



**COUNTY  
OF  
SAN MATEO**

**POOLED FUND  
INVESTMENT  
POLICY**

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# **TABLE OF CONTENTS**

<i>Philosophy</i>	3
<i>Objectives of the Fund: Safety, Liquidity, Yield and Public Trust</i>	3
<i>Strategy: Allowable Instruments, Flexibility, Qualifications</i>	5
<i>Maturity and Average Life of the County Pool</i>	6
<i>Qualifications of all Instruments</i>	7
<i>Controls</i>	9
<i>Procedures to be followed in the execution of Investment Authority</i>	12
<i>Limits on Honoraria, Gifts and Gratuities</i>	14

# SAN MATEO COUNTY INVESTMENT POLICY

To meet the needs of liquidity and long term investing, the County has established the County Investment Pool. This fund is suitable for planned expenditures or capital funds. The securities in this pool may have longer individual maturities but will have a dollar weighted average maturity of no more than five years.

“Dollar weighted average portfolio maturity” means the sum of every portfolio investment multiplied by its respective number of years to maturity divided by the total amount of portfolio investments.

The responsibility for managing the San Mateo County investment program resides with the Treasurer. The investment program is supervised within the guidelines set forth in the investment policy developed by the Treasurer, reviewed and approved annually by the County Treasury Oversight Committee and the County Board of Supervisors.

This policy sets aside up to one million dollars for investment in banks whose primary operations are located in San Mateo County. Investments from this fund must meet the requirements of the California Government Code and any investment of more than \$100,000 must be collateralized at a rate of 105% to 150% of the value of the deposit to guarantee the safety of the public funds.

Other socially responsible issues may be considered for inclusion in this investment policy: (1) so long as they are not inconsistent with generally accepted investment standards for the management of pooled public funds (Government Code 53601 & 53635) and (2) they remain within the guidelines of the “Prudent Person Rule”.

## Objectives of the Fund: Safety, Liquidity, Yield and Public Trust

### 1. Safety

Preservation of principal is of primary importance. The objective is to minimize credit risk while recognizing and controlling market risk.

### 2. Liquidity

The pool attempts to match maturities with capital expenditures and other planned outlays. The nature of the planning process behind these expenditures is relatively predictable and less volatile than is the case for pass-through money. This allows leeway for the underlying investments in the County Pool to have a longer duration. The County pool will maintain a dollar weighted average portfolio maturity of five years or less.

Funds deposited in the County pool may be reclaimed subject to the conditions of sections 27133 (h) and 27136 of the California Government Code at the rate of 20% of the principal balance per month, exclusive of apportionment, payroll and day-to-day operations, unless specifically authorized by the Treasurer.

Gains and losses in this fund will be proportionately allocated to each depositor. Each depositor is given credit for accrued interest earnings and capital gains based on their average daily pool balance as reported by the County Controller. Gains or losses will be attributed to the fund balance of each depositor quarterly. The minimum balance for an outside agency to maintain an account in the County pool is \$100,000.

For those agencies requesting wire transfer of their apportionment money, or a portion thereof, the following conditions will apply. The County will only wire funds out for members who maintain an account in the County pool.

Moneys apportioned to voluntary participants who want their funds wired out will be held in a separate account and will be wired out the day after receipt of the funds. Wiring instructions must be received in the Treasurer's office 24 hours prior to the actual date of transfer. Wiring instructions must be signed by authorized signatories on file with the Treasurer's office.

3. **Yield**

The County pool is designed as an income fund to maximize the return on investible funds over various market cycles, consistent with limiting risk and prudent investment principles. Yield will be considered only after the basic requirements of safety and credit quality have been met. The County pool is managed as an income fund whose purpose is to provide its investors with a reasonably predictable level of income, as opposed to a growth fund or fund measured in the basis of total return that could encounter negative returns.

4. **Leverage**

The Treasurer shall not leverage the County pool through any borrowing collateralized or otherwise secured by cash or securities held unless authorized by this investment policy. Security lending is authorized by this policy and will be limited to a maximum of 20% of the portfolio.

5. **Public Trust**

In managing the investment portfolio, the Treasurer shall exercise a degree of professionalism that will sustain public confidence in the County and pool participants, remembering that both investment instruments and the method of transacting investment business are subject to public scrutiny. The perception of safety and professionalism is as important as the reality of these concepts. To further public trust the investment officer is prohibited from doing personal business with brokers that do business with the County.

In the implementation of the Investment Policy, the County adheres to the guidance provided by the “Prudent Person Rule”, whereby a fiduciary is obligated to ensure investments will be made with the exercise of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence would 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.

The Treasurer’s office has created a synthetic index of securities, based on various readily available Merrill Lynch indices that parallel the pool’s investment objectives. This index will be used as an artificial measure of the pool performance and the general interest rate outlook.

The allocation of the synthetic index is as follows:

- 30% 0-1 year U.S. Governments
- 20% 1-2.99 year U.S. Governments
- 20% 3-5 year U.S. Governments
- 10% 1-10 year U.S. Governments
- 20% 1-5 year Corporate Bonds

This Investment Policy must be reviewed and approved annually by the County Board of Supervisors. All amendments to this policy must be approved by the Board of Supervisors.

This Investment Policy and all subsequent amendments will be communicated by the Treasurer to the pool participants and acknowledged in writing.

**Strategy: Allowable Instruments, Flexibility, Qualifications**

Subject to the limitations set forth in California Government Code sections 53600 et seq., which may be amended from, time-to-time, the Treasurer may invest in the following instruments, subject to the limits of flexibility described on the following page:

INSTRUMENT	RATING	----- ----	LIMITATIONS	-----
		% of Fund	% of Fund per Issuer	Maturity
U.S. Treasury Obligations		100	100	15 years
Obligations of U.S. Agencies or government sponsored enterprises		100	100	15 years
Bankers Acceptances	A1 / P1/ F1			
*Domestic: (\$500 million minimum assets)		15	10	180 days
*Foreign: (\$500 million minimum assets)		15	10	180 days

INSTRUMENT	RATING	----- ----	LIMITATIONS	-----
		% of Fund	% of Fund per Issuer	Maturity
Collateralized time deposits within the state of CALIFORNIA		30	10	1 year
Negotiable certificates of deposit		30	10	5 years
*Commercial paper/Floating rate notes	A1 / P1/ F1	40	10	270 days or less
Repurchase agreements secured by U.S. Treasury or agency obligation (102% collateral)		100	50	1 year
Reverse Repurchase agreements		20	20	92 days
Corporate bonds and medium term notes including asset-backed bonds (two agencies)	A	30	10	5 years
Local Agency Investment Fund (LAIF)			Up to the current state limit	
Shares of beneficial interest issued by diversified management companies as defined in Government Code section 53601		10	5	
Mortgage Backed Securities/CMO's: No Inverse Floaters No Range Notes No Interest only strips derived from a pool of Mortgages	A	20	5	5 years

## **Maturity and Average Life of the County Pool**

The maximum allowable maturity of instruments in the County pool at the time of investment will be 15 years and the maximum dollar weighted average maturity of the fund will be 5 years. The focus of this fund is on income and value in the yield curve. On the basis of risk/reward, there is very little yield incentive to move out on the yield curve beyond intermediate maturities. The policy of maintaining a maximum dollar weighted maturity of five years leaves open the flexibility to take advantage of interest rate trends to maximize the return on investment. The imposed maximum five year average maturity limits the market risk to levels appropriate to an intermediate income fund. The word "Maturity" refers to the instrument's stated legal final redemption date - not coupons reset dates, put dates, or call dates.

Securities purchased specifically to match the maturity of a bond issue and/or a contractual arrangement must be authorized by Government Code 53601 and 53635 but are not included in the requirements listed above; such securities shall be clearly designated in the appropriate investment journals and reports.

## Qualifications of all Instruments to be used as Investments in the County Pool

**U.S. Treasury Obligations** are obligations for which the full faith and credit of the United States Government are pledged for the payment of principal and credit.

**Obligations of U.S. Agencies** are debt instruments issued by a federal agency carrying a high credit rating because it is government sponsored, i.e. A and above.

**Banker's Acceptances** must be drawn on banks whose short term rating is A1/P1/F1 (S&P, Moody's, Fitch) or better whose long term rating is A or better by two of the three nationally recognized rating services (Moody's, S&P, Fitch) and rank among the largest 50 banks (in terms of asset size) in the world. Foreign banks with domestic licensed branches must be considered in light of their parent country's political and economic stability. Bankers' acceptances may not exceed 180 days in maturity. All things being equal, preference will be given to banks with branches in CALIFORNIA.

**Collateralized C.D.s** must comply with Bank Deposit Law Government Code section 16500 et seq. and 16600 et seq.

In addition, all recipient institutions must have a short term rating of A1/P1 or better and be rated A or better by two of the nationally recognized rating services.

**Negotiable C.D.s** issued by nationally or state chartered banks or by a domestic-licensed branch of a foreign bank, must have a short term rating of A1/P1 or better and have a long term rating of A or better by two of the three nationally recognized rating services, and must have a liquid secondary market. The following types of C.D.s are authorized by this Policy:

<u>C.D. Type</u>	<u>Issuer</u>
Domestic:	Domestic Offices of U.S. Banks
Yankee:	U.S. Branches of Foreign Banks
Eurodollar:	Issued in London by U.S. Banks
Thrift:	U.S. S & L's and Savings Banks

**Commercial Paper** must be rated A1/P1/F1 by at least two of the three nationally recognized rating services (S&P, Moody's, and Fitch). Eligibility is further limited to U.S. organized and operating corporations with assets in excess of \$500 million, and having an A or better rating on the issuer's debt other than commercial paper and may not exceed 270 days maturity. Purchases may not represent more than 10% of the outstanding paper of the issuing corporation. Purchases of commercial paper normally will not exceed 40% of the fund's investible money.

**Corporate Floating Rate Notes** will be analyzed/run to their reset date rather than final maturity date.

**Repurchase Agreements** will only be executed with dealers with whom the County has written agreements and who report to the Market Reports Division of the Federal Reserve Bank of N.Y., i.e. Primary Dealers, and will be collateralized at 102% of current value plus accrued interest and will be marked to market daily.

The collateral received must meet the requirements of the Pool's Investment Policy. These dealers shall not be entitled to Rights of Substitution except as authorized by the County. The maturity of the underlying collateral will be as specified in sections 53601 and 53635 of the California Government Code. For purposes of this section, the term "Repurchase Agreement" means a purchase of a security by the County pursuant to an agreement by which the seller will repurchase the securities on or before a specified date and for a specified amount and will deliver the underlying securities to the County by book-entry, or by third-party custodial agreement. The custodian, in a tri-party repo, shall maintain a debt rating of at least A by one of the three nationally recognized rating services. When the transaction is unwound, the transfer of underlying securities will transfer back to the counter party's bank account and will be by book-entry. The term "Counter Party" means the other party to the transaction with the County. The term "Securities" in repurchase agreements means securities of the same issuer, description, issue date and maturity. The maximum term of a repurchase agreement shall not exceed one year.

**Reverse Repurchase Agreements** may be used so long as the securities purchased have a maximum maturity of 92 days, or maturity equal to or shorter than the stated final maturity of the security underlying the reverse repurchase agreement itself, and subject to the limitations of Government Code 53601 and 53635, with special attention to 53635.7. The term "Reverse Repurchase Agreement" means a sale of securities by the County pursuant to an agreement by which the County will repurchase such securities on or before a specified date and for a specified price.

**Corporate Securities** must be rated A or better by Moody's, Standard and Poors or Fitch. Corporate asset-backed securities must be issued by an issuer having an A or higher rating for the issuer's debt by two of the three nationally recognized rating services and the corporation must further be rated at least AA or its equivalent. Securities in this classification must be registered with the Securities and Exchange Commission and be publicly traded or at least have undergone shelf registration. The maximum maturity for any corporate securities purchased is five years. If a security is downgraded while in our portfolio, each case will be evaluated on its own merits (to hold or sell) and the investment committee will be notified.

**Local Agency Investment Fund** is an investment fund run by the Treasurer of the State of California to pool local agency investments.

**Shares of Beneficial Interest** issued by diversified management companies investing in the securities and obligations authorized by this policy may be purchased by the fund. However, these companies must be rated AAA by at least two nationally recognized rating services, and have an investment advisor registered with the Securities and Exchange

Commission with not less than five years experience investing in the securities and obligations authorized by this policy, and have assets under management of over \$500,000,000. The purchase price of these shares of beneficial interest may not include any commission these companies may charge.

**Mortgage Backed Securities** are debt instruments with a pool of real estate loans as the underlying collateral. The mortgage payment of the individual real estate assets are used to pay interest and principal on the loans and include CMO's

**Inverse Floaters** are instruments with interest rates that change according to market conditions generally having rates that move contrary to a specific measure. Inverse floaters are not authorized for investment.

**Range Notes** are instruments in which the interest rate will move within specific limitations based on market conditions. Range notes are not authorized for investment.

**Interest Only Strips based on Mortgages** is the separation of coupons from a mortgage backed bond where the coupons become a security, and the remaining face value bond becomes another security that is known as a Zero Coupon bond. Interest only strips based on mortgages are not authorized for investment.

## **Controls**

**Investment Authority and Responsibility:** The responsibility for conducting the County's investment program resides with the Treasurer, who supervises the investment program within the guidelines set forth in this policy. The Treasurer may delegate the authority for day-to-day investment activity to the Assistant Treasurer.

**County Treasury Oversight Committee:** The Board of Supervisors, in consultation with the Treasurer, hereby establishes an eight member County Treasury Oversight Committee pursuant to California Government Code section 27130 et. seq. Members of the County Treasury Oversight Committee shall be selected pursuant to California Government Code 27131. The Treasury Oversight Committee will meet at least quarterly to evaluate general strategies and to monitor results and shall include in its discussions the economic outlook, portfolio diversification, maturity structure and potential risks to the funds. All actions by the Treasury Oversight Committee will be governed by rules set out in Section 27131 et. seq. of the California Government Code.

Membership in the County Treasury Oversight Committee will pay particular attention to California Government Code sections 27132.1, 27132.2, 27132.3 and 27132.4, which read as follows:

27132.1 A member may not be employed by an entity that has (a) contributed to the campaign of a candidate for the office of local treasurer or (b) contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited

funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.

27132.2 A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.

27132.3 A member may not secure employment with bond underwriters, bond counsel, security brokerages or dealers or with financial services firms during the period that the person is a member of the committee or for three years after leaving the committee.

27132.4 Committee meetings shall be open to the public and subject to the Ralph M. Brown Act (chapter 9-commencing with section 54950) of Part 1 of Division 2 of Title 5.

**Reporting:** The Treasurer will prepare a monthly report for the County pool participants and members of the County Treasury Oversight Committee stating the type of investment, name of the issuer, maturity date, par and dollar amount of the investment. For the total pooled investment fund, the report will list average maturity and the market value. In addition, the Treasurer shall prepare a quarterly cash flow report which sets forth projections for revenue inflows, and interest earnings as compared to the projections for the operating and capital outflows of depositors. This projection shall be for at least the succeeding 12 months.

**Annual Audit of Compliance:** The County Treasury Oversight Committee shall cause an annual audit to be conducted of the portfolios, procedures, reports and operations related to the County pool in compliance with California Government Code section 27134.

**Loss Control:** While this Investment Policy is based on the Prudent Person Rule, the Treasurer shall seek to enhance total portfolio return by means of active portfolio management. In any professionally managed portfolio, occasional controlled losses are inevitable and these must be realized and judged within the context of overall portfolio performance. Losses shall be allocated as otherwise described in this investment policy.

**Credit Quality:** Should any 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 Treasurer must immediately make an informed decision as to the disposition of that asset and will so advise the County Treasury Oversight Committee. The situation will be monitored daily by the Treasurer until final disposition has been made.

**Approved Brokers:** The Treasurer will maintain a current list of approved brokerage firms to conduct business with the County. All financial institutions on the approved list will be evaluated individually and possess a strong capital and credit base appropriate to their operations. The Treasurer will forward a copy of the County Investment Policy to all approved vendors and require written acknowledgment of the policy from the vendor.

No broker, brokerage, dealer or securities firm can be on the approved list that has, within any consecutive 48-month period, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local Treasurer, any member of the governing board of the local agency, or any candidate for those offices.

**Transaction Settlement:** Payment of settlement in a securities transaction will be against delivery only. A due bill or other substitution will not be acceptable. All securities purchased from the brokers/dealers must be held in safekeeping by the County's safekeeping agent or appropriate third party.

**Method of Accounting:**

1. For earnings calculations, investments will be carried at original purchase cost (plus purchased accrued interest, if applicable). Premiums or discounts acquired in the purchase of securities will be amortized or accreted over the life of the respective securities. For GASB purposes, investments will be carried at cost and marked to market.
2. Gains or losses from investment sales will be credited or charged to investment income at the time of sale.
3. Purchased accrued interest will be capitalized until the first interest payment is received. Upon receipt of the first interest payment, the funds will be used to reduce the investment to its principal cost with the remaining balance credited to investment income.
4. Yield is calculated on an accrual basis using a 365-day calendar. Earnings are calculated as follows:

$$\frac{(\text{Earnings}^* + \text{Capital Gains}) - (\text{Banking Cost} + \text{Fees} + \text{Amortized Premiums} + \text{Capital Losses})}{\text{Average Daily Pool Balance}}$$

\* Earnings equal net interest payments + accrued interest + accreted discounts

5. The County pool will be divided into three parts, Pool 1, Pool 2 and Pool 3. The basis for this designation will be the nature of the funds and amount of banking activity generated by the account. Funds that generate specific banking charges such as payroll, extra reporting etc. will be assigned to Pool 1, and will be charged fixed and variable banking costs as well as administrative fees before interest allocation. Pool 2 is made up of funds that do not generate excessive banking costs. Pool 2 funds are charged fixed banking costs and administrative fees. Pool 3 funds represent those funds that have only an incidental use of the County banking system and therefore only pay administrative fees.

### **Withdrawal Requests:**

The Treasurer will honor all requests to withdraw funds for normal cash flow purposes. Any request to withdraw funds for purposes other than cash flow such as for external investing shall be subject to the consent of the Treasurer. In accordance with California Government Code section 27136 et.seq., and 27133 (h) et.seq., such requests for withdrawals must first be made in writing to the Treasurer. These requests are subject to the Treasurer's consideration of the stability and predictability of the pooled investment fund, or the adverse effect on the interests of the other depositors in the pooled investment fund.

### **Internal Controls:**

The Treasurer has established a system of controls designed to prevent losses of pooled funds due to fraud, employee error, misrepresentations by third parties, unanticipated changes in financial markets or imprudent actions by employees of the County. The controls include:

1. Procedures for investment activity which include separation of transaction authority from accounting and operations and requiring clear documentation of activity.
2. Custodial safe keeping as prescribed in Government Code 53601.
3. Independent audit, both external and internal.
4. Clear delegation of authority.
5. Written confirmations of all telephone transactions.
6. Establishment of written ethical standards and rules of behavior.

### **Procedures to be followed in the execution of Investment Authority:**

1. All transactions are documented as to date, time and vendor, signed by the originator and will include the following information:
  - A. Buy or sell
  - B. Specific description of security involved (CUSIP)
  - C. Settlement date
  - D. Price
  - E. The total amount of funds involved
  - F. Delivery instructions
  - G. On non-treasury or agency transactions a notation will be made on the transaction ticket of competitive bids and offers
  - H. Broker/dealer
2. This information is given to the Investment Specialist to be used as follows:
  - A. To contact the dealer to verify the information on the trade with the dealer's instructions. Any misunderstanding is clarified at that time.
  - B. To provide the County's custodian bank with the specifics of the pending transaction to assure a smooth settlement.
  - C. To compare with the daily custodian transaction report to assure there are no errors.

- D. To generate the internal entries necessary for the movement of funds to complete the transaction.
  - E. To compare with the broker's confirmations when they are available.
3. At the end of the day the Investment Specialist summarizes all of the day's transactions in a "Daily Cash Flow Report" that is available the first thing on the following morning. This report includes:
    - A. A summary of all the day's investment transactions.
    - B. A listing of the day's wires in and out.
    - C. A listing of all state automatics and other deposits received during the day.
    - D. If the pool has "Repo's" out, a statement as to the current earnings rate.
    - E. An estimate of the total anticipated clearings for the day.
    - F. A listing of the day's Treasurer's deposits and tax receipts.
  4. The Treasurer will obtain a minimum of three prices from different brokers before executing a security transaction whenever possible. Exceptions will occur with Treasuries, when issued securities, and new issues. In those cases the Bloomberg screen will be printed as close to the physical transaction as possible. In the case of money market or agency paper being purchased to fill a specific maturity, a best effort will be made to obtain differential bids.
  5. Repurchase Agreements and Reverse Repurchase Agreements with brokers/dealers will be done through a "Tri-party Custodian Agreement" that has been approved in writing by the Treasurer. All Repurchase and Reverse Repurchase Agreements with commercial banks will be governed by a Public Securities Association (PSA) agreement that has been approved in writing by the Treasurer.
  6. Confirmations resulting from securities purchased or sold under a Repurchase or Reverse Repurchase Agreement shall state the exact and complete nomenclature of the underlying securities bought or sold, as well as the term structure (i.e. maturity) of the transaction.
  7. Securities on loan under the County Security Lending Program must be monitored daily by the Investment Specialist to assure the Assistant Treasurer has a list of those securities that are out on loan. Interest earned will be monitored daily and compared to the monthly report of earnings by the custodial bank.
  8. All transactions will be executed on a Delivery versus Pay Bases (DVP). The assets of the County shall be held in safekeeping by the County's safekeeping agent, or secured through third-party custody and safekeeping procedures. A due bill or other substitution will not be acceptable.
  9. Safekeeping procedures shall be reviewed annually by the Treasurer's office and an external auditor. Surprise audits of safekeeping and custodial procedures should be conducted at least once a year.

10. Security Lending: The custodial bank may be authorized to lend out up to 20% of the portfolio within the guidelines of this policy.
11. Voluntary Participants will be accepted for participation in the San Mateo County Pooled Fund so long as they meet the following requirements:
- A. A public agency
  - B. Domiciled in the County of San Mateo.
  - C. Agree to abide by the approved San Mateo County Pooled Fund Investment Policy.
  - D. Acknowledge changes to the policy annually in writing and meet the minimum balance requirements.
- Agencies, whose jurisdiction includes San Mateo County but are not domiciled in San Mateo County, may participate in the San Mateo County Pooled Fund with the approval of the Treasurer and the County Treasury Oversight Committee.

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

In accordance with California Government Code section 27133 (d) et seq., this Policy hereby establishes limits for the Treasurer, individuals responsible for management of the portfolios, and members of the Investment Group and Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of \$280 per calendar year from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the County Treasurer and complete the appropriate State forms. Any violation must be reported to the State Fair Political Practices Commission.