RESIG POLICIES AND PROCEDURES MANUAL

SECTION: OPERATIONAL #1.1.108

PROGRAM: BOARD – INVESTMENT POLICY

ADOPTED ON: OCTOBER 24, 1997 AMENDED: February 22, 2018

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1. POLICY

It shall be the policy of Redwood Empire Schools' Insurance Group (RESIG), to invest public funds in a manner which will (1) preserve principal; (2) meet the Joint Powers Authority (JPA) daily cash flow needs; and (3) optimize returns while conforming to all federal, state, and local statutes governing the investment of public funds. The JPA investment portfolio shall be a suitable blend of investment strategies which achieve the desired objectives of the JPA as stated above.

2. SCOPE

This investment policy applies to all financial assets of the JPA not required for operational cash purposes, reserved at the Sonoma County Treasury as directed by the Executive Committee. These funds are accounted for in the JPA's annual financial report and include the following funds:

- Workers' Compensation
- Property/Liability
- Dental

Costs of authorized investment-related services specific to one fund shall be allocated to that fund. Costs of authorized investment-related services not allocable to any one fund shall be allocated among all funds in proportion to the relative amounts invested from each fund.

3. GENERAL OBJECTIVES

The primary objectives, in priority order, of the JPA's investment activities shall be:

A. <u>Safety</u>
Safety of principal is a primary objective of the investment program. Investments of the JPA 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 interest rate risk.

1. <u>Credit Risk</u>
The JPA will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:
    - Limiting investments to the types of securities listed in Section 7 of this Investment Policy

- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Authority will do business in accordance with Section 5.
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

2. Interest Rate Risk
   The JPA will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:
   - 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
   - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see Section 8).

B. Liquidity
The JPA's investment portfolio will remain sufficiently liquid to enable the JPA to meet all operating requirements which can be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrently with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

C. Return on Investment
The JPA's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the JPA's 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 shall generally be held until maturity with the following exceptions:

1. A security with declining credit may be sold early to minimize loss of principal.

2. Replacing a security would improve the quality, yield, or target duration in the portfolio.

3. Liquidity needs of the portfolio require that the security be sold.

4. STANDARDS OF CARE

A. Prudence
The JPA's governing body or persons authorized to make investment decisions on behalf of the JPA 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, including, but not limited to, the general economic conditions and the

anticipated needs of the agency, 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 requirement and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

The JPA's governing body or persons authorized to make investment decisions on behalf of the JPA, while acting in accordance with written procedures and their investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes. Any changes will be reported at the next regularly scheduled executive committee meeting.

B. Ethics and Conflicts of Interest

Officers and employees of the JPA involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material financial interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the JPA's investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the JPA. Officers and employees of the JPA involved in the investment process shall not accept honoraria, gifts and gratuities of more than nominal value as per the California Form 700, Fair Political Practices Commission, from advisors, brokers, dealers, bankers and others with whom the JPA contracts for investment-related services.

C. Delegation of Authority

Authority to manage the JPA's investment program is derived from Government Code Sections 53601 & 53601.1. In accordance with Government code Section 53607, responsibility for the operation of the investment program is hereby delegated to the Executive Director by the Executive Committee, which shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

Procedures should include reference to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions, except as provided under the terms of this policy, and the procedures established by the Executive Committee. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Executive Committee. The Executive Director as directed by the Executive Committee shall be responsible for all transactions undertaken and shall establish a system of control to regulate the activities of subordinate officials.

5. AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS

The JPA's Treasurer shall direct the Executive Director to maintain a list of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital

requirement of $10,000,000 and at least five years of operation). These may include “primary” dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15(C) 3-1.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following:

- Audited financial statements for the last three years demonstrating compliance with state and federal capital adequacy guidelines
- Proof of Financial Industry Regulatory Authority (FINRA) certification (not applicable to Certificate of Deposit counterparties)
- Proof of state registration
- A statement, in the format prescribed by the Government Finance Officers Association (GFOA), certifying that the institution has reviewed the Authority’s Investment Policy and that all securities offered to the Authority shall comply fully and in every instance with all provisions of the California Government Code and with this Investment Policy
- References from other public-sector clients to whom similar services were provided
- Evidence of adequate insurance coverage

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Executive Committee.

6. SAFEKEEPING AND CUSTODY

A. Delivery vs. Payment
All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

B. Safekeeping
Securities will be held in the JPA’s name by an independent third-party custodian selected by the Authority. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (SAS-70).

C. Internal Controls
A system of internal controls shall be established and documented in writing. The controls shall be designed to prevent losses of public funds arising from fraud, misrepresentation of third parties, or imprudent actions by RESIG employees or officers. Such controls shall include annual review of the investments and general activities associated with the investment program by the JPA’s outside auditor.

This review will provide internal control by assuring compliance with the Investment Policy and the JPA’s policies and procedures.

7. AUTHORIZED & SUITABLE INVESTMENTS

Pursuant to Government Code section 56301, the legislative body of the JPA, having moneys in a sinking fund or in its treasury not required for the immediate needs of the local agency, may invest any portion of such moneys that it deems wise or expedient in those investments set forth below:

(a) Bonds issued by the local agency, 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.
(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.
(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.
(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.
(e) Bonds, notes, warrants, or other evidences of indebtedness of a 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.
(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.

(g) Bankers' acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days' maturity or 40 percent of the agency's moneys that may be invested pursuant to this section. However, no more than 30 percent of the agency's moneys may be invested in the bankers' acceptances of any one commercial bank pursuant to this section.
(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 (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 "A" or higher by an 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 a surety bond.
(C) Has commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO. Eligible commercial paper shall have a maximum maturity of 270 days or less. The JPA may invest no more than 25 percent of their moneys in eligible commercial paper. The JPA may purchase no more than 10 percent of the commercial paper of any single issuer.

(i) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit 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 JPA is prohibited from investing 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 a 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.

(j) 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 "A" or better by an NRSRO. Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30 percent of the agency's moneys that may be invested pursuant to this section.

(k) Supranationals are United States dollar 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 "AA: or better by an NRSPRO and shall not exceed 30 percent of the agency's moneys that may be invested pursuant to this section."

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 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.

Collateral will always be held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the JPA and retained. The right of collateral substitution is granted.

8. INVESTMENT PARAMETERS

A. <u>Diversification</u>
The investments shall be diversified by:

- limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and
- continuously investing a portion of the portfolio in readily available funds such as LAIF, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

B. Credit Rating Changes

Credit ratings, where shown, specify the minimum credit rating category required at purchased without regard to +/- or 1,2,3 modifiers, if any . In the event a security held by RESIG is subject to a rating change that brings it below the minimum credit ratings specified in this Policy, the Executive Director should notify the Executive Committee of the change. The course of action to be followed will then be decided on a case-by-case basis, considering such factors as the reason for the rate drop, prognosis for recovery or further tarte drops, and the market price of the security.

C. Prohibited Investments

RESIG shall only invest in securities permitted by the California Government Code and this investment policy. RESIG is prohibited from buying on margin or from speculative buying.

D. Maximum Maturities

To the extent possible, the JPA will attempt to match its investments with anticipated cash flow requirements. In accordance with Government Code Section 53601, the Board of Directors authorizes investments in U.S. Treasuries or Agencies of up to 20% of the investment portfolio in maturities over 5 years but no more than half of that amount (10% of the investment portfolio) shall be invested in maturities over 7 years up to a maximum of 10 years. Any investment with a maturity over 5 years must be approved by the Executive Committee.

9. REPORTING

Monthly: The Investment Advisor shall submit a monthly report to the Executive Director that includes all items required by Government Code Section 53646 that will be subsequently presented to the Executive Committee.

Quarterly: The Executive Committee shall submit a quarterly report to the Board of Directors which complies with the requirements of Government Code Sections 53646 (b) and (c). Reports will include performance, market sector breakdown, interest earnings, portfolio market value, etc.

Annually: The Investment Advisor shall present to the Executive Committee an Annual Portfolio Investment Performance Report as of the prior June 30.

A. Performance Standards

The investment portfolio will be designed with the objective of regularly meeting or exceeding a selected performance benchmark. The JPA's investment strategy is passive. Given this strategy, the basis used by the Executive Committee to determine whether market yields are being achieved shall be the 12-month moving average of the 2-year Constant Maturity Treasury (CMT).

B. 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.

10. INVESTMENT POLICY ADOPTION

The investment policy shall be formally approved and adopted by the Executive Committee of the JPA and reviewed annually.