



# **CONTRA COSTA COUNTY**

## **TREASURER'S**

# **ANNUAL INVESTMENT POLICY**

**FISCAL YEAR 2024-2025**

**APPROVED BY THE BOARD OF SUPERVISORS  
IN APRIL 2024**

The Contra Costa County Treasurer will annually present to both the Board of Supervisors (Board) and the Treasury Oversight Committee (Committee) a statement of investment policy, which the Board shall review and approve at a public meeting. Any changes in the policy shall also be reviewed and approved by the Board at a public meeting (Gov't Code §53646(a)(1)).

**OFFICE OF COUNTY TREASURER-TAX COLLECTOR**  
625 COURTS STREET, ROOM 100  
MARTINEZ, CALIFORNIA 94553

**California Municipal  
Treasurers Association**



*Investment Policy Certification*



Issued on 4/24/2019

**Contra Costa County**

The California Municipal Treasurers Association certifies that the investment policy of the Contra Costa County complies with the current State statutes governing the investment practices of local government entities located within the State of California.



President

April 24, 2019

Date

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# CONTRA COSTA COUNTY

## TREASURER'S ANNUAL INVESTMENT POLICY

### 1.0 PURPOSE

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines of surplus funds entrusted to the care of the Contra Costa County Treasurer's Office (Treasurer's Office) in accordance with applicable sections of California Government Code. All portfolio activities will be judged by the standards of the Policy and its ranking of investment objectives.

### 2.0 SCOPE

This Policy applies to all and only funds over which the Treasurer's Office has been granted fiduciary responsibility and direct control for their management. The funds covered by this Policy are accounted for and incorporated in the Contra Costa County Annual Comprehensive Financial Report (ACFR) and include but not limited to: Government Funds (e.g. general fund, special revenue funds, debt service funds, capital project funds, and permanent fund), Proprietary Funds (e.g. enterprise funds and internal service funds), and various Trust Funds.

### 3.0 PARTICIPANTS

This Policy restricts deposits to those agencies mandated by California Government Code as treasury deposits. However, subject to the consent of the Treasurer's Office and in accordance with section 53684, exemptions may be granted to non-mandatory depositing agencies, if it is determined that the additional deposit provides a benefit to the investment pool as a whole while not creating unmanageable liquidity risk.

### 4.0 IMPLEMENTATION

In order to provide direction to those responsible for management of surplus funds, the County Treasurer has established this Policy and presented it to the Treasury Oversight Committee and the Board of Supervisors, and has made it available to the legislative body of local agencies that participates in the County Treasurer's investment program.

The Policy explains investable funds; authorized instruments; credit quality required; maximum maturities and concentrations; collateral requirements; qualifications of brokers/dealers and financial institutions doing business with, or on behalf of, the County; limits on gifts and honoraria; the reporting requirements; the Treasury Oversight Committee; the manner of apportioning interest earnings and appropriating investment costs; and the criteria to request withdrawal of funds.

### 5.0 OBJECTIVES

**Gov't Code §53600.5:** When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control.

**5.1 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 objective will be to mitigate credit risk and market risk.

**5.1.a** *Credit Risk*

The Treasurer will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

1. Limiting investments to the safest type of securities
2. Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the Treasurer's Office will do business.
3. Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

**5.1.b Market Risk**

The Treasurer's Office will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

1. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
2. Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

**5.2 Liquidity:** The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

**5.3 Yield:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities may be sold prior to maturity when deemed prudent and necessary. Reasons of selling include but are not limited to:

1. **A security with declining credit may be sold early to minimize loss of principal.**
2. **A security swap would improve the quality, yield, or target duration in the portfolio.**
3. **Liquidity needs of the portfolio require that the security be sold.**
4. **Portfolio rebalancing would bring the portfolio back into compliance.**

Investments will be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

**5.4 Public Trust:** All investments will be in conformance with state law and county ordinances and policies. The investment of public funds is a task that must maintain the public trust.

## **6.0 GENERAL STRATEGY**

**6.1 Buy and Hold:** The Treasurer will generally use the passive investment strategy known as BUY AND HOLD whereas securities are purchased with the intent of holding them to maturity. Interest income and the reinvestment of interest income usually are the only sources of return in the portfolio.

The investment program will focus on purchasing securities that will limit or reduce the potential default risk and ensure the reliability of cash flows from interest income. Generally, purchases will be laddered throughout the portfolio in order to minimize the number and cost of investment transactions.

## **7.0 STANDARD OF CARE**

The following policies are designed in accordance with Government Code to provide transparency to the investment program while enhancing portfolio controls:

### **7.1 Prudent Investor Standard**

The standard of prudence to be used by the designated representative shall be subject to the “prudent investor” standard and shall be applied in the context of managing the overall portfolio. “Governing bodies of local agencies or persons authorized to make investment decisions on behalf of those local agencies investing public funds are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, 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 agency. Within the limitations of this section and considering individual investments as part to an overall strategy, investments may be acquired as authorized by law.” (Gov’t Code §53600.3.)

For the investment of county funds in a county treasury, Government Code Section 27000.3 establishes the board of supervisors as a fiduciary that is subject to the prudent investor standard unless it delegates its investment duties to the county treasurer. For local agency funds invested in the county treasury pool, the county treasurer serves as a fiduciary and is subject to the prudent investor standard.

### **7.2 Ethics and Conflicts of Interest**

Investment officials shall refrain from personal business activity that could conflict with proper execution and management of the Policy and investment program, or which could impair their ability to make impartial decisions. Please refer to the Contra Costa County Treasurer-Tax Collector’s Conflict of Interest Code for further explanation of the prohibited activities, and their enforcements and exceptions.

### **7.3 Limits on Honoraria, Gifts, and Gratuities**

In accordance with California Government Code Section 27133(d), this Policy establishes limits for the Director of Finance; individuals responsible for management of the portfolios; and members of the Investment Group and Review Group who direct individual investment decisions, select individual investment advisors and brokers/dealers, and conduct day-to-day investment trading activity. The limits also apply to members of the Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of \$50 in a calendar year from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the designated filing official and complete the appropriate State forms.

No individual may receive aggregate gifts, honoraria, and gratuities in a calendar year in excess of the amount specified in Section 18940.2(a) of Title 2, Division 6 of the California Code of Regulations. This limitation is \$590 for the period January 1, 2023, to December 31, 2024. Any violation must be reported to the State Fair Political Practices Commission.

### **7.4 Delegation of Authority**

- 7.4.a** Subject to Section 53607, the board of supervisors may, by ordinance, delegate to the county treasurer the authority to invest or reinvest the funds of the county and the funds of other depositors in the county treasury, pursuant to Chapter 4 (commencing with Section 53600) of Part 1 of Division 2 of Title 5. The county treasurer shall thereafter assume full responsibility for those transactions until the board of supervisors either revokes its delegation of authority, by ordinance, or decides not to renew the annual delegation, as provided in Section 53607 (Gov't Code §27000.1). For local agency funds invested in the county treasury pool, the county treasurer serves as a fiduciary and is subject to the prudent investor standard.
- 7.4.b** Responsibility for the operation of the investment program is hereby delegated to the County Treasurer, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures include references to the following: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the County Treasurer.

### **7.5 Treasury Oversight Committee**

In compliance with a Board Order of the Contra Costa County Board of Supervisors, the County Contra Costa County Treasury Oversight Committee was established in November 6 of 1995. The intent of the Committee is to allow local agencies, including school districts, as well as the public, to participate in reviewing the policies that guide the investment of public funds. The mandate for the existence of the Committee was suspended in 2004 by the State of California; however, the Committee serves an important function and the Treasurer's Office has elected to continue the program.

- 7.5.a** The Committee shall annually review and monitor the County's Investment Policy.
- 7.5.b** The Committee shall cause an annual audit to determine the County Treasurer's compliance with the Investment Policy and all investment funds in the county Treasury.

### **8.0 SAFEKEEPING AND CUSTODY**

- 8.1 Delivery vs. Payment:** All trades of marketable securities will be executed (cleared and settled) on a delivery vs. payment (DVP) basis to ensure that securities are deposited in the County Treasurer's safekeeping institution prior to the release of funds.
- 8.2 Third-party Safekeeping:** Securities will be held by an independent third-party safekeeping institution selected by the County Treasurer. All securities will be evidenced by safekeeping receipts in the County's name or in a name designated by the County Treasurer. The safekeeping institution shall annually provide a copy of its most recent report on internal controls - Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011.)
  - 8.2.a** A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered or non-registered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisors, consultants or managers using the agency's funds, by book entry, physical delivery or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book-entry account may be used for book-entry delivery. For purposes of this section, "counterparty" means the other party to the transaction. A



counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage limitation for a particular category of investment, that percentage is applicable only at the date of purchase. Where this section does not specify a limitation on the term of remaining maturity at the time of the investment, no investment shall be made in any security other than a security underlying a repurchase or reverse repurchase agreement authorized by this section.

**8.2.b** In compliance with this section, the securities of Contra Costa County and its agencies shall be in safekeeping at The Bank of New York Trust Company, N. A., a counterparty bank's trust department or as defined in the debt indenture and contract.

**8.3 Internal Controls:** The County Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Treasurer are protected from loss, theft or misuse. Specifics for the internal controls shall be documented in an investment procedures manual that shall be reviewed and updated periodically by the County Treasurer.

The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgements by management.

As part of the internal controls, the investment portfolio managed by the County Treasurer shall be audited annually by both internal and external auditors.

## **9.0 AUTHORIZED BROKERS/DEALERS AND FINANCIAL INSTITUTIONS**

**9.1** All transactions initiated on behalf of the Pooled Investment Fund and Contra Costa County shall be executed only through one of the following:

1. Government security dealers reporting as primary dealers to the Market Reports Division of the Federal Reserve Bank of New York;
2. Banks and financial institutions that directly issue their own securities which have been placed on the Approved List of Brokers/Dealers and Financial Institutions;
3. Brokers/dealers in the State of California approved by the County Treasurer based on the reputation and expertise of the company and individuals employed.

**Brokers/dealers and financial institutions which have exceeded the political contribution limits as contained in Rule G-37 of the Municipal Securities Rulemaking Board within a four-year period to the County Treasurer or a member of the governing board of a local agency or any candidate for those offices, are prohibited from the Approval List of Brokers/Dealers and Financial Institutions.**

**9.2 Qualifications:** All financial institutions and brokers/dealers who desire to become qualified for investment transactions must complete Contra Costa County Treasurer's Office Broker/Dealer Due Diligence Questionnaire which can be obtained at [www.cctax.us](http://www.cctax.us). An annual review of the approved brokers/dealers will be conducted by the Treasurer's Office. The Treasurer's Office may request additional documents from the brokers/dealers during the annual review. A brokers/dealer may be deleted from the Approved Brokers list without cause and without prior notification.

### **9.3 List of Approved Financial Institutions, Security Brokers and Dealers**

A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security brokers/dealers selected for creditworthiness and qualifications stated in section 9.2. However, the County Treasury will not be limited to the financial institutions and brokers/dealers on the list. Others will be included as

long as conditions for authorized financial institutions and brokers/dealers set forth in this Policy are met. Additionally, deletions and additions are based on the maintenance of required credit quality as rated by a nationally recognized statistical-rating organization (NRSRO) or reliable financial sources.

## **10.0 SUITABLE AND AUTHORIZED INVESTMENTS**

**10.1 Authorized Investment Types:** (Gov't Code §53600 et seq.) The legislative body of a local agency having moneys in a sinking fund or moneys in its treasury not required for the immediate needs of the local agency may invest any portion of the moneys that it deems wise or expedient in the investments set forth below. A local agency purchasing or obtaining any securities prescribed in this section, in a negotiable, bearer, registered, or nonregistered format, shall require delivery of the securities to the local agency, including those purchased for the agency by financial advisers, consultants, or managers using the agency's funds, by book entry, physical delivery, or by third-party custodial agreement. The transfer of securities to the counterparty bank's customer book entry account may be used for book entry delivery.

For purposes of this section, "counterparty" means the other party to the transaction. A counterparty bank's trust department or separate safekeeping department may be used for the physical delivery of the security if the security is held in the name of the local agency. Where this section specifies a percentage and/or rating limitation for a particular category of investment, that percentage and/or rating are applicable only at the date of purchase. Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment:

- 10.1.a Bonds issued by the local agencies**, 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.
- 10.1.b United States Treasury notes, bonds, bills or certificates of indebtedness**, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- 10.1.c Registered state warrants or treasury notes or bonds of this state**, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency or authority of the state.
- 10.1.d Registered treasury notes or bonds of any of the other 49 states** in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.
- 10.1.e Bonds, notes, warrants or other evidences of indebtedness of any local agency within this 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.
- 10.1.f Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments**, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

**10.1.g Banker’s acceptances otherwise known as bills of exchange or time drafts** drawn on and accepted by a commercial bank. Purchases of banker’s acceptances may not exceed 180 days’ maturity or 40 percent of the agency’s money that may be invested pursuant to this section. However, no more than 30 percent of the agency’s money may be invested in banker’s acceptances of any one commercial bank pursuant to this section. This subdivision does not preclude a municipal utility district from investing any money in its treasury in any manner authorized by the Municipal Utility District Act (Division 6, commencing with Section 11501, of the Public Utilities Code).

**10.1.h Commercial paper** of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO). The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

1. The entity meets the following criteria:
  - A. Is organized and operating in the United States as a general corporation.
  - B. Has total assets in excess of five hundred million dollars (\$500,000,000).
  - C. Has debt other than commercial paper, if any, that is rated in a rating category of “A” or its equivalent or higher by a nationally recognized statistical-rating organization (NRSRO).
2. The entity meets the following criteria:
  - A. Is organized within the United States as a special purpose corporation, trust, or limited liability company.
  - B. Has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond.
  - C. Has commercial paper that is rated “A-1” or higher, or the equivalent, by a nationally recognized statistical-rating organization (NRSRO).

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city and county, that have less than one hundred million dollars (\$100,000,000) of investment assets under management, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county, that have one hundred million dollars (\$100,000,000) or more of investment assets under management may invest no more than 40 percent of their moneys in eligible commercial paper. A local agency, other than a county or a city and a county, may invest no more than 10 percent of its total investment assets in the commercial paper and the medium-term notes of any single issuer. Counties or a city and county may invest in commercial paper pursuant to the concentration limits in subdivision (a) of Section 53635:

- i. Not more than 40 percent of the local agency’s money may be invested in eligible commercial paper.
- ii. Not more than 10 percent of the total assets of the investments held by a local agency may be invested in any one issuer’s commercial paper.

**10.1.i Negotiable certificates of deposit** issued by a nationally- or state-chartered bank or a savings association or federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30 percent of the agency’s money that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposits do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section

53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the money are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or any person with investment decision making authority in the administrative office, manager's office, budget office, auditor-controller's office, or treasurer's office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

**10.1.j Repurchase and reverse repurchase agreements**

1. Investments in *repurchase agreements* or *reverse repurchase agreements* of any securities authorized by this section, provided that the agreements are subject to this subdivision, including the delivery requirements specified in this section, and that a signed Master Repurchase Agreement is on file in the Treasurer's Office for all financial institutions that enter into a repurchase agreement with Contra Costa County.
2. Investments in repurchase agreements may be made on any investment authorized in this section when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. 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 percent no later than the next business day.
3. Reverse repurchase agreements or securities lending agreements may be utilized only when all of the following conditions are met:
  - A. The security to be sold using a reverse repurchase agreement or securities lending agreement has been owned and fully paid for by the local agency for a minimum of 30 days prior to sale.
  - B. The total of all reverse repurchase agreements and securities lending agreements on investments owned by the local agency does not exceed 20 percent of the base value of the portfolio.
  - C. The agreement does not exceed a term of 92 days, unless the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.
  - D. Funds obtained or funds within the pool of an equivalent amount to that obtained from selling a security to a counterparty using a reverse repurchase agreement or securities lending agreement shall not be used to purchase another security with a maturity longer than 92 days from the initial settlement date of the reverse repurchase agreement or securities lending agreement, unless the reverse repurchase agreement or securities lending agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity date of the same security.
4. Prior approval of the governing body; only with primary dealers:

- A. Investments in reverse repurchase agreements, securities lending agreements, or similar investments in which the local agency sells securities prior to purchase with a simultaneous agreement to repurchase the security may be made only upon prior approval of the governing body of the local agency and shall be made only with primary dealers of the Federal Reserve Bank of New York or with a nationally or state-chartered bank that has or has had a significant banking relationship with a local agency.
  - B. For purposes of this policy, "significant banking relationship" means any of the following activities of a bank:
    - i. Involvement in the creation, sale, purchase, or retirement of a local agency's bonds, warrants, notes, or other evidence of indebtedness.
    - ii. Financing of a local agency's activities.
    - iii. Acceptance of a local agency's securities or funds as deposits.
5. Definitions and terms of repos, securities and securities lending:
- A. "Repurchase agreement" means a purchase of securities by the local agency pursuant to an agreement by which the counterparty seller will repurchase the securities on or before a specified date and for a specified amount and the counterparty will deliver the underlying securities to the local agency by book entry, physical delivery, or by third-party custodial agreement. The transfer of underlying securities to the counterparty bank's customer book-entry account may be used for book-entry delivery.
  - B. "Securities," for purposes of repurchase under this subdivision, means securities of the same issuer, description, issue date, and maturity.
  - C. "Reverse repurchase agreement" means a sale of securities by the local agency pursuant to an agreement by which the local agency will repurchase the securities on or before a specified date and includes other comparable agreements.
  - D. "Securities lending agreement" means an agreement under which a local agency agrees to transfer securities to a borrower who, in turn, agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.
  - E. For purposes of this section, the base value of the local agency's pool portfolio shall be that dollar amount obtained by totaling all cash balances placed in the pool by all pool participants, excluding any amounts obtained through selling securities by way of reverse repurchase agreements, securities lending agreements, or other similar borrowing methods.
  - F. For purposes of this section, the spread is the difference between the cost of funds obtained using the reverse repurchase agreement and the earnings obtained on the reinvestment of the funds.

**10.1.k Medium-term notes**, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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 under this subdivision shall be rated in a rating category of "A" or its equivalent or better by an NRSRO. Purchases of medium-term notes shall not include

other instruments authorized by this section and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

**10.1.l Shares of beneficial interest**

1. Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (o), (q), inclusive, and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630). However, notwithstanding these restrictions, a counterparty to a reverse repurchase agreement or securities lending agreement is not required to be a primary dealer of the Federal Reserve Bank of New York if the company's board of directors finds that the counterparty presents a minimal risk of default, and the value of the securities underlying a repurchase agreement or securities lending agreement may be 100 percent of the sales price if the securities are marked to market daily.
2. Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.).
3. If investment is in shares issued pursuant to paragraph (1), the company shall have met either of the following criteria:
  - A. Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs.
  - B. Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (o), (q), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000).
4. If investment is in shares issued pursuant to paragraph (2), the company shall have met the following criteria:
  - A. Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.
  - B. Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, and subdivisions (m) to (o), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000).
5. The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include any commission that the companies may charge and shall not exceed 20 percent of the agency's money that may be invested pursuant to this section. However, no more than 10 percent of the agency's funds may be invested in shares of beneficial interest of any one mutual fund pursuant to paragraph (1).

**10.1.m Moneys held by a trustee or fiscal agent** and pledged to the payment of security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, may be invested in accordance with the statutory provisions governing the issuance of those bonds, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are not specific statutory provision, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

- 10.1.n Notes, bonds, or other obligations that are at all times secured by a valid first-priority security interest** in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.
- 10.1.o Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond.** Securities eligible for investment under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by a NRSRO and have a maximum remaining maturity of 5 years or less. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency’s surplus money that may be invested pursuant to this section.
- 10.1.p Shares of beneficial interest issued by a joint power authority** organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (n), (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing shares shall have retained an investment adviser that meets all of the following criteria:
1. The adviser is registered or exempt from registration with the Securities and Exchange Commission.
  2. The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (n), (q), inclusive.
  3. The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).
- 10.1.q United States dollars denominated senior unsecured unsubordinated obligations** issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of “AA” or its equivalent better by an NRSRO and shall not exceed 30 percent of the agency’s moneys that may be invested pursuant to this section.

## **11.0 RESTRICTIONS AND PROHIBITIONS**

### **11.1 Restrictions set by the Treasurer**

- 11.1.a** All investments purchased by the Treasurer’s Office shall be of investment grade. The minimum credit rating of purchased investments shall be as defined by Government Code 53600 et. seq.
- 11.1.b** All legal securities issued by a tobacco-related company are prohibited. A tobacco-related company is defined as 1) an entity that makes smoking products from tobacco used in cigarettes, cigars and/or snuff, or for smoking in pipes or 2) a company that has total revenues of 15 percent or more from the sale of such tobacco products. The tobacco-related issuers restricted from any investment are Alliance One, Altria Group, Inc., Auri Inc., British American Tobacco PLC, Imperial Tobacco Group PLC, Kirin International

Holding Inc., Lorillard, Philip Morris International, Reynolds American, Inc., Schweitzer-Mauduit International Inc., Smokefree Innotec Inc., Star Scientific Inc., Universal Corp., and Vector Group, Ltd. The Treasury staff will update the list of tobacco-related companies when necessary.

- 11.1.c** Debt instruments issued by the following fossil fuel companies are prohibited from being invested directly by the Treasury Pool: Chevron, Exxon Mobil, Total Energies SE, BP PLC, Marathon Petroleum, Shell PLC, Valero Energy Corporation, Phillips 66. The Treasury staff will update the list of fossil fuel companies when necessary.
- 11.1.d** Financial futures or financial option contracts will each be approved on a per trade basis by the County Treasurer.
- 11.1.e** Reverse repurchase agreements will be used strictly for the purpose of supplementing income with a limit of 10 percent of the total portfolio with prior approval of the Treasurer.
- 11.1.f** SBA loans require prior approval from the Treasurer in every transaction.
- 11.1.g** Securities purchased through brokers will be held in safekeeping at The Bank of New York Trust Company, N.A. or as designated by the specific contract(s) for government securities and tri-party repurchase agreements.
- 11.1.h** Swaps and Trades will each be approved on a per-trade basis by Treasurer or Assistant Treasurer.

## **11.2 Prohibitions by Government Code (§53601.6)**

- 11.2.a** A local agency shall not invest any funds pursuant to this Article or pursuant to Article 2 (commencing with Section 53630) in inverse floaters, range notes, or mortgage-derived, interest-only strips.
- 11.2.b** (1) Except as provided in paragraph (2), a local agency shall not invest any funds pursuant to this article or pursuant to Article 2 (commencing with Section 53630) in any security that could result in zero-interest accrual if held to maturity. However, a local agency may hold prohibited instruments until their maturity dates. The limitation in this subdivision shall not apply to local agency investments in shares of beneficial interest issued by diversified management companies registered under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.) that are authorized for investment pursuant to Government Code Section 53600, et. seq.  
  
(2) Notwithstanding the prohibition in paragraph (1), a local agency may invest in securities issued by, or backed by, the United States government that could result in zero- or negative-interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates. A local agency may hold these instruments until their maturity dates.
- 11.2.c** This section shall remain in effect only until January 1, 2026, and as of that date is repealed.

## **12.0 INVESTMENT PARAMETERS**

- 12.1 Diversification:** Investments shall be diversified to minimize the risk of loss and to maximize the rate of return by:
  - 1. Limiting investment to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
  - 2. Limiting investment in securities that have higher credit risks,



3. Investing in securities with varying maturities, and
4. Continuously investing a portion of the portfolio in readily available funds such as investment pools, money market funds, or repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

**12.2 Maximum Maturities:** To the extent possible, the County Treasurer shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Treasurer will not directly invest in securities maturing more than five (5) years from the date of purchase (specifically the settlement date) or in accordance with state and local statutes and ordinances. The Treasurer shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as LAIF, money market funds, or overnight products to ensure that appropriate liquidity is maintained to meet ongoing obligations.

**12.3 Exception to Maximum Maturity:** In accordance with Government Code, the County Treasurer retains the right to petition the Board of Supervisors for approval to invest in securities with a final maturity in excess of five years. The Board of Supervisors adoption of any resolution allowing maturities beyond five years shall be considered an allowed modification to this policy and any investments made in accordance with the modification shall be allowable under this policy.

**12.4 Investment Criteria<sup>1</sup>:** All limitations set forth in this Policy are applicable only at the time of purchase. The County Treasurer has the full discretion to rebalance the portfolio when it is out of compliance owing to various reasons, such as market fluctuation.

| INVESTMENT TYPE   | MAXIMUM % of PORTFOLIO | MAXIMUM MATURITY | MAXIMUM % of ISSUE | OTHER RESTRICTIONS |
|---|------------------------|------------------|--------------------|--------------------|
| Bonds issued by local agencies  | 100%                   | 5 years          | 100%               |                    |
| U.S. Treasury Obligations   | 100%                   | 5 years          | 100%               |                    |
| Registered State Warrants, and CA Treasury Notes and bonds                        | 100%                   | 5 years          | 100%               |                    |
| Registered Treasury Notes or Bonds of any of the other 49 state in addition to CA | 100%                   | 5 years          | 100%               |                    |
| Bonds and Notes issued by other local agencies in California                      | 100%                   | 5 years          | 100%               |                    |
| Obligations of U.S. Agencies or government sponsored enterprises                  | 100%                   | 5 years          | 100%               |                    |
| Bankers Acceptances)<br>Domestic: (\$5B min. assets)                              | 40%                    | 180 days         | 30%<br>Aggregate   |                    |
| Foreign: (\$5B min. assets)   | 40%                    | 180 days         | 5%<br>Aggregate    |                    |

<sup>1</sup> The rating requirement for each investment type is referenced in the relevant sections of California Government Code.

| INVESTMENT TYPE   | MAXIMUM % of PORTFOLIO | MAXIMUM MATURITY   | MAXIMUM % of ISSUE                                | OTHER RESTRICTIONS   |
|---|------------------------|--------------------|---|--|
| Commercial paper  | 40%                    | 270 days or less   | 10% Aggregate                                     | No more than 10 % of the local agency's money may be invested in the commercial paper of any single issuer.  |
| Negotiable Certificates of Deposit (\$5 billion minimum assets)                       | 30%                    | 5 years            | 10% Aggregate                                     |  |
| Repurchase Agreements secured by U.S. Treasury or agency obligation (102% collateral) | 100%                   | 1 year             | See limitations for Treasuries and Agencies above | Generally limited to Wells Fargo Bank, Bank of America or other institutions with whom the County treasury has executed tri-party agreements. Collateral will be held by a third party to the transaction that may include the trust department of particular banks. Collateral will be only securities that comply with Government Code |
| Reverse Repurchase Agreements and Securities Lending Agreements                       | 20%                    | 92 days            | See limitations for Treasuries and Agencies above |  |
| Corporate bonds, Medium Term Notes & Covered  | 30%                    | 5 years            | 10% Aggregate                                     | No more than 10 % of the local agency's money may be invested in the medium-term notes of any single issuer.   |
| Shares of beneficial interest issued by diversified mgt. companies                    | 20%                    | N/A                | 10% Aggregate                                     |  |
| Moneys held by a trustee or fiscal agent  | 20%                    | N/A                |   |  |
| Collateralized Notes, Bonds, Time Deposits, or other obligations                      | 15%                    | 5 years            | 5% Aggregate                                      | Collateralized by the eligible securities at a percentage specified in Government Code   |
| Mrtg Backed Securities/CMO's:<br>Asset Backed Securities                              | 20%<br>20%             | 5 Years<br>5 Years | 5%<br>Aggregate                                   | <u>No</u> Inverse Floaters<br><u>No</u> Range Notes<br><u>No</u> Interest only strips derived from a pool of mortgages   |
| Joint Powers Authority (JPA)  | As limited by JPA      | N/A                | As limited by JPA                                 |  |
| Supranational obligations   | 30%                    | 5 Years            | 100%  | Rated "AA" or better by an NRSRO   |
| Local Agency Investment Fund (LAIF)   | As Limited by LAIF     | N/A                | As limited by LAIF                                |  |

### 13.0 EXTERNALLY MANAGED INVESTMENT POOLS, MUTUAL FUNDS AND SEPARATE ACCOUNTS

The County Treasurer may invest a portion of the investment pool assets in investment pools, mutual funds, and separate account investment funds managed by the external investment managers. A thorough due diligence shall be conducted on the external investment managers and the pool/funds prior to investing, and on a continual basis.

### 14.0 PORTFOLIO MANAGEMENT ACTIVITY

#### 14.1 Passive Portfolio Management:

(See Section 6.0., General Strategy)

#### 14.2 Purchase of Investment Securities:

Investment Securities will be purchased in the most cost effective and efficient manner by using a competitive bidding process. However, the investment securities may or may not carry the highest coupon or yield at the time of purchase after taking into consideration the various limitations of the Investment Policy and risks.

ESG investments may be considered so long as such investments achieve equivalent safety, liquidity, and yield compared to other investment opportunities.

### **14.3 Reviewing and Monitoring of the Portfolio:**

The portfolio is closely monitored on a regular basis for compliance purposes. Both monthly and quarterly reports will review portfolio investments to ensure they are kept track of in a timely manner. The reports will also monitor the County Treasurer's investment practices and the results of such practices.

### **14.4 Portfolio Adjustments:**

Certain actions may be taken if the portfolio becomes out of compliance. For instance, should a concentration limitation be exceeded due to an incident such as a fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses; however, the County Treasurer may choose to rebalance the portfolio earlier to bring it back into compliance if the portfolio will not suffer any losses for selling the investment prior to maturity.

### **14.5 Performance Standards:**

The investment portfolio will be managed in accordance with the parameters specified within this Policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks, such as 6-month US Treasury Bill, Fed Funds Rates Index, may be referenced for comparison purposes. However, the benchmarks may change as appropriate based on the duration of the investment pool and/or cash flow requirements.

## **15.0 REPORTING**

**15.1 Methodology:** The County Treasurer shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the County Treasurer to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report shall be provided to the Chief Administrative Officer, the County Auditor, the Board of Supervisors, Treasury Oversight Committee and any pool participants [Government Code 27133(e), and 53646(b)]. The report will include the following:

1. The type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and money held by the County Treasurer.
2. A description of any of the local agency's funds, investments, or programs that are under the management of contracted parties, including lending programs.
3. A current market value as of the date of the report of all securities held by the local agency, and under management of any outside party that is not also a local agency or the State of California Local Agency Investment Fund, and the source of this same valuation.
4. A statement that the portfolio is in compliance with the investment policy, or the manner in which the portfolio is not in compliance.
5. A statement denoting the ability of the County Treasurer to meet its pool's expenditure requirements for the next six months, or an explanation as to why sufficient money may not be available.
6. Listing of individual securities by type and maturity date held at the end of the reporting period.
  - A. PLEDGE REPORT: Any securities that are pledged or loaned for any purpose shall be reported in the Quarterly Investment Report. The transaction details will be provided, including purpose, beginning and termination dates and all parties to the contract.

The security descriptions as to type, name, maturity date, coupon rate, CUSIP and other material information will be included.

**B. REVERSE REPURCHASE AGREEMENTS REPORT:** All reverse repurchase agreements entered into, whether active or inactive by the end of each quarter, shall be reported in the Treasurer's Quarterly Investment Report.

7. Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity.
8. Average maturity and duration of portfolio on investments as well as the yield to maturity of the portfolio as compared to applicable benchmarks.
9. Percentage of the total portfolio which each type of investment represents.
10. Whatever additional information or data may be required by the legislative body of the local agency.

**15.2 Marking to Market:** The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that a review of the investment portfolio, in terms of value and price volatility, has been performed on a regular basis.

## **16.0 COMPENSATION**

In accordance with Government Code §§27013 and 53684, the County Treasurer will charge all pool participants for administrative and overhead costs. Costs include, but are not limited to, employee salaries and benefits, portfolio management, bank and custodial fees, software maintenance fees and other indirect costs incurred from handling and managing funds. In addition, when applicable, the costs associated with the Treasury Oversight provisions of Government Code §§ 27130-27137 shall be included as administrative costs. Costs will be deducted from interest earnings on the pool prior to apportioning and payment of interest. The County Treasurer shall annually prepare a proposed budget providing a detailed itemization of all estimated costs which comprise the administrative fee charged in accordance with Government Code §27013. The administrative fee will be subject to change. Fees will be deducted from interest earnings.

**16.1 Deduction of Costs:** At the discretion of the County Treasurer, the County Treasurer may deduct actual administrative costs and may make any adjustments from the interest earnings and apportions the remaining earnings to all participants based on the positive average daily balance (Government Code 53684(b)).

**16.2 Directed Investments Costs:** At the discretion of the County Treasurer, the County Treasurer may deduct from interest earnings the actual administrative costs of such directed investments (Government Code §27013).

## **17.0 CALCULATING AND APPORTIONING POOL EARNINGS**

The Investment Pool Fund is comprised of monies from multiple units of the County, agencies, school districts and special districts. Each entity has unique cash flow demands, which dictate the type of investments the Treasurer's Office may purchase. To ensure parity among the pool members when apportioning interest earnings, the following procedures have been developed:

1. Interest is apportioned on at least a quarterly basis in accordance with Government Code §53684.

2. Interest is apportioned to pool participants based on the participant's average daily fund balance and the total average daily balance of deposits in the investment pool.
3. Interest is calculated on a cash basis for all investments in the County Treasurer's investment pool and reported to the Auditor-Controller for distribution into the funds of the participants.
4. Interest earned on the directed investments is credited to pool participants on a cash basis. Administrative costs are determined annually by the County Treasurer based on actual administrative and overhead costs incurred in the previous year.
5. The negative average daily fund balance will be charged interest at the rate of interest that is being apportioned.

## **18.0 DEPOSITS AND WITHDRAWALS IN THE TREASURY**

### **18.1 Deposit by Voluntary Participants**

Following are the terms and conditions for depositing funds for investment purposes by voluntary participants, i.e. entities that are not legally required to deposit their funds in the County Treasury.

- 18.1.a** Resolution by the County Board of Supervisors authorizing the acceptance of outside participants by the County Treasury.
- 18.1.b** Resolution by the legislative or governing body of the local agency (voluntary participant) authorizing the investment of funds pursuant to Government Code 53684.
- 18.1.c** Treasury investments will be directed transactions. For each transaction, The local agency (voluntary participant) must indicate the fund source, the amount to be invested and the duration of the investment.

### **18.2 Withdrawal Request**

The Treasurer's Office has established the Withdrawal of Funds Policy for all Treasury Investment Pool participants who seek to withdraw funds from the County Treasury Investment Pool for various purposes. In accordance with California State Government Code Section 27136, all participants having funds on deposit in the Pool and seeking to withdraw their funds, shall first submit a formal written request to the County Treasurer. The County Treasurer shall evaluate the withdrawal proposals of all Pool participants upon receipt of the written requests. The evaluation process may take up to 30 days. The County Treasurer reserves the right to reject any request for withdrawal if it is in the Treasurer's opinion after thorough evaluation, that the withdrawal will violate applicable laws and/or governing documents, compromise Treasurer's fiduciary responsibility, adversely impact the stability of the Pool, or harm the interests of any Pool Participant. Such rejection shall prevent the withdrawal of the funds.

Typically, participants make withdrawals for the following two reasons: a) regular operations and b) investing or depositing funds outside the Pool in accordance with California State Government Code Section 27136 (a). The County Treasurer seeks to honor all written withdrawal requests for regular operating purposes that are approved by the County Auditor-Controller's Office in a timely fashion. However, the County Treasurer recognizes that occasionally the Pool participants may request large amounts in withdrawals to cover unexpected operational needs. To accommodate such withdrawals and allow for adequate time for adjustments to the liquidity position of the Pool, the County Treasurer expects all Pool Participants to submit their written requests within the following timeframes:

- i) Withdrawals of Up to \$1 million – prior to 8:00 a.m. for same day disbursement
- ii) Withdrawals of between \$1 million to \$10 million – 1 business day in advance of disbursement
- iii) Withdrawals of more than \$10 million – 3 business day in advance of disbursement

Withdrawals of investment deposits from the County Treasury Investment Pool by any Pool participant shall coincide with investment maturities and/or authorized sale of securities by authorized personnel of the Pool Participant. Except for funds in the California State Local Agency Investment Fund, a five-business-days notification may be required when authorized sale of securities is involved. In the event that the Treasurer must liquidate investments in order to honor the withdrawal request, the Participant who requests the withdrawal shall be subject to all expenses associated with the liquidation, including, but not limited to loss of principal and interest income, withdrawal penalties, and associated fees.

To maintain full fiduciary responsibility for investment and administration of the Pool, the County Treasurer shall NOT permit statutory participants to withdraw funds from and subsequently deposit the funds outside the Pool for the purpose of investments without prior approval of the County Treasurer. As permitted by the Government Code Section 53635, upon request the County Treasurer may enter into an investment agreement with a third-party investment manager on behalf of statutory participants. However, the funds shall remain in the Pool during the entire agreement period under the care of the custodian bank retained by the County Treasurer.

Voluntary participants may withdraw funds from and subsequently deposit the funds outside the Pool for investment purposes upon the County Treasurer's approval. However, such withdrawals shall be made for the entire amount of the participant's funds deposited in the Pool. Upon completion of such withdrawals, the voluntary participants will no longer be able to participate in the Pool or receive further services from the County Treasurer's Office. NO partial withdrawals from the Pool for investment purposes are permitted.

Please refer to the Withdrawal of Funds Policy, which is maintained as a separate document, for detailed guidelines and procedures.

#### **19.0 TEMPORARY BORROWING OF POOL FUNDS**

Section 6 of Article XVI of the California Constitution provides in part that "the treasurer of any city, county, or city and county shall have power and the duty to make such temporary transfers from the funds in custody as may be necessary to provide funds for meeting the obligations incurred for maintenance purposes by city, county, city and county, district, or other political subdivision whose funds are in custody and are paid out solely through the treasurer's office."

The County Auditor-Controller and the County Treasurer shall make a temporary transfer of funds to the requesting agency, not to exceed 85% of the amount of money which will accrue to the agency during the fiscal year, provided that the amount of such transfer has been determined by the County Auditor-Controller to be transferable under the constitutional and statutory provisions cited in Article XVI and has been certified by the County Treasurer-Tax Collector to be available. Such temporary transfer of funds shall not be made prior to the first day of the fiscal year nor after the last Monday in April of the current fiscal year.

#### **20.0 INVESTMENT OF BOND PROCEEDS**

The County Treasurer shall invest bond proceeds using the standards of this Investment Policy. The bond proceeds will be invested in securities permitted by the bond documents. If the bond documents are silent, the bond proceeds will be invested in securities permitted by this Policy.

#### **21.0 BUSINESS CONTINUITY PLAN**

The Contra Costa County Treasurer's Business Continuity Plan includes critical phone numbers and addresses of key personnel as well as active bankers and brokers/dealers. Laptops, tablets, smart phones, and other equivalent electronic devices shall be issued to key personnel for

communicating between staff, bank and brokers/dealers. Copies of the plan shall be distributed to the treasury staff: the Assistant County Treasurer, the Treasurer's Investment Officer, the Treasurer's Investment Operations Analyst, the Accountant, and the Accounting Technician. The treasury staff shall interact with one another by home phone, cell phone, or e-mail to decide an alternate location from which to conduct daily operations.

In the event treasury staff is unable to conduct normal business operations, the custodial bank will automatically sweep all uninvested cash into an interest-bearing account at the end of the business day. Until normal business operations 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.

## **22.0 POLICY CONSIDERATIONS**

### **22.1 Exemption**

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

### **22.2 Amendments**

This policy shall be reviewed on an annual basis. Any changes must be approved by the County Treasurer and any other appropriate authority.

## APPROVED BROKERS

Alamo Capital  
California Arbitrage Management Program  
Daiwa Capital Markets America Inc.  
Falcon Square Capital  
JP Morgan Securities LLC  
Mischler Financial Group  
Moreton Capital Markets LLC  
Public Financial Management, Incorporated  
RBC Capital Markets, LLC  
Stifel, Nicolaus & Company, Inc.  
TD Securities (USA) LLC  
US Bancorp Advisors  
Wells Fargo Securities

**Note:** The County Treasury will not be limited to the above list. Others will be included as long as all conditions for authorized brokers and/or dealers set forth in this policy are met. Additionally, deletions and additions are based on many factors including the quality of services provided by the broker/dealers. The County Treasury reserves the right to delete an Approved Broker without cause and without prior notice.



## APPROVED ISSUERS

|                                       |                                |
|---------------------------------------|--------------------------------|
| American Honda Finance                | Procter & Gamble Co            |
| Apple Inc                             | Rabobank Nederland New York    |
| Australia & New Zealand Banking Group | Royal Bank of Canada           |
| Bank of America                       | Societe Generale NA            |
| Bank of Montreal                      | Standard Chartered Bank        |
| Bank of Nova Scotia                   | State Street Bank and Trust Co |
| Berkshire Hathaway                    | Svenska Handelsbanken AB       |
| BNP Paribas                           | Toronto-Dominion Bank          |
| Cisco Systems Inc                     | Toyota Motor Credit Corp       |
| Citigroup                             | UBS Financial                  |
| Coca-Cola Co.                         | U.S. Bancorp                   |
| Commonwealth of Bank of Australia     | Walmart                        |
| Credit Agricole SA                    | Walt Disney Company            |
| Deere & Company                       | Wells Fargo Bank               |
| Deutsche Bank Financial LLC           | Westpac Banking Corp           |
| Prudential                            | Westamerica Bank               |
| General Electric Co                   |                                |
| General Electric Capital Corp         |                                |
| HSBC Bank USA                         |                                |
| Intel Corp                            |                                |
| JP Morgan Chase & Co                  |                                |
| John Deere Capital Corporation        |                                |
| Johnson & Johnson                     |                                |
| Koch Industries, Inc.                 |                                |
| McDonald's Corporation                |                                |
| MicroSoft Corp                        |                                |
| MUFG Bank                             |                                |
| National Australia Bank               |                                |
| Nestle Capital Corp                   |                                |
| Nordea Bank AB                        |                                |
| Oracle Corp                           |                                |
| Pepsico Inc                           |                                |
| PNC Bank NA                           |                                |

**Note:** The County Treasury may or may not invest in the Approved Issuers and will not be limited to the above list in making investments. Other issuers may be considered as the County Treasury performs additional due diligence on each investment decision. The list does not reflect the actual portfolio holdings managed by the County Treasury.

## APPROVED PRIMARY DEALERS

ASL Capital Markets Inc.  
Bank of Montreal, Chicago Branch  
Bank of Nova Scotia, New York Agency  
BNP Paribas Securities Corp.  
Barclays Capital Inc.  
BofA Securities, Inc.  
Cantor Fitzgerald & Co.  
Citigroup Global Markets, Inc.  
Daiwa Capital Markets America Inc.  
Deutsche Bank Securities Inc.  
Goldman, Sachs & Co. LLC  
HSBC Securities (USA) Inc.  
Jefferies LLC  
J.P. Morgan Securities Inc.  
Mizuho Securities USA Inc.  
Morgan Stanley & Co. LLC  
NatWest Markets Securities Inc.  
Nomura Securities International, Inc.  
RBC Capital Markets, LLC  
Santander US Capital Markets LLC  
Societe Generale, New York Branch  
TD Securities (USA) LLC  
UBS Securities LLC.  
Wells Fargo Securities, LLC

**Note:** The above list consists of primary dealers that serve as trading counterparties of the Federal Reserve Bank of New York in its implementation of monetary policy. These primary dealers are required to participate in all auctions of U.S. government debt. Treasury Staff will perform additional due diligence on each investment decision, and hence, may or may not use the primary dealers listed above.

**CONFLICT OF INTEREST CODE**  
**For the**  
**TREASURER-TAX COLLECTOR’S OFFICE**

This Conflict of Interest Code is promulgated under the authority of the Political Reform Act, Government Code §81000, et seq., which requires all state and local government agencies to adopt and promulgate conflict of interest codes. Section 18730 of Title 2, Division 6 of the California Code of Regulations, as adopted by the Fair Political Practices Commission (FPPC) contains the terms of a standard conflict of interest code, which may be incorporated by reference and may be amended by the FPPC after public notice and hearings to conform to amendments in the Political Reform Act.

Therefore, the terms of Section 18730 of Title 2, Division 6 of the California Code of Regulations and any amendments to it duly adopted by the FPPC are hereby incorporated by reference and, along with the below stated Disclosure Categories, constitute the Conflict of Interest Code of the Treasurer-Tax Collector’s Office of Contra Costa County.

Employees in the designated positions below shall file a Statement of Economic Interest (Form 700) with the Executive Secretary, designated as the filing officer, who will make the statements available for public inspection and reproduction. (California Government Code §81008) Upon receipt of the statements for the Treasurer-Tax Collector and positions that manage public investments, the Filing Officer will make and retain copies and forward the originals to the Contra Costa County Clerk-Recorder- Elections Department. (Government Code § 87500)

**DESIGNATED POSITIONS**

| CLASS/JOB CODE TITLE                     | ASSIGNED CATEGORY |
|--|-------------------|
| County Treasurer-Tax Collector*          | 1                 |
| Assistant County Treasurer               | 1                 |
| Treasurer’s Investment Officer*          | 1                 |
| Treasurer’ Investment Operations Analyst | 1                 |
| Assistant County Tax-Collector           | 1                 |
| Tax Operations Supervisor                | 1                 |
| Executive Secretary – Exempt             | 2                 |
| Treasurer Oversight Committee members    | 2                 |
| Consultants**                            | 1                 |

\* Pursuant to Government Code section 87314, the individuals occupying these designated positions are required to file a Form 700-Statement of Economic Interests as a public official who manages public investments within the meaning of Government Code Section 87200.

\*\* The Treasurer-Tax Collector will determine in writing whether a consultant is hired to perform a range of duties that requires the consultant to comply with the disclosure requirements. The written determination is a public record and the Filing Officer will retain the determination for public inspection.

## DISCLOSURE CATEGORIES

### General Rule

An investment, interest in real property, or income is reportable if the business entity in which the investment is held, the interest in real property, or the income or source of income may foreseeably be affected materially by any decision made or participated in by the designated employee by virtue of the employee's position.

1. Designated Employees in Category "1" must report:
  - a. All investments, interests in real property, and income, and any business entity in which the employee is a director, officer, partner, trustee, employee, or hold any position in management. Financial interests are reportable only if located within Contra Costa County or if the business entity is doing business or planning to do business in the County (and such plans are known by the designated employee) or has done business within the County at any time during the two years prior to the filing of the statement.
  - b. Investments in any business entity, and income from any source and status as a director, officer, partner, trustee, employee, or hold of a position of management in any business entity, which has within the last two years contracted or foreseeably may contract with Contra Costa County, or with any special district or other public agency within the County, to provide services, supplies, materials, machinery or equipment to such County, district, or public agency.
2. Designated Employees in Category "2" must report:

Investments in any business entity, income from any source and status as a director, officer, partner, trustee, employee or holder of a position of management in any business entity, which has within the last two years contracted, or foreseeably may contract, with Contra Costa County to provide services, supplies, materials, machinery or equipment to the Office the Treasurer-Tax Collector.

## GLOSSARY OF TERMS

**ACCRUED INTEREST** The accumulated interest due on a bond as of the last interest payment made by the issuer.

**AGENCY** A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U.S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of federal agency is the Government National mortgage Association (GNMA). An example of a FSA is the Federal National Mortgage Association (FNMA).

**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.

**BANKERS ACCEPTANCES** A time bill of exchange drawn on and accepted by a commercial bank to finance the exchange of goods. When a bank “accepts” such a bill, the time draft becomes, in effect, a predated, certified check payable to the bearer at some future specified date. The commercial bank assumes primary liability once the draft is accepted.

**BASIS POINT** A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of one percent of yield. For example, if interest rates increase from 8.25% to 8.50%, the difference is referred to as a 25-basis-point increase.

**BENCHMARK** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio’s investment.

**BID** The indicated price at which a buyer is willing to purchase a security or commodity.

**BLUE SKY LAWS** Common term for state securities law, which vary from state to state. Generally refers to provision related to prohibitions against fraud, dealer and broker regulations and securities registration.

**BOND** A bond is essentially a loan made by an investor to a division of the government, a government agency or a corporation. The bond is a promissory note to repay the loan in full at the end of a fixed time period. The date on which the principal must be repaid is called the maturity date or maturity. In addition, the issuer of the bond, that is the agency or corporation receiving the loan proceeds and issuing the promissory note, agrees to make regular payments of interest at a rate initially stated on the bond. Bonds are rated according to many factors, including cost, degree of risk and rate of income.

**BOOK VALUE** Refers to value of a held security as carried in the records of an investor. May differ from current market value of the security.

**BROKER/DEALER** Any person engaged in the business of effecting transaction in securities in this state for the account of others or for her/his own account. Broker/dealer also includes a person engaged in the regular business of issuing or guaranteeing options with regard to securities not of her/his own issue.

**CALLABLE BOND** A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

**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 the loss of income and ownership.

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

**CASH SALE/PURCHASE** A transaction which calls for delivery and payment of securities on the same day that the transaction is initiated.

**CERTIFICATES OF DEPOSIT (CD)** Certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specified rate of return. They are issued in two forms, negotiable and non-negotiable.

**CLEAN UP CALL** An action of a debt instrument issuer requiring early redemption of the instrument to reduce its own administrative expenses. This normally occurs when the principal outstanding is significantly reduced to a small amount, e.g., less than 10% of the original issue.

**COLLATERALIZATION** Process by which a borrower pledges securities, property, or other deposits for the purpose of securing the repayment of a loan and/or security.

**COMMERCIAL PAPER** Short-term, unsecured promissory notes issued in either registered or bearer form and usually backed by a line of credit with a bank. Maturities do not exceed 270 days and generally average 30-45 days.

**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.

**COUPON RATE** The annual rate of interest received by an investor from the issuer of certain types of fixed-income securities. Also known as the "interest rate."

**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.

**CURRENT YIELD (CURRENT RETURN)** A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

**CUSIP NUMBERS** CUSIP is an acronym for Committee on Uniform Security Identification Procedures. CUSIP numbers are identification numbers assigned each maturity of a security issue and usually printed on the face of each individual security in the issue. The CUSIP numbers are intended to facilitate identification and clearance of securities.

**DELIVERY VERSUS PAYMENT (DVP)** A type of securities transaction in which the purchaser pays for the securities when they are delivered either to the purchaser or his/her custodian.

**DERIVATIVE SECURITY** Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

**DISCOUNT** The amount by which the par value of a security exceeds the price paid for the security.

**DIVERSIFICATION** A process of investing assets among a range of security types by sector, maturity, and quality rating.

**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.

**EARNINGS APPORTIONMENT** The quarterly interest distribution of the Pool Participants where the actual investment costs incurred by the Treasurer are deducted from the interest earnings of the Pool.

**ESG INVESTING** Also known as “socially responsible investing,” “impact investing,” and “sustainable investing” refers to investing which prioritizes optimal environmental, social, and governance (ESG) factors or outcomes.

**FAIR VALUE** The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**FEDERAL FUNDS (FED FUNDS)** Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

**FEDERAL FUNDS RATE** Interest rate charged by one institution lending federal funds to the other.

**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.

**FIDUCIARY** An individual who holds something in trust for another and bears liability for its safekeeping.

**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)** FINRA is an independent, nongovernmental organization that writes and enforces the rules governing registered brokers and broker-dealer firms in the United States. Its stated mission is “to safeguard the investing public against fraud and bad practices.” FINRA regulates the trading of equities, corporate bonds, securities futures, and options.

Unless a firm is regulated by a different self-regulatory organization, it is required to be a FINRA member firm to do business.

**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.).

**FUTURES** Commodities and other investments sold to be delivered at a future date.

**GOVERNMENT SECURITIES** An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See “Treasury Bills, Notes and Bonds.”

**INTEREST RATE** See “Coupon Rate.”

**INTERNAL CONTROLS** An internal control structure is designed to ensure that the assets of the Treasurer’s Investment Pool are protected from loss, theft, or misuse, and to provide reasonable assurance that this objective is 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.

Internal controls should address the following points:

1. Control of collusion—Collusion is a situation where two or more employees are working in conjunction to defraud their employer.
2. Separation of transaction authority from accounting and record keeping—By separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction, a separation of duties is achieved.
3. Custodial safekeeping—Securities purchased from a bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.
4. Avoidance of physical delivery securities—Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.
5. Clear delegation of authority to subordinate staff members—Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.
6. Written confirmation of transactions for investments and wire transfers—Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.
7. Development of a wire transfer agreement with the lead bank and third-party custodian—The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.



**INVERSE FLOATERS** An adjustable interest rate note keyed to various indices such as LIBOR, commercial paper, federal funds, treasuries and derivative structures. The defined interest rate formula is the opposite or inverse of these indices. Interest rates and pay dates may reset daily, weekly, monthly, quarterly, semi-annually or annually.

**INVERTED YIELD CURVE** A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

**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.

**INVESTMENT POLICY** A concise and clear statement of the objectives and parameters formulated by the investor or investment manager for a portfolio of investment securities.

**INVESTMENT-GRADE OBLIGATIONS** An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

**LIQUIDITY** Usually refers to the ability to convert assets (such as investments) into cash.

**LOCAL AGENCY INVESTMENT FUND (LAIF)** The State of California investment pool in which money of local agencies is pooled as a method for managing and investing local funds.

**MAKE WHOLE CALL** A type of call provision on a bond allowing the borrower to pay off remaining debt early. The borrower has to make a lump sum payment derived from a formula based on the net present value of future coupon payments that will not be paid because of the call.

**MARK TO MARKET** Valuing the inventory of held securities at its current market value.

**MARKET RISK** The risk that the value of a security will rise or decline as a result of changes in market conditions.

**MARKET VALUE** Price at which a security can be traded in the current market.

**MASTER REPURCHASE AGREEMENT** A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party's rights in the transaction. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**MATURITY** The date upon which the principal of a security becomes due and payable to the holder.

**MEDIUM-TERM NOTES (MTNS)** Corporate debt obligations continuously offered in a broad range of maturities. MTNs were created to bridge the gap between commercial paper and corporate bonds. The key characteristic of MTNs is that they are issued on a continuous basis.

**MONEY MARKET INSTRUMENTS** Private and government obligations of one year or less.

**MONEY MARKET MUTUAL FUNDS** Mutual funds that invest solely in money market instruments (short-term debt instruments, such as Treasury bills, commercial paper, banker's acceptances, repos and federal funds).

**MUTUAL FUND** An investment company that pools money and can invest in a variety of securities, including fixed-income securities and money market instruments. Mutual funds are regulated by the Investment Company Act of 1940 and must abide by the following Securities and Exchange Commission (SEC) disclosure guidelines:

1. Report standardized performance calculations.
2. Disseminate timely and accurate information regarding the fund's holdings, performance, management and general investment policy.
3. Have the fund's investment policies and activities supervised by a board of trustees, which are independent of the adviser, administrator or other vendor of the fund.
4. Maintain the daily liquidity of the fund's shares.
5. Value their portfolios on a daily basis.
6. Have all individuals who sell SEC-registered products licensed with a self-regulating organization (SRO) such as the National Association of Securities Dealers (NASD).
7. Have an investment policy governed by a prospectus which is updated and filed by the SEC annually.

**MUTUAL FUND STATISTICAL SERVICES** Companies that track and rate mutual funds, e.g., IBC/Donoghue, Lipper Analytical Services and Morningstar.

**NEGOTIABLE CERTIFICATES OF DEPOSIT** May be sold by one holder to another prior to maturity. This is possible because the issuing bank agrees to pay the amount of the deposit plus interest earned to the bearer of the certificate at maturity.

**NET ASSET VALUE** The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets which includes securities, cash, and any accrued earnings, subtracting this from the fund's liabilities and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below)

$$\frac{[(\text{Total assets}) - (\text{Liabilities})]}{(\text{Number of shares outstanding})}$$

**NO LOAD FUND** A mutual fund which does not levy a sales charge on the purchase of its shares.

**NOMINAL YIELD** The stated rate of interest that a bond pays its current owner, based on par value of the security. It is also known as the "coupon," "coupon rate," or "interest rate."

**NON-NEGOTIABLE CERTIFICATES OF DEPOSIT** For public funds, these certificates are collateralized and are not money market instruments since they cannot be traded in the secondary market. They are issued on a fixed-maturity basis and often pay higher interest rates than are permissible on other savings or time-deposit accounts.

**OFFER** The price of a security at which a person is willing to sell.

**OPTION** A contract that provides the right, but not the obligation, to buy or to sell a specific amount of a specific security within a predetermined time period. A call option provides the right to buy the underlying security. A put option provides the right to sell the underlying security. The seller of the contracts is called the writer.

**PAR** Face value of principal value of a bond, typically \$1,000 per bond.

**PAR VALUE** The stated or face value of a security expressed as a specific dollar amount marked on the face of the security; the amount of money due at maturity. Par value should not be confused with market value.

**POSITIVE YIELD CURVE** A chart formation that illustrates short-term securities having lower yields than long-term securities.

**PREMIUM** The amount by which the price paid for a security exceeds par value, generally representing the difference between the nominal interest rate and the actual or effective return to the investor.

**PRIME RATE** A preferred interest rate charged by commercial banks to their most creditworthy customers. Many interest rates are keyed to this rate.

**PRINCIPAL** The face value or par value of a debt instrument. Also may refer to the amount of capital invested in a given security.

**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 on the issuer, the issuer's business, the proposed use of proceeds, the experience of the issuer's management, and certain certified financial statements.

**PRUDENT PERSON RULE** An investment standard outlining the fiduciary responsibilities of public funds investors relating to investment practices.

**RANGE NOTES** A security whose rate of return is pegged to an index. The note defines the interest rate minimum or floor and the interest rate maximum or cap. An example of an index may be federal funds. The adjustable rate of interest is determined within the defined range of the funds.

**RATE OF RETURN** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond and the current income return.

**REINVESTMENT RISK** The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

**REPURCHASE AGREEMENT OR RP OR REPO** An agreement consisting of two simultaneous transactions whereby the investor purchases securities from a bank or dealer and the bank or dealer agrees to repurchase the securities at the same price on a certain future date. The interest rate on a RP is that which the dealer pays the investor for the use of his funds. Reverse repurchase agreements are the mirror image of the RPs when the bank or dealer purchases securities from the investor under an agreement to sell them back to the investor.

**REVERSE REPURCHASE AGREEMENT (REVERSE REPO)** An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.

**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).

**SAFEKEEPING** Holding of assets (e.g., securities) by a financial institution.

**SECURITIES LENDING** A transaction wherein the Treasurer's Pool transfers its securities to a broker/dealer or other entities for collateral which may be cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

**SERIAL BOND** A bond issue, usually of a municipality, with various maturity dates scheduled at regular intervals until the entire issue is retired.

**SETTLEMENT DATE** The date used in price and interest computations, usually the date of delivery.

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

**SLUGS** An acronym for State and Local Government Series. SLUGS are special United States Government securities sold by the Secretary of the Treasury to states, municipalities and other local government bodies through individual subscription agreements. The interest rates and maturities of SLUGS are arranged to comply with arbitrage restrictions imposed under Section 103 of the Internal Revenue Code. SLUGS are most commonly used for deposit in escrow in connection with the issuance of refunding bonds.

**STRIPS** US Treasury acronym for "separate trading of registered interest and principal of securities." Certain registered Treasury securities can be divided into separate interest and principal components, which may then be traded as separate entities.

**SUPRANATIONAL** Supranational is an international organization, or union, whereby member states transcend national boundaries or interests to share in the decision-making and vote on issues pertaining to the wider grouping. Examples of supranational are International Bank for Reconstruction and Development, International Finance Corporation, European Union, and World Trade Organization.

**SWAP** Generally refers to an exchange of securities, with essentially the same par value, but may vary in coupon rate, type of instrument, name of issuer and number of days to maturity. The purpose of the SWAP may be to enhance yield, to shorten the maturity or any benefit deemed by the contracting parties.

**TERM BONDS** Bonds comprising a large part or all of a particular issue which come due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity.

**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: (Price Appreciation) + (Dividends paid) + (Capital gains) = Total Return

**TREASURY SECURITIES** Debt obligations of the United States Government sold by the Treasury Department in the form of bills, notes and bonds:

1. **Bills** Short-term obligations that mature in one year or less and are sold at a discount in lieu of paying periodic interest.
2. **Notes** Interest-bearing obligations that mature between one year and 10 years.
3. **Bonds** Interest-bearing long-term obligations that generally mature in 10 years or more.

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

**U.S. AGENCY OBLIGATIONS** Federal agency or United States government-sponsored enterprise obligations, participants, or other instruments. The obligations are issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

**U.S. TREASURY OBLIGATIONS** 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.

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

**“VOLATILITY RISK” RATING** A rating system to clearly indicate the level of volatility and other non-credit risks associated with securities and certain bond funds. The ratings for bond funds range from those that have extremely low sensitivity to changing market conditions and offer the greatest stability of the returns (“S1+” by S&P) to those that are highly sensitive with currently identifiable market volatility risk (“S6” by S&P).

**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 current rate of return on an investment security generally expressed as a percentage of the security’s current price.

**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 CURVE** A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

**YIELD-TO-MATURITY** The rate of return yielded by a debt security held to maturity when both interest payments and the investor’s potential capital gain or loss are included in the calculation of return.

**ZERO-COUPON SECURITY** A security that makes no periodic interest payments but instead is sold at a discount from its face value.