF CONTENTS

Page No.

I.	Policy Statement .....	3
II.	Scope.....	3
III.	Prudence.....	4
IV.	Delegation of Authority .....	5
V.	Objectives .....	5
VI.	Authorized Investments .....	6
VII.	Investment Restrictions.....	9
VIII.	Diversification and Maturity Restrictions.....	10
IX.	Prohibited Transactions .....	12
X.	Ethics and Conflict of Interest .....	13
XI.	Authorized Financial Dealers and Qualified Institutions.....	13
XII.	Performance Evaluation.....	14
XIII.	Safekeeping.....	14
XIV.	Maintaining Public Trust .....	14
XV.	Internal Controls .....	14
XVI.	Compensation Agreement.....	15
XVII.	Voluntary Participants .....	15
XVIII.	Withdrawal.....	16
XIX.	Performance Standards .....	16
XX.	Investment Policy Review .....	16
XXI.	Financial Reporting.....	16
XXII.	Legislative Changes .....	17
XXIII.	Disaster Recovery Program .....	17
XXIV.	Investment Policy Adoption .....	17
XXV.	Glossary .....	18

# **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 flows 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 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 economy 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 greater access to the market. OCIF may be split into different pools to meet the specific needs of participants such as short-term money funds and longer-term funds. Each fund established will be reviewed separately for purposes of determining compliance with the Investment Policy Statement. These funds are based on the investment requirements detailed in California Government Code Section 53601 and 53635.

- i. If a longer-term fund such as the 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 funds 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 funds 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 diversification 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 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 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 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 funds 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 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.

### **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 fund that can be invested in this category, but each issuer type is limited to 30% of the fund.

### **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 NRSRO, 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 the investments held by the Treasurer 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 at least A1/P1 and a long-term rating of at least a single A from a NRSRO, if any. Investments in negotiable certificates of deposit are limited to 30% of the fund.

### **5. REPURCHASE AGREEMENTS**

Investments in repurchase agreements may be collateralized by any securities authorized within this section, but are limited to 20% of the total fund. Agreements are subject to California Government Code Section 53601 and must comply with the delivery requirements and the maturity provision from Section 53601.

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). 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 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, the investment restrictions from Section VIII.2 herein consider U.S. Treasury and/or U.S. 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 Treasurer retains the right to substitute or grant substitutions of collateral.

#### **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 A or higher, if any. Bankers' acceptances are limited to 40% of the fund. In addition, no more than 30% of the total fund may be invested in the bankers' acceptances of any one commercial bank.

#### **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 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 20% with 10% 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 NRSRO.
- 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.

**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 the short-term funds such as money market funds and five years for the longer-term funds such as the 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 “A” rated or its equivalent or better as determined by two NRSROs and are limited to 30% of the Fund.

**10. INVESTMENT POOLS/MONEY MARKET FUNDS**

Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized under 53601 (a) to (k) and (m) 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. Investments in this investment type are limited to 20% of the Fund and 10% of a single money market fund.

**VII. INVESTMENT RESTRICTIONS**

**1. CREDIT RATINGS:**

Credit ratings will be applied at the time of purchase of a security. In the event a security has multiple ratings, 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 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 a Nationally Recognized Statistical Rating Organization (NRSRO).

- 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 funds such as a money market fund- shall be rated no less than “A” by at least two NRSROs.

Investments purchased for long-term funds, such as the extended fund, – shall be rated no less than “AA” by at least two NRSROs.

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 5% in one issuer	1 Year	1 Year	1 Year
Money Market Mutual Funds	20%, 10% in a single fund	20% Total, no more than 10% in one fund	N/A	5 Years	397 Days

**2. ISSUER CONCENTRATION:**

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

b). No more than 5% of the fund’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 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, a fund may invest up to ten percent (10%) of its market value in a single issuer for a period up to three business days only with approval of the Treasurer except Commercial Paper which is limited to 5% per issuer. The fund may not invest in the securities of more than one issuer under this provision at any time.

No more than 10% of the fund’s market value may be invested in any one Money Market Mutual Fund.

**3. MATURITY:**

a) The weighted average maturity (WAM) of the 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 may be used.
- d) For purposes of calculating the weighted average maturity of the portfolio, 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.

#### 4. DURATION:

- a) The long-term funds, such as the 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, 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.

- d) 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 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 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 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(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 (see attached Exhibit A). 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 the Local Agency Investment Fund). 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. All agreements, statements and trade packets will be subject to review annually by auditors in conjunction with their audit.

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.

The Treasurer shall designate a staff person 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 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.

Investment earnings and the above 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 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 the benchmark index for that portfolio 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. 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 personnel, as well as, active bankers and broker/dealers. Three copies of the Disaster Plan for home, office and car have been distributed to key Treasury 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, 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)

**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.

**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)

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

**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)

**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.

**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.

**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 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.

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

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

**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.

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

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

**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.