**BOARD POLICY**
**San Mateo County Community College District**

***Subject*:** 8.06 Investment of District Funds
***Revision Date:*** 3/11; xx/xx
***Policy References:*** California Probate Code Section 16040; Government Code Sections 53600 et seq., 1090 et seq., 81000 et seq.

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1. This section of Rules and Regulations ~~is intended to~~ provides policy direction for the investment of all District funds. The Executive Vice Chancellor or designee 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 and approved by the Board of Trustees. Any modifications should be immediately provided to the Districts' investment advisors, if any. There may be additional investment restrictions on bond proceeds on an issue-by-issue basis as required by bond rating agencies and as specified in the bond issuance documents.

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.). It is the policy of the District to invest public funds in a manner which will provide maximum security of principal invested with a secondary emphasis on providing liquidity matching cash flow needs and achieving the highest yield while conforming to all applicable statues and resolutions governing the investment of public funds.

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

   Credit Risk: Defined as an issuer(s) ability and willingness to repay interest and principal. Credit risk shall be minimized by diversifying the fund among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants. Wherever possible, credit rating evaluations for all securities will be monitored on a consistent basis, prior to and after purchase. This analysis may be done by consultants and/or money managers. The District should not solely rely on nationally recognized credit reporting agencies for credit analysis.

   Market Risk: Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Longer-term securities generally have greater market risk than shorter-term securities. Therefore it is critical to match the duration of the portfolio to the approximate duration of the cash flows needed by the District. The maximum allowable maturity for an instrument in the pool at the time of purchase is five years, and typically the duration of the aggregate portfolio will be between two and three years. Duration and maximum maturities must be monitored and reported quarterly.

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. The District should match the maturities to the projected cash flows.

c. Yield: This is the potential dollar earnings an investment can provide, and sometimes is described as the "rate of return." Yield is the sum of both income and capitals gains or losses. The District's investments are designed to maximize the return on investable funds over various market cycles, consistent with the first priority of safeguarding principal, followed by the second priority of liquidity, then yield. Yield will be considered only after the basic requirements of safety and liquidity have been met.

4. 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. Maturities, or more precisely, duration of the portfolio should approximately match the cash flow needs, or time frame, of the District. This will optimize returns while minimizing safety and liquidity risks.

   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 or certificates of indebtedness, for which the full faith and credit of the United States is pledged for the payment of principal and interest.

   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. U.S. Government Agency/GSE securities must be rated AA, long-term, or A-1, Short-term, or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch).

   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. Up to 30% of the portfolio may be invested in negotiable certificates of deposit placed with commercial banks and/or savings and loan companies, insured by the FDIC~~.~~, subject to a maximum of five percent of the portfolio in any one institution, at the time of purchase. At the time of purchase, negotiable certificates of deposit must be rated either A-1/P-1/F1 or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch) and a long term rating of single A or better when applicable. These certificates must be issued by a U.S. National or State chartered bank or state or federal association (as defined by section 5102 of the California Financial Code). Issuers must be a corporation with total assets in excess of $5 Billion.

   f. Up to 30% of the portfolio may be invested in registered State of California warrants, notes or bonds.

g. Up to ~~40~~15% of the portfolio may be invested in banker's acceptance, not to exceed 180 days maturities, with no more than ~~30~~5% of the portfolio invested in the banker's acceptances of any one commercial bank. These banker's acceptances must be issued by a U.S. National or State chartered bank or state or federal association (as defined by section 5102 of the California Financial Code) and must be rated either A-1/P-1/F1 or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch). Issuers must be a corporation with total assets in excess of $5 Billion.

h. Up to 30% of the portfolio may be invested in commercial paper of prime quality as defined by at least 2 nationally recognized organizations that rate these securities, subject to a maximum of 5 percent of the portfolio in any one issuer at the time of purchase, with maturity limited to 180 days or less.

i. Up to 100% of the portfolio may be invested in the Local Agency Investment Fund (LAIF).

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).~~

k. 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~~ 5 percent of the portfolio in any one corporation, at the time of purchase. Non-U.S. issuers are excluded.

l. General account and collateralized Guaranteed Investment Contracts (GICs) are allowed. General account GICs shall be considered similarly to a corporate bond and subject to the 30% aggregate and 5% per issuer limits and credit rating limits described above. Collateralized GICs, if backed by U.S. Treasuries or agencies exclusively, shall be subject to the Federal Agency requirements listed above.

m. Credit Quality. Should any investment or financial institution represented in the portfolio be downgraded by any of the major rating services to a rating below those established in this investment policy, the Executive Vice Chancellor or designee must immediately make an informed decision as to the disposition of that asset. The situation will be monitored daily by the Executive Vice Chancellor or designee until final disposition has been made.

| **Security Description** | **Maximum** |
|---|---|
| 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% |

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| Bankers Acceptance | ~~40~~15% |
| 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% |

All investments are subject to additional aggregate limits per issuer and minimum credit ratings as described above.

5. Prohibited Transactions. At the time of purchase, all permitted investments shall conform in all respects with this Investment Policy and with California Government Code Sections §53601, §53601.1, §53601.2, §53601.6, and §53635, as may be amended from time to time. No investment prohibited by California Government Code shall be permitted herein. Any investment transactions, credit risk criterion, percentage limitations or market valuation that are not in compliance with this Investment Policy at time of purchase are prohibited. If a percentage restriction is adhered to at the time of purchase, a later increase or decrease in percentage resulting from a change in values or assets will not constitute a violation of that restriction. The District shall not leverage its investments through any borrowing collateralized or otherwise secured by cash or securities held unless authorized by this investment policy. Security Lending is not authorized by this policy. The following transactions are specifically prohibited: A. Borrowing for investment purposes ("Leverage") is prohibited B. Inverse floaters, leveraged floaters, equity-linked securities, event-linked securities, or structured investment vehicles (SIV) are prohibited. U.S. Treasury and Agency zero coupon bonds, U.S. Treasury and Agency strips, or other callable securities which otherwise meet quality, maturity and percent limitations assigned to their respective security category, are exempt from this section. C. Derivatives (e.g. swaps, spreads, straddles, caps, floors, collars, etc.) shall be prohibited. D. Trading of options and futures are prohibited.

6. Internal Controls. The Executive Vice Chancellor shall establish internal controls to provide reasonable assurance that the investment objectives are met and to ensure that the assets are protected from loss, theft, or misuse. The Executive Vice Chancellor shall also be responsible for ensuring that all investment transactions comply with the District's investment policy and the California Government Code. The Executive Vice Chancellor shall establish a process for daily, monthly, quarterly and annual review and monitoring of investment program activity. Daily, the Executive Vice Chancellor or authorized District personnel shall review the investment activity, as well as corresponding custodial and commercial bank balances and positions for compliance with the investment policy and guidelines. The District shall conduct an annual review of the investment program's activities. It is to be conducted to determine compliance with the District's investment policy and the Government Code. The responsibility for conducting the District's investment program resides with the Executive Vice Chancellor, who supervises the investment program within the guidelines set forth in this policy. The Executive Vice Chancellor may delegate the authority for day-to-day investment activity to the Chief Financial Officer or outside Investment Advisors, such activity to be in full compliance with the District investment policy.

7. Approved Investment Advisors. The Executive Vice Chancellor will maintain a current list of Approved Investment Advisors, Brokers and Dealers who may conduct business with the District. All financial institutions on the approved list will be evaluated individually, with preference given to

primary dealers, who possess a strong capital and credit base appropriate to their operations. The Executive Vice Chancellor will forward a copy of the District Investment Policy to all approved Investment Advisors, Brokers, and/or Dealers and require written acknowledgment of the policy. No Investment Advisor, broker, brokerage, dealer or securities firm is allowed on the approved list if, within any consecutive 48-month period, they have made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to any member of the governing board of the District or any candidate for that office.

8. Statements, including positions marked to the market, all transactions, and summary of income, will be sent to the ~~Treasurer~~ Executive Vice Chancellor 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.

9. 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 California Government Code Section 1090 et seq. and the California Political Reform Act (California Government Code Section 81000 et seq.).