

8.06 Investment of District Funds

1. This section of Rules and Regulations is intended to provide policy direction for investment of all District funds. The Executive Vice Chancellor is responsible for investment of District funds, within the parameters of this policy. **It is intended to provide meaningful guidance in the management of the portfolio and not be overly restrictive given the changing economic and investment market conditions. This policy statement shall be reviewed no less than annually by the District. Any modifications should be immediately provided to the investment advisors, if any.**
2. **General Rule:** The District operates its temporarily pooled idle cash under the prudent-man rule (CA Probate Code Section 16040). This affords the District a broad spectrum of investment opportunities as long as the investment is deemed prudent and is allowable under current legislation of the State of California (Government Code Section 53600 et seq.).

The following criteria, known by the California Municipal Treasurer's Association as "SLY", will be used for selecting investments, in order of priority:

- a. **Safety:** The safety and risk associated with an investment refers to the potential loss of principal, interest, or a combination of these amounts. The District only operates in those investments that are considered very safe.
 - b. **Liquidity:** This refers to the ability to "cash in" at any moment in time with a minimal chance of losing some portion of principal or interest. Liquidity is an important investment quality, especially when the need for unexpected funds appears occasionally.
 - c. **Yield:** This is the potential dollar earnings an investment can provide, and sometimes is described as the "rate of return."
- ~~2.3.~~ To maximize the income generated from any surplus funds available for investment and to assure that these investments are made under the provisions of Federal and State law and regulations, the following financial instruments are designated as acceptable investments under the provisions of Government Code Sections 53600 and 53601. **All final maturities are limited to five years unless specified otherwise.**
- a. Up to 100% of the portfolio may be invested in the District's own bonds.
 - b. Up to 100% of the portfolio may be invested in U.S. Treasury notes, bills, or bonds.
 - c. Up to 30% of the portfolio may be invested in any one particular Federal agency or U.S. government-sponsored enterprise (GSE), such as FNMA or FHLMC.
 - ~~b.~~d. Up to 20% of the portfolio may be invested in mortgage backed securities (MBS) or asset backed securities (ABS). The issuer of this investment shall have a minimum "A" credit rating by a nationally recognized rating service, and the specific investment shall carry a minimum rating of "AA."
 - ~~e.~~e. Up to 30% of the portfolio may be invested in ~~C~~certificates of ~~D~~deposit placed with commercial banks and/or savings and loan companies.
 - ~~d.~~f. Up to 30% of the portfolio may be invested in registered~~Register~~ State warrants, notes or bonds.
 - ~~e.~~~~Government agency securities guaranteed by the Federal National Mortgage Association or by the Small Business Administration~~
 - g. Up to 40% of the portfolio may be invested in ~~B~~banker's ~~A~~acceptance, ~~with maturity limited to 180 days and not more than 40 percent of portfolio~~ not to exceed 180 days maturities, with

8.06 Investment of District Funds (continued)

- no more than 30% of the portfolio invested in the banker's acceptances of any one commercial bank.
- f.h. Up to 30% of the portfolio may be invested in ~~€~~commercial paper of prime quality with maturity limited to ~~270-180~~ days ~~and not more than 25% of portfolio.~~
- ~~g.~~i. Up to 100% of the portfolio may be invested in the Local Agency Investment Fund (LAIF). ~~State pool~~
- j. Up to 100% of the portfolio may be invested in the San Mateo County Treasury.
- k. Up to 30% of the portfolio may be invested in securities that have the explicit or implicit guarantee of the U.S. government (such as the Federal Deposit Insurance Corporation's, FDIC, Temporary Liquidity Guarantee Program, TLGP).
- ~~h.~~l. Up to 30% of the portfolio may be invested in U.S. corporate bonds with a minimum rating of "A" by a nationally recognized rating service, subject to a maximum of five percent of the portfolio in any one corporation, at the time of purchase. Non-U.S. issuers are excluded.

<u>Security Description</u>	<u>Maximum</u>
District's own bonds	100%
U.S. Treasuries	100%
Federal Agencies or GSEs (per issuer)	30%
Mortgage backed securities or Asset backed securities (MBS or ABS)	20%
Certificates of deposit (CD)	30%
Registered state warrants, notes or bonds	30%
Bankers Acceptance	40%
Commercial Paper	30%
Local Agency Investment Fund (LAIF)	100%
San Mateo County Treasury	100%
Other Federal government guaranteed securities	30%
U.S. Corporate Bonds	30%

~~3. The following criteria will be used for selecting investments, in order of priority:~~

- ~~_____ a. Safety~~
- ~~_____ b. Liquidity~~
- ~~_____ c. Yield~~

~~4. Assuming that two or more investments' yields are equal, the following order of priority will be used for making investments:~~

8.06 Investment of District Funds (continued)

- ~~a. LAIF up to \$20 million limit~~
 - ~~b. Certificated of Deposits in amounts not to exceed the FDIC insurable amount from any one institution~~
 - ~~c. U.S. Treasury bills, notes, bonds~~
 - ~~d. County Treasury as depository for District funds and cash balances shall earn interest in the County Investment Pool on a daily cash balance basis~~
- ~~5. Other investments which are deemed prudent but which are not specifically approved in Section 8.06(4) will be brought to the Board for review.~~
- ~~6. To provide the highest yield possible in selection of investments, the following conditions will be met provided the criteria for safety and liquidity have also been met:~~
- ~~a. Maturity dates shall be times to meet anticipated cash need.~~
 - ~~b. The financial soundness, experience, and personnel of all institutions or brokerage firms will be investigated before and District funds are committed.~~
 - ~~c. District funds will not be invested in futures or options or repurchase or reverse repurchase agreements.~~
 - ~~d. Reasonable costs (normally not more than one quarter of one percent) for making investments or investment advice will be paid.~~
- ~~7. A bank account will be established for the purposes of depositing and wire transferring District funds for investment.~~
4. Statements, including positions marked to the market, all transactions, and summary of income, will be sent to the Treasurer monthly. Performance reports will be provided to the Treasurer and Board on a quarterly basis. Investment performance will be reported relative to appropriate market benchmarks. These benchmarks should approximate the specific restrictions in this investment policy statement, the California government code guidelines, and the timeframe for the portfolio. Shorter-term portfolios, such as LAIF, should be benchmarked against shorter-term indices like the 3 month T-bill. Intermediate-term portfolios should be benchmarked against the Barclay's Capital 1-3 Year Government Index and the Barclay's Capital 1-5 Year Aggregate Index. While no one benchmark exactly matches the specifics of this investment policy statement, reviewing performance relative to these three benchmarks is appropriate.
5. Officers, employees, and agents involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Officers, employees, and agents involved in the investment process shall abide by the California Government Code Section 1090 et seq. and the California Political Reform Act (California Governmental Code Section 81000 et seq.).

References: California Probate Code Section 16040; Government Code Sections 53600 et seq., 1090 et seq., 81000 et seq.

(Reviewed 8/10 Revised xx/xx)