



INDEPENDENT CITIES
RISK MANAGEMENT
AUTHORITY

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ICRMA INVESTMENT POLICY

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ICRMA Investment Policy

The purpose of this investment policy is to provide guidelines for the prudent investment of the Independent Cities Risk Management Authority's (ICRMA) assets and to outline policies for maximizing the efficiency of ICRMA's cash management system.

A. Scope

This investment policy applies to all financial assets of ICRMA and investment activities under the direction of ICRMA.

B. Objective

The overall program shall be designed and managed with a degree of professionalism worthy of the public trust. ICRMA's primary investment objectives, in priority order, shall be:

- 1) **Safety.** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio.
- 2) **Liquidity.** The investment portfolio will be structured to provide sufficient liquidity to enable ICRMA to meet its cash flow requirements.
- 3) **Yield.** The investment program shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.

In order to maximize return on its investments, ICRMA seeks an active rather than passive management of portfolio assets. ICRMA may, from time to time, sell securities that it owns in order to better reposition its portfolio assets in accordance with updated cash flow schedules, yield curve optimizations, yield opportunities existing between market sectors, or simply market timing. The ICRMA Governing Board (Board) recognizes that in a diversified portfolio, occasional measured losses are inevitable and must be considered within the context of the portfolio's overall investment return, provided adequate diversification has been implemented. Generally, losses are acceptable on a sale before maturity and should be taken if the reinvested proceeds will earn an income flow greater than what would have been earned by the old investment, considering any capital loss or foregone interest on the original investment.

C. Delegation of Authority

The Board's management responsibility for the investment program is hereby delegated for a one-year period to the ICRMA Executive Director. Subject to review, the Board may renew the delegation of authority pursuant to this section each year. The Executive Director may delegate these duties to the ICRMA Finance Manager. It is the policy of ICRMA to delegate the day-to-day investment operations to an Investment Manager. The Investment Manager advisor shall follow this Policy and

such other written instructions that are provided. The Executive Director and Finance Manager shall establish written investment policy procedures for the operation of the investment program consistent with this policy and shall supervise the activities of the Investment Manager.

D. Prudence

All persons authorized to make investment decisions on behalf of ICRMA are subject to the prudent investor standard. Investments shall be made with care, skill, prudence, and diligence under circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of ICRMA 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 ICRMA.

Authorized individuals acting in accordance with this Policy and written procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion.

E. Ethics and Conflict of Interest

Officers and employees 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.

F. Permitted Investment Instruments

Sections 53600 et. seq. of the California Government Code provide basic investment limits and guidelines for government entities. Within the investments permitted by the Government Code, ICRMA seeks to further restrict eligible investment to the investments listed below. In the event an apparent discrepancy is found between this policy and the Government Code, the more restrictive parameters will take precedence. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment.

- 1) **U.S. Treasury Instruments.** United States Treasury notes, bonds, bills or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio invested in this category.
- 2) **Federal Agency and Instrumentality Securities.** Federal agency or United States government-sponsored enterprise obligations, participations, mortgage-backed securities or other instruments, including those issued by or fully guaranteed as to principal and interest by Federal agencies or United States government-sponsored enterprises. There is no limitation as to the percentage of the portfolio invested in this category.
- 3) **Municipal Securities.** Registered treasury notes or bonds issued by any of the 50 United States, 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 state.

Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California, 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.

A maximum of 30% of ICRMA's portfolio may be invested in this category.

- 4) **Supranationals.** 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. The maximum maturity for investments in this category is five years. Purchases are limited to issues that are eligible for purchase and sale within the United States and shall be rated in a rating category of "AA" or the equivalent or better by a Nationally Recognized Statistical Rating Organization ("NRSRO"). A maximum of 30% of ICRMA's portfolio may be invested in this category.
- 5) **U.S. Corporate Debt.** Medium-term notes, defined as all corporate and depository institution securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or depository institutions licensed by the United States or any state and operating within the United States. Eligible investment shall be rated in a rating category of "A" or the equivalent or better by an NRSRO. A maximum of 30% of ICRMA's portfolio may be invested in this category.
- 6) **Negotiable Certificates of Deposit.** Negotiable certificates of deposit issued by a national or State-chartered bank or a State or Federal association or by a federally licensed or State-licensed branch of a foreign bank. The maximum maturity for investments in this category is five years. Purchases are limited to issuers whose debt is rated in a rating category of "A-1", short-term, or "A" long-term or the equivalent or better by an NRSRO. A maximum of 30% of ICRMA's portfolio may be invested in this category.
- 7) **Asset-Backed Securities.** Mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond. For securities eligible for investment under this subdivision not issued or guaranteed by an agency or issuer identified in subdivision (1) or (2) above, the following limitations apply:
 - a. Securities eligible for investment under this category shall be rated in a rating category of "AA" or the equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less.
 - b. A maximum of 20% of ICRMA's portfolio may be invested in this category.
- 8) **Commercial Paper.** Commercial paper rated the highest ranking or of the highest letter and number rating as provided for by an NRSRO. The entity that issues the commercial paper

shall meet all of the conditions in either paragraph (a) or paragraph (b):

- a. The corporation shall be organized and operating within the United States, shall have total assets in excess of five hundred million dollars (\$500,000,000), and has debt, other than commercial paper, if any, that is rated in a rating category of "A" or the equivalent or higher by an NRSRO.
- b. The corporation shall be organized within the United States as a special purpose corporation, trust, or limited liability company, have program wide credit enhancements, including, but not limited to, over collateralization, letters of credit, or surety bond; have commercial paper that is rated "A-1" or higher, or the equivalent, by an NRSRO.

Eligible commercial paper may not exceed 397 days' maturity. A maximum of 25% of ICRMA's portfolio may be invested in this category.

- 9) **Repurchase Agreements.** Repurchase agreements are to be used solely as short-term investments not to exceed 30 days. ICRMA may enter into repurchase agreements with primary government securities dealers rated in a rating category of "A" or better by two NRSROs. Counterparties should also have (i) a short-term credit rating of at least "A-1", or the equivalent by an NRSRO; (ii) minimum assets and capital size of \$25 billion in assets and \$350 million in capital; (iii) five years of acceptable audited financial results; and (iv) a strong reputation among market participants.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in VII., Permitted Investments, A. and B., will be acceptable collateral. All securities underlying repurchase agreements must be delivered to ICRMA's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each repurchase agreement must equal or exceed 102 percent of the total dollar value of the money invested by ICRMA for the term of the investment. For any repurchase agreement with a term of more than one day, the value of the underlying securities must be reviewed on an on-going basis according to market conditions. Market value must be calculated each time there is a substitution of collateral.

ICRMA or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to repurchase agreement. ICRMA shall have a properly executed master repurchase agreement with each counterparty for which it enters into an agreement for repurchase agreements.

- 10) **Bankers' Acceptances.** Bankers' Acceptances are otherwise known as bills of exchange or time drafts that are drawn on and accepted by a domestic commercial bank. Bankers' Acceptances must be rated "A-1" or higher, or the equivalent, by an NRSRO. Bankers' Acceptances cannot exceed a maturity of 180 days. A maximum of 40% of ICRMA's portfolio may be invested in this category.

- 11) **State of California Local Agency Investment Fund (LAIF).** If ICRMA has funds invested in LAIF, it shall maintain access to LAIF's current investment policy on the State Treasurer's website which includes its requirements for participation and limitations on deposits or withdrawals. In addition, ICRMA's investments in LAIF should be reviewed periodically. The only limitation as to the amount of funds or percentage of the portfolio that may be invested in LAIF is the "per account" limitation as established within the LAIF Guidelines (currently \$75 million).
- 12) **California Asset Management Program (CAMP).** Shares of beneficial interest issued by a joint powers' authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in Government Code Section 53601. ICRMA has funds invested in CAMP, it shall have continued access to CAMP's current information statement. In addition, ICRMA's investments in CAMP should be reviewed periodically.
- 13) **Money Market Funds.** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 and following). The company shall have met either of the following criteria: (i) attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs; or (ii) retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). A maximum of 20% of ICRMA's portfolio may be invested in this category.
- 14) **Bank Deposits.** FDIC insured or fully collateralized demand deposit accounts, savings accounts, market rate accounts, time certificates of deposits, or other depository accounts in financial institutions located in California.

Any financial institution accepting ICRMA funds for deposit must comply with the requirements of Government Code Section 53630 et seq., including collateralization of deposits. ICRMA may waive the collateralization requirements for any portion of the deposit that is covered by Federal Deposit Insurance. Eligible deposits are restricted to those issuing institutions that have been in business at least five years and whose senior debt obligations are rated in a rating category of "A" or higher or the equivalent by an NRSRO. The institution must make available to ICRMA its audited financial statement on its website or other reasonable medium. As provided by Government Code Section 53649, ICRMA shall have a signed contract with each financial institution that has ICRMA funds on deposit.

For time certificates of deposits, the maximum maturity is one year. A maximum of 20% of ICRMA's portfolio may be invested in time certificates of deposit.

G. Prohibited Investments

ICRMA shall only invest in securities permitted by the California Government Code and this

investment policy. ICRMA is prohibited from buying on margin or from speculative buying.

H. Term of Investment

Maturities of investments will be selected to provide necessary liquidity, minimize interest rate risk, and maximize earnings. Current and expected yield curve analysis will be monitored and the portfolio will be invested accordingly. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds.

An investment's term to maturity at purchase is measured from the investment's settlement date to its final maturity. Where this Policy does not specify a maximum remaining maturity at the time of the investment, no investment shall be made in any security authorized by this Policy, that at the time of the investment has a term remaining to maturity in excess of ten years, unless the Board has granted express authority to make that investment, either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment. The Board authorizes investments in securities with maturities of up to ten years at its December 2007, meeting. The amount invested in securities with maturities between five and ten years should not exceed an amount equal to 30 percent of the workers' compensation assets.

I. Diversification

The investment portfolio shall be diversified among security types, issuers, and maturities to prevent incurring unreasonable and avoidable risks regarding specific security types, individual financial institutions, or maturity segments. In addition to the percentage limitations specified in Section VII., Permitted Investments, the maximum amount of the portfolio ICRMA may invest with any one issuer is 5% regardless of security type; excluding U.S. Treasuries, federal agencies, supranationals, and pooled investments such as LAIF, money market funds, or local government investment pools.

The percentage limitations listed on the amount of the ICRMA's portfolio that may be invested in each investment category or issuer shall apply at the time of purchase.

J. Credit Rating Changes

In the event a security held by ICRMA is subject to a rating change that brings it below the minimum credit ratings specified in this Policy, the Executive Director and/or Finance Manager shall notify the Board 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 rate drops, and the market price of the security.

K. Investment Transactions

Whenever possible, investment transactions shall be made on a competitive basis to provide ICRMA with the best price and execution. It is ICRMA's policy to purchase securities only from those brokers/dealers and financial institutions that ICRMA has reviewed and approved. For transactions initiated through the Investment Manager, they may use their own list of approved brokers/dealers and financial institutions.

L. Safekeeping

All cash and securities in ICRMA's portfolio, including those that are being managed by the Investment Manager, shall be held in safekeeping in ICRMA's name by a third-party bank trust department, acting as agent for ICRMA under the terms of a custody agreement executed by the bank and ICRMA.

All securities will be received and delivered using standard delivery versus payment (DVP) procedures. ICRMA's safekeeping agent will only release payment for a security after the security has been properly delivered. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; and, (ii) money market mutual funds, since the purchased securities are not deliverable.

M. Reports

The Executive Director, unless otherwise delegated to the Finance Manager in accordance with section IV of this Policy, shall provide quarterly reports to the Board. The quarterly reports shall encompass all investments and monies held by ICRMA, and/or under the management of any outside party and shall include a list of security transactions, the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, current market value on all securities (including the source of this valuation), a statement that the portfolio is in compliance with this Policy or the manner in which it is not in compliance and a statement that ICRMA has the ability to meet its expenditure requirements for the next six months or an explanation as to why sufficient money may not be available. The Executive Director or Finance Manager shall report whatever additional information or data the Board may require. As a good reporting practice, the Report will be submitted on a quarterly basis and provided to the legislative body within 45 days following the end of the month.

N. Investment Policy Review

The Executive Director, unless otherwise delegated to the Finance Manager, shall annually render to the Board a statement of investment policy, which the Board shall consider at a public meeting. Any change in the policy shall also be considered by the Board at a public meeting.