ALAMEDA COUNTY
Annual Investment Policy
Calendar Year 2018

Introduction

The Alameda County Board of Supervisors, by Ordinance # O-2017-51 dated, October 24, 2017 has renewed the annual delegation of its investment authority and responsibility to invest and/or to reinvest the funds in the Alameda County treasury to the Alameda County Treasurer. Accordingly, in order to provide a framework for the oversight of the Treasurer's investment responsibilities and activities, the *Government Code of the State of California through Section 27133* requires the County Treasurer to prepare an annual investment policy that provides the specific guidelines, pursuant to which, the Treasurer should carry-out investment-related functions. Participation in the Alameda County investment pool is limited to entities that are required by mandate to deposit their revenues in the county treasury.

Investment Philosophy

The Alameda County Treasurer shall invest monies in the treasury in accordance with the following basic principles of investing, in the order of priority:

1. **Safety** – Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. **Liquidity** – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
3. **Return** - 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 of safety.

The investment portfolio shall be diversified and designed to attain a market-average rate of return that takes into account the cash-flow characteristics and operating cash needs of County departments, the County's various subdivisions, school districts and special districts.

The investment portfolio shall strive to attain an average maturity not to exceed 24 months. Investments shall be made with the general intention of holding to maturity and not for the purpose of trading. However, the Treasurer may, from time to time, swap or sell securities in order to re-position investment holdings to current coupon issues or to take advantage of market value appreciation by realizing profits on securities held by the portfolio.

The Treasurer may sell securities in which actual loss from such sale may be incurred under the following conditions:

1. To raise cash to meet unanticipated cash-flow need.
2. To swap old securities for current coupon securities.
3. To avoid further erosion and loss of investment principal due to deterioration in credit-worthiness or if interest rates are anticipated to continually rise.

Investment Guidelines and Eligible Securities

Section 53600 et seq. of the Government Code of the State of California prescribes the statutory requirements relating to investments by local treasurers, including types of allowable investments, proportional limits by investment type relative to the size of the investment pool, maximum maturity of investments, and credit rating criteria. The term to maturity of investments in the pool shall not exceed a final maturity of 5 years from date of purchase, except when specifically authorized by a resolution of the Alameda County Board of Supervisors.

Alameda County investments shall conform to the legal provisions set forth in the Government Code, except that, the County further prescribes the following requirements:
(Please refer to ATTACHMENT I)

I. Bankers' Acceptance

- Maximum limit: 30% of the portfolio.
- Ratings requirement: "A" rated by S & P or its equivalent by other rating agencies for domestic banks. "AA" rated by S & P or its equivalent by other rating agencies for US Branch of Foreign Banks.
- Maximum maturity: May not exceed 180 days from purchase date to final maturity.

II. Commercial Paper

- Maximum limit: 25% of the portfolio.
- Ratings requirement: "P-1" rated by S & P or its equivalent by other rating agencies.
- Maximum maturity: May not exceed 270 days from purchase date to final maturity.

III. Medium-Term Corporate Notes

- Maximum limit: 30% of the portfolio.

- Ratings requirement: “A” rated by S & P or the equivalent by other rating agencies if maturity is less than 3 years. “AA” rated by S & P or the equivalent by other rating if maturity is more than 3 years from purchase date.
- Maximum maturity: May not exceed 5 years from purchase date to final maturity.

IV. <u>Negotiable Certificates of Deposits</u>

- Maximum limit: 30% of the portfolio.
- Ratings requirement: “A” rated by S & P or the equivalent by other rating agencies if issued by a domestic bank. “AA” rated by S & P or the equivalent by other rating agencies if issued by a U.S. branch of a foreign bank.
- Maximum maturity: May not exceed one year in maturity from purchase date.

V. <u>Money Market Mutual Funds</u>

- Maximum limit: 20% of the portfolio. Investments in any one fund may not exceed 5% of the portfolio or $75,000,000 whichever is lower. Exception to these limits shall apply during the months of November, December, March and April in order to accommodate short-term investments of large tax collections during the tax season.
- NAV requirement: A money-market fund must maintain a constant NAV (Net Asset Value) of $1.00.
- Rating requirement: In order to be eligible for purchase for the Treasurer’s investment pool, a money market fund, must meet either of the following requirements.

    - The fund must be invested in securities and obligations permitted by subdivisions (a) to (1) inclusive, of Section 53601 of the Government Code of the State of California. The fund must attain “AAA” ratings from 2 of the 3 nationally recognized rating services.

      OR

    - The fund must be invested in securities and obligations permitted by subdivisions (a) to (1) inclusive, of Section 53601 of the Government Code of the State of California, and **if not rated**, must retain an investment adviser registered with the SEC with more than five years of experience investing in the securities and obligations as authorized by subdivisions (a) to (m), inclusive, and with assets under management in excess of $500,000,000.

VI. U.S. Treasury Bills, U.S. Government Notes and Bonds, Federal Agency Notes, debt issues of the State of California and debt issues of local agencies within the State of California

- Maximum limit: 100% of the portfolio.
- Purchase of debt issues of the U.S. Government, Federal Agencies, State of California and other local agencies in the State of California are eligible for purchase without limit, subject to requirements and restrictions of Section 53601 et seq. of the Government Code, except that floating rate notes, structured notes and other derivative securities permitted for purchase under the Code shall be limited to an aggregate cap of 15% of the total portfolio. Plain callable securities are not subject to the 15% limit.
- Maximum maturity: 5 years

VII. Washington Supranational Obligations

- Maximum limit: 30% of the portfolio.
- Purchase of U.S. dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank of Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB) that are eligible for purchase or sale in the United States.
- Ratings requirement: AA or better by S & P or equivalent by other rating agencies.
- Maximum maturity: 5 years

VIII. Repurchase Agreements

1. Repurchase Agreements
    - Maximum limit: 20% of the portfolio.
    - Counter-party requirements: A financial institution that will deliver the securities versus payment, either to the Treasurer's custodian bank or to a third party custodian.
    - Collateral requirements: U.S. Government Securities or Federal Agency Securities with final maturity not exceeding 5 years from commencement of repurchase agreement.
    - Collateral value requirements: Minimum of 102% of the funds borrowed and marked-to-market daily during the term of agreement.
    - Maximum term of agreement: 180 days.

2. Reverse Repurchase Agreements
    - Maximum limit: 20% of the portfolio.
    - Borrowing for leveraging purposes shall conform in all aspects to the

governing provisions of the Government Code Section 53601, et. seq. Reverse repurchase agreements which have been entered into for purposes of either raising temporary cash needs or for the purpose of leveraging to attain favorable investment spreads, must be approved by the Board of Supervisors, pursuant to Government Code guidelines.

IX. LAIF (Local Agency Investment Fund)

- Maximum amount: As permitted by the State Treasurer

X. CalTrust (Joint Powers Authority Investment Trust for California Public Agencies)

- Maximum limit: Twice the limit of LAIF deposits

XI. CAMP (Joint Powers Authority created to provide a statewide local government investment pool)

- Maximum limit: Twice the limit of LAIF deposits

XII. Collateralized/FDIC - Insured Time Deposits

The Treasurer may place interest-bearing inactive public time deposits with banks and savings and loan associations located within the State of California, collateralized in accordance with requirements of the Government Code. Further, pursuant to the requirement of Government Code Section 53635.2, in order to be eligible as a depository of local agency monies, the depository institution must have a CRA (Community Reinvestment Act) rating of at least “Satisfactory”, received in its most recent evaluation by the appropriate federal rating agency. The Treasurer may also place with an eligible bank or savings and loan association, uncollateralized interest-bearing inactive time deposits for the FDIC-insured amount of up to $250,000, provided that the depository institution requests, and the Treasurer grants, a waiver of security in writing. FDIC-insured inactive time deposits may be placed only in banks that have at least one branch office in the San Francisco Bay Area, regardless of credit rating.

XIII. Collateralized Money Market Bank Accounts

The Treasurer may open and deposit funds in interest-bearing active collateralized money market bank accounts in the banks that qualify under the eligibility requirements required for collateralized inactive time deposits, under **item XII** of this policy. Deposits in money market bank accounts are made to provide better short-term yield, as well as to provide another source of immediate liquidity.

XIV. **<u>Others – any other legally permitted investments by specific authorizing resolutions of the Alameda County Board of Supervisors shall be eligible investments.</u>**

Credit rating requirements for eligible securities referred-to in this policy shall mean the numeric, alpha, and/or alpha-numeric designations assigned by the following rating agencies:

Moody's Investor Service
Standard & Poor's Rating Services
Fitch IBCA, Inc.
Thompson Bank Watch

The list of possible ratings for Standard and Poor's, Moody's and Fitch is Attachment II.

<u>Directed Investments and Withdrawal Policy</u>

Self-directed investments made by any school district or any special district, including deposits by same districts into the State's Local Agency Investment Fund (LAIF) are considered withdrawal of funds from the County treasury. Each district withdrawing funds for the purpose of investing outside of the Treasurer's investment pool may only do so once each month, upon a 3-day written notice to the Treasurer in an amount not exceeding $20,000,000**.** Such withdrawal is hereafter referred to as a "Permissible Withdrawal". Permissible withdrawals are further subject to the following requirements:

- Each district wishing to invest bond proceeds and/or bond funds outside of the Treasurer's investment pool, must notify the Treasurer no later than on the day of the bond closing, so that the Treasurer could place such bond proceeds in short-term investment/s whose maturity would coincide with the settlement/purchase date of the directed investment.
- Securities representing district- directed investments shall be held solely for the purpose of safekeeping by the County Treasurer at the County's custodial bank.
- Directed investments shall be the direct responsibility of each respective district with respect to their accounting and accountability.
- Any school district or special district that has obtained a temporary loan from the Alameda County Treasurer may not invest operating funds outside of the Treasurer's investment pool until the temporary loan is fully liquidated.

<u>Securities Lending</u>

Pursuant to Section 53601 (i) (3) of the Government Code, the Alameda County Treasurer may engage in securities lending through a third party custodian and lending administrator. Revenues derived from securities lending will be considered incremental interest income to be shared among participating funds in the investment pool.

Other Provisions

Further, the Treasurer of Alameda County sets forth the following:

1. The Treasurer shall maintain sufficient funds in the County Treasury, to meet the estimated normal daily operating cash demands of the County and investment pool participants by investing funds to maturities that anticipate major cash needs. Investments shall, whenever possible, be made in securities that have active secondary or resale markets in order to provide maximum portfolio liquidity.

2. The treasurer's investment pool practices a "buy and hold" strategy, thus, funds are invested in securities that mature on dates coincident with the anticipated operating cash requirements of all participating entities. Consequently, withdrawal of funds for purposes other than to pay operating expenditures is unanticipated and could risk the pool's liquidity and stability. Nevertheless, subject to the **Directed Investments and Withdrawal Policy**, the Treasurer may liquidate securities in order to meet unanticipated cash withdrawals or disbursements made by the County or any pool participant, whether the purpose of such withdrawal or disbursement is to make payment for a legitimate obligation or to pull-out funds to reinvest outside the Treasurer's pool. Except for permissible withdrawals as described in the previous section, in the event the Treasurer is obligated to liquidate investments in an adverse market, the resulting loss, if any (calculated on the basis of comparing the accrued interest earned at the original purchase rate vs. the actual interest earned and/or loss at the current sale rate), due to an unanticipated school or special district withdrawal that normal pool liquidity cannot meet, and if the purpose of such withdrawal is to invest the funds outside of the Treasurer's investment pool, shall be borne by the withdrawing district/s alone. Losses due to the sale of securities to meet unanticipated cash needs other than for the purpose of investing funds outside the treasurer's pool shall be considered as normal cost of providing unanticipated liquidity needs.

3. The Treasurer shall hold all securities including collateral on repurchase agreements, in safekeeping with the County's custodial bank or with a national bank located in a Federal Reserve City which has provided the County with a safekeeping agreement.

4. The Alameda County Treasurer's investment pool does not accept non-mandatory depositors.

Investment Report

The Treasurer shall submit a report on the monthly status of the investment pool to the Alameda County Board of Supervisors, the Treasurer's Oversight Committee and the participating districts. The investment report must include the total market value of securities held, as reported by the custodial bank in its custodial report to the County, in each of the following calendar-quarter monthly reports, September, December, March, and June.

Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. Disclosure shall be made to the governing body. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of Alameda County Treasurer's investment pool.

Further, any securities broker or dealer who has made a political contribution to the Treasurer, any member of the Board of Supervisors, or any candidate for those offices, in an amount that exceeds the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board within any consecutive 48-month period following January 1, 1996, shall be disqualified from transacting securities trades (purchase, sale and/or exchange) with the County Treasurer.

Safekeeping and Custody

The following process shall be maintained for safekeeping and custody of securities:

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 Alameda County's safekeeping institution prior to the release of funds.
2. Third-Party Safekeeping
   All marketable securities except for money market funds registered in the County's name shall be deposited for safekeeping with banks contracted to provide the County Treasurer with custodial security clearance services. Securities are **NOT** to be held in investment firm/broker-dealer account.

Authorized Financial Institutions, Depositories, and Broker/Dealers

The Treasurer shall maintain a list of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of broker/dealers that are approved to conduct investment security transactions with the Alameda County Treasurer. These may include primary dealers, regional broker/dealers, minority-owned broker/dealers and direct issuers of securities.

All financial institutions and depositories, including broker-dealers, must provide certification of having read and understood and agreeing to comply with Alameda County Treasurer's investment policy on an annual basis.

All broker/dealers who desire to become qualified for investment transactions must supply the following (as appropriate):

1. Audited financial statements
2. Proof of FINRA registration

3. Proof of state registration
4. Completed broker/dealer questionnaire
5. Certification of having read and understood and agreeing to comply with Alameda County Treasurer's investment policy

Allocation of Interest Income and Costs

The Treasurer shall account for interest income on a cash basis to be apportioned based on average daily cash balances of participating funds during the quarterly allocation period. Government Code Section 27013 permits the Treasurer to charge the cost of the treasury operations and administration to the interest income prior to distribution. The cost of operating the County treasury which includes tax and revenue receipt processing, county-wide central cashiering, investment banking, management, operations, safekeeping and accounting, daily redemption of county warrants/checks and other direct and indirect treasury operations costs, shall be netted on a quarterly basis against the un-apportioned interest prior to its allocation to the pool participants. The treasury operations costs are determined each fiscal year as part of the budgeting process, during which the departmental budget is allocated among the various functioning units of the Treasurer-Tax Collector's department.

Treasury Oversight Committee

The Treasury Oversight Committee shall meet at least once annually, preferably the third week of November. The responsibilities of the Treasury Oversight Committee are:

1. To ensure that an annual audit of the investment portfolio is performed;
2. To review the Treasurer's Annual Investment Policy before it is submitted to the Board of Supervisors for authorization; and
3. To ensure that the Treasurer's investments conform to the requirements of the annual investment policy.

Limit on Receipt of Honoraria, Gifts and Gratuities

No individual responsible for the management of the County's investment portfolio or any member of the Treasury Oversight Committee shall accept honoraria, gifts or gratuities from any advisor, broker, dealer, banker or other person with whom the county treasury conducts business, that aggregate in value in excess of $250.00 in any calendar year.

Conclusion

Any provision in this, the investment policy of Alameda County, which may later be disallowed by the governing sections of the Government Code of the State of California, shall also be so disallowed. Conversely, any new permissive provisions under the governing sections of the Government Code shall be allowed without necessarily amending the investment policy during the year that the law takes effect. However, such new provision shall be adopted by policy in the next annual investment policy. This investment policy shall be in effect until revised or replaced by the investment policy of the following calendar year.

SUMMARY OF ALLOWABLE INVESTMENTS

AUTHORIZED INVESTMENTS	MAXIMUM % HOLDINGS	PURCHASE RESTRICTIONS	MAXIMUM MATURITY	CREDIT QUALITY
Banker's Acceptance	30%	N/A	180 days	"A" rated by S&P or equivalent for domestic banks
Commercial Paper	25%	N/A	270 days	"AA" rated by S&P or equivalent for US branch of foreign banks "A-1/P-1" rated by S&P and Moody's or equivalent
Medium Term Notes or Corporate Notes	30%	N/A	5 years	"A" rated by S&P or equivalent for maturity less than 3 years "AA" rated by S&P or equivalent for maturity over 3 years
Negotiable CD	30%	N/A	1 year	"A" rated by S&P or equivalent for domestic banks "AA" rated by S&P or equivalent for US branch of foreign banks
Money-Market Mutual Funds	20%	Max. 5% or $75MM per fund. Must maintain constant NAV of $1.00	Daily Liquidity	"AAA" from 2 of the 3 nationally recognized rating services
US Treasury Bills, US Government Notes and Bonds, Federal Agency bonds (FHLB, FFCB, FNMA, FHLMC or FAMCA), debt issues by St. of CA and local agencies within the state	100%	N/A	5 years	N/A
Washington Supranational Obligations	30%	Senior unsecured unsubordinated or unconditionally guaranteed by IBRD, IFC, or IADB	5 years	"AA" by S&P or equivalent by other rating agencies
Repurchase Agreements (REPO)	20%	Counter-party that will deliver securities DVP. Collateral to be US Government or Federal Agency securities with maximum maturity of 5 years. 102% of funds borrowed and marked-tomarket daily.	180 days	N/A
Reverse Repurchase Agreements (Reverse REPO)	20%	Prior Approval of Board of Supervisors	As per code	N/A
LAIF	N/A	As per limit set by LAIF	Daily Liquidity	N/A
CAMP	N/A	2 x LAIF	Daily Liquidity	N/A
CalTRUST	N/A	2 x LAIF	Daily Liquidity	N/A
Fully Collateralized/FDIC - Insured Time Deposits	no limit	Refer to page 5	5 years	N/A
Fully Collateralized Money Market Bank Account	no limit	Refer to page 5	Daily Liquidity	N/A

RATINGS INTERPRETATION

LONG TERM DEBT RATINGS			
MOODY'S	**S&P**	**FITCH**	**RATINGS INTERPRETATION FOR CREDIT**
Aaa	AAA	AAA	STRONGEST QUALITY
Aa1	AA+	AA+	STRONG QUALITY
Aa2	AA	AA	
Aa3	AA-	AA-	
A1	A+	A+	GOOD QUALITY
A2	A	A	
A3	A-	A-	
Baa1	BBB+	BBB+	MEDIUM QUALITY
Baa2	BBB	BBB	
Baa3	BBB-	BBB-	
Ba1	BB+	BB+	SPECULATIVE
Ba2	BB	BB	
Ba3	BB-	BB-	
B1	B+	B+	LOW
B2	B	B	
B3	B-	B-	
Caa	CCC+	CCC	POOR
-	CCC	-	HIGHLY SPECULATIVE TO DEFAULT
-	CCC-	-	
Ca	CC	CCC	
C	-	-	
-	-	DDD	
-	-	DD	
-	D	D	

SHORT TERM DEBT RATINGS			
MOODY'S	**S&P**	**FITCH**	**RATINGS INTERPRETATION FOR CREDIT**
P-1	A-1+	F1+	STRONGEST QUALITY
	A-1	F1	STRONG QUALITY
P-2	A-2	F2	GOOD QUALITY
P-3	A-3	F3	MEDIUM QUALITY