

# Orange County California



## Investment Policy

Approved By the Board of Supervisors

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## **ORANGE COUNTY INVESTMENT POLICY**

### **PURPOSE**

The Orange County Investment Policy (“Policy”) provides the structure for the prudent investment of the funds of the County of Orange (“County”) and the funds of other depositors in the County treasury.

### **I. POLICY STATEMENT**

The Policy is prepared in accordance with California State law and based on prudent money management practices. The primary goal is to invest public funds in a manner that will provide the maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants and lastly to achieve a market rate of return within the parameters of prudent risk management while conforming to all applicable statutes and resolutions governing the investment of public funds.

The Orange County Investment Fund (OCIF), which includes all cash balances deposited into the Treasury, is designed to meet both the investment and cash requirements of our participants.

### **II. SCOPE**

This Policy governs the investment of funds deposited into the County treasury. This Policy is more restrictive than State law in certain areas. Funds from bond proceeds may be invested in accordance with Government Code section 53601(m), which authorizes investment in accordance with the statutory provisions governing the issuance of the bonds, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the approved documents providing for the issuance.

#### **1. Pooled Funds:**

The County will maintain a pooled investment fund. The pooled fund’s name is the Orange County Treasury Pool (OCTP). Government Code Sections 53600 *et seq.*, 53630 *et seq.* and 27000.3 guide the investment requirements of the OCTP, and, if applicable, the OCTP may be a permitted investment for bond proceeds.

#### **2. Specific Investment Accounts:**

The County or a participant that deposits funds in the County treasury may request a specific investment account to invest funds pursuant to a specific investment objective. Such investments may include cash required for future long-term needs. All new specific investment accounts require the written approval of the County Investment Manager, as defined in Section IV (Investment Authority). If approved, the investments will be matched to the time-horizon for their future use or to an identified liability. The County or the governing body of any participating agencies will be required to sign a written agreement acknowledging that there may be risk to principal should they desire to redeem funds early.

In addition, no investment will be made in any security that at the time of the investment has a term remaining to maturity in excess of five years, unless the appropriate legislative body has granted express authority either specifically or as part of an investment program approved by that legislative body no less than three months prior to the investment.

### **III. PRUDENT INVESTOR STANDARD**

The Board of Supervisors, as a fiduciary of public funds adheres to the “prudent investor” standard as stated in Government Code sections 27000.3 and 53600.3. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Board of Supervisors shall act with care, skill, prudence and diligence under the circumstances then prevailing, specifically including, but not limited to, the general economic conditions and the anticipated needs of the County and other depositors 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 County and the other depositors. Within the limitation of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.

The Board of Supervisors and those delegated staff shall act in accordance with written procedures and the Policy, exercise due diligence, report in a timely fashion and implement appropriate controls to mitigate adverse developments.

### **IV. INVESTMENT AUTHORITY**

The authority to invest the funds of the County and the funds of other depositors in the County Treasury rests with the Board of Supervisors. The Board may delegate its investment authority as it determines appropriate. Throughout this Policy, the “County Investment Manager” shall be defined as the County official or individual who is authorized by the Board to invest the funds of the County and the funds of other depositors in the County treasury.

### **V. OBJECTIVES**

The primary investment objectives, presented in their absolute order of priority, are:

#### **1. SAFETY**

Safety of principal is the foremost investment objective. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital.

The County Investment Manager shall seek to preserve principal and minimize capital losses by mitigating credit risk and market risk as follows:

- a) **Credit Risk:** Defined as an issuer’s ability and willingness to repay interest and principal. Credit risk shall be mitigated by diversifying the fund among issues and issuers so that the failure of any one issue or issuer would not result in a significant loss of income or principal to participants.
- b) **Market Risk:** Defined as the risk of market value fluctuations due to changes in the general level of interest rates. Because longer-term securities generally have greater market risk than shorter-term securities, market risk will be mitigated by establishing a maximum duration for OCTP. Occasional market losses on individual securities may occur with portfolio management and they must be considered within the context of the overall investment return.

## **2. LIQUIDITY**

Liquidity refers to the ability to sell an investment at any moment with a minimal chance of principal loss. OCIF will maintain sufficient liquidity for the purpose of meeting all daily operating requirements based on reasonably anticipated cash flow needs.

## **3. YIELD**

Yield refers to the objective of attaining a market rate of return commensurate with the risk profile and cash flow characteristics of the portfolio throughout budgetary and economic cycles. Although the County Investment Manager may employ certain indices to gauge the funds' rate of return, such indices shall be used solely for comparative purposes and do not constitute a warranty or guarantee of actual fund performance. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. As noted in Government Code Section 53601.6, securities issued by, or backed by, the United States government can result in zero or negative interest accrual if held to maturity, in the event of, and for the duration of, a period of negative market interest rates.

## **MARK-TO-MARKET**

The OCTP and Specific Investment Accounts investments are marked to market daily. The OCTP will attempt to maintain a \$1.00 net asset value (NAV) to the extent reasonably possible and consistent with the Board of Supervisors' trust and fiduciary duty. If the ratio of the market value of OCTP divided by the book value of OCTP is less than \$.9975, then the variance will be reported as well as any expected impact on the OCTP's ability to meet forecasted cash outflows. In addition, the County Investment Manager may decide to sell holdings as necessary to maintain the OCTP's NAV above \$.9975. However, the OCTP \$1.00 NAV is not guaranteed or insured by the Board of Supervisors nor is OCTP registered with the Securities Exchange Commission (SEC).

The County Investment Manager will provide the NAV of OCTP and each Specific Investment Account in the investment report.

## **VI. AUTHORIZED INVESTMENTS**

The County is authorized to invest in specific types of securities as provided in the Government Code. Investments not specifically listed below are prohibited. All securities must be United States dollar denominated. All investment transactions must be executed through broker-dealers, banks, or counterparties authorized by the County Investment Manager. In addition, comprehensive due diligence must be conducted on all securities prior to investment, followed by at least an annual review to ensure that the investment's outlook remains favorable and has not deteriorated.

The OCTP and Specific Investment Accounts may invest in the following areas to the extent they are consistent with the investment objectives, do not violate the investment restrictions, and adhere to limitations specified in this section, and Sections VII and VIII.

### **1. U. S. TREASURY SECURITIES**

United States Treasury bills, notes, bonds, or certificates of indebtedness, for which the full faith and credit of the United States are pledged for the payment of principal and interest.

### **2. U. S. GOVERNMENT AGENCY SECURITIES**

Obligations, participations, or other instruments of, or issued by, a federal agency or a United States government-sponsored enterprise (GSE). There is no limit on the percentage of OCTP that can be invested in this category including no issuer limit.

### **3. COMMERCIAL PAPER**

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 either of the following conditions in paragraph (a) or paragraph (b):

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

### **4. NEGOTIABLE CERTIFICATES OF DEPOSIT**

Negotiable certificates of deposit issued by a nationally or state-chartered bank, savings association, or a federal association (as defined by Section 5102 of the California Financial Code), or by a federally licensed or state-licensed branch of a foreign bank.

### **5. REPURCHASE AGREEMENTS**

Investments in repurchase agreements for the purpose of this Policy means a purchase of securities by the County Investment Manager 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, physical delivery, or by third party custodial agreement. The term of a repurchase agreement shall not exceed one year and have capital of not less than \$500,000,000. The term “securities,” for the purpose of repurchase agreements, means securities of the same issuer, description, issue date and maturity.

To participate in repurchase agreements, a master repurchase agreement must be completed and signed by all parties involved. The County will maintain a signed copy of the agreement. Repurchase agreements are required to be collateralized by securities or cash.

#### **Collateralization:**

In order to anticipate market changes and provide a level of security for all repurchase agreement transactions, the market value of securities that underlie a repurchase agreement shall be valued at 102% or greater of the funds borrowed against those securities and the value shall be adjusted no less frequently than weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall comply with the market value requirement if the value of the underlying securities is brought back up to 102% no later than the next business day.

Collateral will be limited to cash, and U.S. Treasury and U.S. Government Agency securities. For compliance purposes, U.S. Treasury and U.S. Government Agency collateral are exempt from the issuer limits as stated in Section VIII.1. Collateral will be held by an independent third party with whom the County Investment Manager has a current custodial agreement. A clearly marked evidence of ownership (safekeeping/custody receipt) must be supplied to the County and retained. No collateral substitutions may be made without prior approval of the County Investment Manager.

Agreements are subject to Government Code Section 53601 and must comply with the delivery requirements and the maturity provision from Section 53601.

## **6. BANKERS' ACCEPTANCES**

Bankers' acceptances, also known as time drafts or bills of exchange that are drawn on and accepted by a commercial bank. Purchases of bankers' acceptances shall not exceed 180 days maturity.

## **7. MONEY MARKET MUTUAL FUNDS**

Shares of beneficial interest issued by diversified management companies that are money market mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 et seq.), which only invest in direct obligations in U.S. Treasury bills, notes, and bonds, U.S. Government Agencies, Municipal Debt, and repurchase agreements with a weighted average maturity of 60 days or less. Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV) are prohibited. Approved money market mutual funds shall meet either of the following criteria:

- a) Attained the highest ranking or the highest letter and numerical rating provided by no less than two NRSROs.
- b) Retained an investment advisor 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 \$500,000,000.
- c) Money market mutual funds will not exceed 20 percent of the agency's moneys. No more than 10 percent of the agency's moneys may be invested in shares of beneficial interest of any one mutual fund. For specific investment accounts, this constraint will apply to the agency's total balances in both OCTP and the specific investment account (s).

## **8. STATE POOL – LOCAL AGENCY INVESTMENT FUND**

The County Investment Manager may invest in the Local Agency Investment Fund (LAIF) established by the State Treasurer under Government Code Section 16429.1. LAIF has no final stated maturity and will be reported as a one-day maturity.

## **9. MUNICIPAL DEBT**

Such instruments are defined as being issued by a local or state agency, including:

- 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) 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 a state.
- c) 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.

## **10. MEDIUM-TERM NOTES**

Medium-term notes are defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years, as limited by this policy. Medium-term notes must be 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.

## **11. INVESTMENT POOLS**

Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7, which invests in the securities and obligations as authorized under 53601 (a) to (o), inclusive, and that comply with the investment restrictions of Government Code Sections 53600 through 53610 and Section 53630. The County Investment Manager shall be required to investigate all local government investment pools prior to investing. The analysis shall include, but is not limited to, the following characteristics of a pool/fund as part of its investigation and review:

- Eligible securities
- Maximum maturity
- REPO collateral/counter-party
- Size of the pool/fund
- Limits on withdrawal/deposit
- Expense ratio

## **12. SUPRANATIONAL SECURITIES**

Supranational securities are defined as 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 five years or less, and eligible for purchase and sale within the United States.

## **VII. INVESTMENT CREDIT RATING RESTRICTIONS**

For OCTP and Specific Investment Accounts, credit ratings will be applied at the time of purchase of a security and monitored for changes while owned. A downgrade subsequent to purchase in a security's credit rating will not constitute a violation of the Policy. When a credit rating downgrade occurs which results in a rating below the minimum credit requirement, an analysis must be performed to evaluate the credit to determine whether to hold or sell the security. The credit ratings referenced in this policy must be assigned by one of the following NRSROs: Standard & Poor's Corporation (S&P), Moody's Investors Service, Inc. (Moody's) and Fitch Ratings (Fitch).

All investments, except those noted below in a) and b): 1) must have the minimum ratings required below by at least two NRSROs, and 2) the lowest rating of any NRSRO must meet or exceed the minimum rating required in the table below:

<b>NRSRO</b>	<b>Short-Term</b>	<b>Long-Term</b>
<b>S&amp;P</b>	A-1	AA
<b>Moody's</b>	P-1/MIG 1/VMIG 1	Aa
<b>Fitch</b>	F-1	AA

If an issuer of Long-term debt has a Short-term debt rating, then the Long-Term rating may not be less than the minimum required Short-term debt ratings in the table above.

Any issuer, and all related entities, that have been placed on “Credit Watch-Negative” or downgraded by a NRSRO will be placed on hold and current holdings reviewed for possible sale unless the following criteria are met and are also approved in writing by the County Investment Manager prior to purchase:

The issuer has:

- (a) an A-1+ or F1+ short-term rating; and
- (b) at least an AA or Aa2 or higher long-term rating from each of the NRSROs that rate the issuer.

Exceptions to the Rating Policy above:

- a) Municipal debt issued by the County of Orange, California (as defined in Section VI.9), U.S. Government obligations (as defined in Section VI.1 and VI.2) and State Pool (as defined in Section VI.8), are exempt from the credit rating requirements listed above.
- b) Money Market Mutual funds satisfying the requirements of Section VI.7 and Investment Pools (as defined in Section VI.11) require the highest ranking or the highest letter and numerical rating provided by at least one NRSRO.

## **VIII. INVESTMENT TYPE, DIVERSIFICATION, MATURITY AND DURATION RESTRICTIONS**

It is best practice to diversify the OCTP and Specific Investment Accounts. Investments diversification is required to minimize the risk of loss resulting from assets off a specific maturity, issuer or a specific class of securities. The diversification strategies shall be established by the County Investment Manager and periodically reviewed.

### **1. ISSUER CONCENTRATION**

Only debt of issuers listed on the Approved Issuer List may be purchased. The following diversification limits will also apply at the time of purchase of a security.

Investment Type	California Government Code			The Policy		
	Investment Limit	Issuer Limit	Max Maturity	Investment Limit	Issuer Limit	Max Maturity
U.S. Treasury Securities	100%	None	5 Years	100%	None	5 Years
U.S. Government Agency Securities (GSE's)	100%	None	5 Years	100%	None	5 Years
Municipal Debt	100%	None	5 Years	20%	5% except OC at 10%	3 Years
Medium-Term Notes	30%	None	5 Years	20%	5%	5 Years
Bankers Acceptances	40%,	30%	180 Days	40%	5%	180 Days
Commercial Paper	40%,	10%	397 Days	40%	5%	397 Days
Negotiable Certificates of Deposits	30%	None	5 Years	20%	5%	18 months
State of California Local Agency Investment Fund	\$75 million per account	N/A	N/A	\$75 million per account	N/A	N/A
Repurchase Agreements	100%	None	1 Year	20%	10%	180 Days
Money Market Mutual Funds (MMMF)	20% of total agency funds	10% of total agency funds	N/A	20% (same)	10% (same)	N/A
Joint Power Authority Investment Pools (JPA)	100%	None	N/A	20%	10%	N/A
Supranationals	30%	None	5 Years	30%	5%	5 Years

## **2. MATURITY**

- a) The maximum maturity of any investment purchased will be five years with the exception of Specific Investment Accounts and any investment in the OCTP that is expressly authorized by the Board of Supervisors or the appropriate legislative body to be invested in longer than five-year maturities. The settlement date will be used as the date of purchase for measuring maturity limitations.
- b) For calculating the weighted average maturity of the portfolio, the maturity of a variable-rate security will be considered its next interest rate reset date, if there is a reasonable expectation that the security will maintain an approximate value of par upon each adjustment of the security's interest rate at any time until final maturity.

## **3. DURATION**

The OCTP shall have a maximum duration of 3 years. There are no duration requirements for the Specific Investment Accounts.

## **IX. PROHIBITED TRANSACTIONS**

All permitted investments shall conform in all respects with this Policy and applicable provisions of the Government Code, as may be amended from time to time. Investments prohibited by the Government Code are not permitted.

The County Investment Manager must approve in writing as soon as possible any investment transactions that violates a credit risk criterion or an allocation limitation. Thereafter, action shall be taken by the County Investment Manager to correct such matter as soon as practical. If an investment is in compliance at the time of purchase, a subsequent violation resulting from a change in market values will not constitute a violation of that restriction.

### **1. The following transactions are prohibited:**

- a) Borrowing for investment purposes (“Leverage”).
- b) Reverse Repurchase Agreements, as defined by Government Code Section 53601(j) (3) and (j)(4).
- c) Structured Notes (e.g. inverse floaters, leveraged floaters, structured certificates of deposit, equity-linked securities, event-linked securities). This includes all floating-rate, adjustable-rate or variable-rate securities in which a change in interest rates or other variables that can reasonably be foreseen to occur during their term would result in their market value not returning to par at the time of each interest rate adjustment.

Simple “floating rate notes,” whose periodic coupon adjustment is based on a short-term (one-year or less) rate index (such as Treasury bills, federal funds, prime rate, or SOFR) and which have a reasonable expectation of maintaining a value of par at each interest rate adjustment through final maturity, are exempt from this definition. Additionally, U.S. Treasury and Agency zero coupon bonds or callable securities that otherwise meet the quality, maturity and percent limitations assigned to their respective security category, are exempt from this section.

- d) Structured Investment Vehicles (SIV).
- e) Derivatives (e.g., options, futures, swaps, swap options, spreads, straddles, caps, floors, collars).
- f) Money Market Mutual Funds that do not maintain a constant Net Asset Value (NAV).

## **X. ETHICS AND CONFLICT OF INTEREST**

The County Investment Manager and all persons involved in the investment process shall refrain from personal business activity, which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. The County Investment Manager and investment personnel shall disclose to the applicable oversight body any material financial interests in financial institutions, broker dealers, and vendors (“Outside Entities”) that conduct business with the County of Orange and shall disclose any material financial investment positions in such Outside Entities.

### **1. STATEMENT OF ECONOMIC INTEREST FORM 700**

County officers, public officials and all designated employees must annually file a Form 700 (Statement of Economic Interests) in accordance with the County’s Conflict-of-Interest Code.

### **2. COUNTY’S GIFT BAN ORDINANCE – SEC. 1-3-22 THE CODIFIED ORDINANCES, ORANGE COUNTY, CALIF.**

The County’s Gift Ban Ordinance prohibits the receipt of specified gifts to the County officers, public officials and “designated employees” from business entities and individuals that “do business with the County” as that term is defined in the Ordinance. Under the Ordinance, the term “designated employee” includes every employee of the County who is designated in the County’s Conflict-of-Interest Code to file a Form 700 and every member of a board or commission under the jurisdiction of the Board of Supervisors required to file such a form. The County Investment Manager will review this list of “designated employees” periodically and submit any proposed changes to the Board of Supervisors for approval.

## **XI. AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS**

The County Investment Manager will maintain a list of broker/dealers and financial institutions authorized to provide investment and/or depository services and products. Any permitted investment, not purchased directly from an approved issuer, shall be purchased either from a “primary” or regional securities broker/dealer qualifying under SEC Rule 15c3-1(uniform net capital rule) and licensed by the state as a broker/dealer as defined in Section 25004 of the Corporations Code or a “well capitalized” national bank or Federal savings association as defined in Title 12 of the Code of Federal Regulations (CFR) Part 6.4 or a savings association or Federal association as defined by Section 5102 of the California Financial Code. To be eligible to receive local agency money, a bank, savings association, federal association or federally insured industrial loan company shall have received an overall rating of not less than “satisfactory” in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California’s communities, including low- and moderate-income neighborhoods, pursuant to Section 2906 of Title 12 of the United States Code. Government Code sections 53601.5 and 53601.6 shall apply to all investments that are acquired pursuant to this section.

Broker/dealers must comply with the political contribution limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board. Any broker, brokerage, dealer, or securities firm that contributed to the County Investment Manager, Treasurer, any member of the Board of Supervisors, or any candidate for those offices, within any consecutive 48-month period, are prohibited from selection onto the list of authorized security broker/dealers.

The County Investment Manager shall conduct an annual review of each broker/dealer and financial institution's financial condition and registrations to determine whether it should remain on the approved broker/dealer list for investment and/or depository services and require annual audited financial statements to be on file for each firm. The County Investment Manager shall strive to open an application period every two years for all new broker/dealers and financial institutions submitting a questionnaire or being reviewed if an existing broker/dealer to determine if they should be added to or removed from the approved broker/dealer list. This detailed questionnaire is required to be completed by broker/dealers and financial institutions seeking to provide investment services.

The County Investment Manager shall annually send a copy of the current Policy to all broker/dealers and financial institutions approved to provide investment services to the County, and they shall notify the County Investment Manager in writing of receipt and that they have received it.

## **XII. PERFORMANCE EVALUATION**

The County Investment Manager shall either coordinate with the Treasurer, or submit its own investment report to the pool participants, the County Executive Officer, the Director of Internal Audit, the Auditor-Controller and the Board of Supervisors. The investment reports shall be issued no less frequently than within 45 days of the end of the quarter.

The investment report shall contain sufficient information to permit an informed outside reader to evaluate the performance of the investment program and shall include the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and moneys held, and shall additionally include a description of any of the funds, investments, or programs, that are under the management of contracted parties, including lending programs. With respect to securities held by the County Investment Manager, and under management any outside party that is not a local agency or LAIF, the report shall also include a current market value as of the date of the report and shall include the source of the valuation. The report shall also state compliance of the portfolio to the Policy, or the manner in which the portfolio is not in compliance. The investment report shall include a statement denoting the ability of the local agency to meet its pool expenditure requirements for the next six months, or an explanation as to why sufficient money shall, or may not be available.

The County Investment Manager shall provide financial information on investments for disclosure in the County's ACFR, in accordance with GASB Statements 31, 40, 72 and 84. In addition, the County Investment Manager shall either coordinate with the Treasurer, or submit its own report on monthly investment transactions to the Board of Supervisors.

## **XIII. SAFEKEEPING**

All security transactions, including collateral for repurchase agreements, entered into by the County Investment Manager shall be conducted on a delivery-versus-payment (DVP) basis. All investments shall have the County of Orange and either the OCTP or the Specific Investment Account name as its registered owner except, if applicable, for municipal debt issued by the County of Orange through a private placement, in which case the name of the registered owner shall be determined by written agreement between the parties.

All securities shall be held by a third-party custodian designated by the Treasurer or applicable County officer (this does not apply to money market funds or investment pools). The third-

party custodian shall be required to issue a safekeeping statement to the Treasurer or applicable County officer listing the specific instrument, rate, maturity, and other pertinent information.

#### **XIV. MAINTAINING THE PUBLIC TRUST**

All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

#### **XV. INTERNAL CONTROLS**

The County Investment Manager shall establish a system of written internal controls, which will be reviewed annually with the County's independent (external) auditor. The controls shall be designed to prevent loss of public funds due to fraud, employee error, and misrepresentation by third parties, unanticipated market changes, or imprudent actions by employees of the County Investment Manager. All agreements, statements, and investment trade packets will be subject to review annually by auditors in conjunction with their audit. The County Investment Manager shall evaluate audit reports in a timely manner with any applicable oversight body. Daily compliance of the investment portfolio shall be performed by the applicable County department. Compliance will be determined on a fair market value basis. Except for emergencies or previous authorization by the County Investment Manager, all investment transactions are to be entered daily into the appropriate Investment Accounting System.

#### **1. INVESTMENT PROCEDURES**

The County Investment Manager shall develop and maintain written administrative procedures for the operation of the investment program that are consistent with this Policy. Procedures will include reference to safekeeping, Master Repurchase Agreements, wire transfer agreements, collateral and depository agreements, banking service contracts, and other investment and banking related activities. Such procedures shall include explicit delegation of authority to personnel responsible for investment transactions.

The County Investment Manager shall be responsible for all transactions undertaken and shall establish a system of controls to regulate investment related activities. No investment personnel may engage in an investment transaction except as provided under terms of this Policy and the procedures established by the County Investment Manager.

#### **XVI. EARNINGS AND COSTS APPORTIONMENT**

The County Investment Manager determines the interest earnings for the OCTP and then allocates them to each individual pool participant based upon their average daily balance.

Any authorized officer who invests, deposits or otherwise handles funds for public agencies for the purpose of earning interest or other income on such funds as permitted by law, may deduct from such interest or income, before distribution thereof, the actual administrative cost of such investing, depositing or handling of funds and of distribution of such interest or income, as authorized by Government Code Section 27013. Such cost reimbursement shall be paid into the county general fund. In addition, if applicable, the costs of compliance with Government Code section 27130, *et seq.* shall be included as an eligible administrative cost. The County Investment Manager shall annually prepare a proposed budget revenue estimate and estimated

basis fee charge of this investment administrative fee charged in accordance with Government Code Section 27013. The County Investment Manager must annually reconcile the estimated charges and actual costs incurred and adjust participant accounts accordingly.

Investment earnings, including any gains or losses, less the above estimated fee charge will be allocated to the pool participants on at least a quarterly basis. The applicable investment report will state the current estimated investment administrative fee charged to participants.

## **XVII. PERFORMANCE STANDARDS**

The investment strategy is to manage the portfolios with less risk than a comparable benchmark index while using economies of scale to administer the program at a reasonable cost. The County Investment Manager shall determine whether market yields are achieved using the indices most comparable to the fund, such as money rate data published in Barron's, The Wall Street Journal, Bloomberg, the local government investment pool index or other bond fund indices. The standards enumerated herein do not constitute a guarantee of the fund's performance.

The County Investment Manager's investment strategy is to hold purchased securities until maturity. Changing economic conditions, interest rates, and credit quality may dictate a sale in advance to minimize market and credit risks or enhance yield. Such sales should consider the short- and long-term impact on the portfolio. The County Investment Manager must approve in advance the sale of all securities prior to maturity.

## **XVIII. INVESTMENT POLICY REVIEW**

This Policy shall be reviewed on an annual basis by the County Investment Manager and any applicable oversight body. The Policy shall be submitted annually to the Board as a receive and file item as part of the County's Strategic Financial Plan. However, any changes to the Policy shall be presented for review and approval by the Board of Supervisors.

## **XIX. FINANCIAL REPORTING**

All applicable investment reports and all investment compliance Audit Reports shall be provided to the Orange County Board of Supervisors, the County Executive Officer, the Chief Financial Officer, the Director of Internal Audit, the Auditor-Controller, any applicable oversight body, and the presiding judge of the Superior Court. All reports filed by the County Investment Manager shall, among other matters, state compliance of the portfolio with the Policy, or the manner in which the portfolio is not in compliance. A statement will also be filed by the denoting the ability of OCTP to meet its expenditure requirements for the next six months or provide an explanation of why sufficient money may not be available.

## **XX. LEGISLATIVE CHANGES**

Any State of California law that further restricts allowable maturities, investment type, percentage allocations, or any other provision of this Policy will, upon effectiveness, be incorporated into this Policy and supersede any and all previous applicable language.

## **XXI. DISASTER RECOVERY PROGRAM**

The Disaster Plan includes critical phone numbers and addresses of key treasury and investment personnel as well as currently approved bankers and broker/dealers. The Disaster Plan is distributed to key County and investment personnel. The plan provides for an offsite location to be communicated at the time of readiness if our offices are uninhabitable. In the event the County Investment Manager or authorized staff is unable to invest the portfolio, the Treasurer, or applicable County officer, has an agreement with the custodian for a daily sweep of uninvested cash with the custody bank into a money market mutual fund. Until normal operations of the County Investment Manager's office have been restored, the limitations on the size of an individual issuer and the percentage restrictions by investment type would be allowed to exceed those approved in this Policy and would be required to be reported to the Board of Supervisors and pool participants in a timely manner.

## **XXII. INVESTMENT POLICY GLOSSARY**

This Glossary is for general reference purposes only and does not constitute an exhaustive or exclusive list of terms and definitions applicable to this Investment Policy. The definitions included herein do not modify any of the terms of this Investment Policy or applicable law.

**ACCREDITED INVESTOR:** Defined in the Code of Federal Regulations (CFR) 230.501 (a)(9) as any entity, including a government body that owns “investments”, as defined in the CFR 270.2A51 - 1(b)(7)(i), such as cash and cash equivalents, for investment purposes under the Investment Company Act in excess of \$5 million.

**ACCRUED INTEREST:** The amount of interest that is earned but unpaid since the last interest payment date.

**ADJUSTABLE RATE NOTE:** (See Floating Rate Note)

**AGENCY SECURITIES:** (See U.S. Government Agency Securities)

**AMORTIZATION:** The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

**AVERAGE LIFE:** The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

**ASKED PRICE:** The price at which securities are offered from a seller.

**ASSET BACKED SECURITIES (ABS):** (See Receivable-Backed Securities)

**BANKERS' ACCEPTANCE (BA):** Negotiable money market instruments issued primarily to finance international trade. These are time drafts in which a bank “accepts” as its financial responsibility to pay the principal at maturity even if the importer does not. In essence, these are bank obligations collateralized by goods being shipped between an exporter and an importer.

**BASIS POINT:** When a yield is expressed as 7.32%, the digits to the right of the decimal point are known as basis points. One basis point equals 1/100 of one percent. Basis points are used more often to describe changes in yields on bonds, notes and other fixed-income securities.

**BID PRICE:** The price at which a buyer offers to buy a security.

**BOOK ENTRY:** The system, maintained by the Federal Reserve, by which most money market securities are “delivered” to an investor’s custodian bank. The Federal Reserve maintains a computerized record of the ownership of these securities, and records any changes in ownership corresponding to payments made over the Federal Reserve wire (delivery versus payment). The owners of these securities do not receive physical certificates.

**BOOK VALUE:** The original cost of the investment, plus accrued interest and amortization of any premium or discount.

**BROKER:** A broker brings buyers and sellers together and is compensated for his/her service.

**CALLABLE BONDS:** Bonds that may be redeemed by the issuing company prior to the maturity date.

**CALL PRICE:** The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

**CALL RISK:** The risk to a bondholder that a bond may be redeemed prior to maturity.

**CAPITAL GAIN/LOSS:** The profit or loss realized from the sale of a capital asset.

**COUNTY INVESTMENT MANAGER:** The County official or individual authorized by the Board of Supervisors to invest the funds of the County and the funds of other depositors in the County treasury.

**CERTIFICATE OF DEPOSIT (CD or NCD):** A deposit of funds at a bank for a specified period of time that earns interest at a specified rate. Commonly known as "CDs" or "negotiable CDs."

**COLLATERAL:** Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public moneys.

**COMMERCIAL PAPER (CP):** Short-term unsecured promissory notes issued by corporations for maturities of 397 days or less.

**CONSUMER RECEIVABLE-BACKED BONDS:** (See Receivable-Backed Securities)

**CONVEXITY:** A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

**CREDIT OUTLOOK:** (See Rating Outlook)

**CREDIT QUALITY:** The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized statistical rating organizations.

**CREDIT RISK:** The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**CREDIT WATCH:** indicates that a company's credit is under review and credit ratings are subject to change.

\*+ (positive) Credit is under review for possible upgrade.

\*- (negative) Credit is under review for possible downgrade.

\* Credit is under review, direction uncertain.

**COUPON:** The rate at which a bond pays interest.

**CURRENT YIELD:** The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

**CUSTODIAN:** A bank or other financial institution that keeps custody of stock certificates and other assets.

**DEALER:** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for

his own account.

**DELIVERY VERSUS PAYMENT (DVP):** Delivery of securities with a simultaneous exchange of money for the securities.

**DERIVATIVE:** A security whose interest rate of principal amount may vary and are determined by a market index or a combination of market indexes.

**DISCOUNT:** The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as Treasury bills and bankers acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

**DIVERSIFICATION:** An investment principle designed to spread the risk in a portfolio by dividing investments among different sectors, industries and companies.

**DOLLAR-WEIGHTED AVERAGE MATURITY:** A calculation that expresses the “average maturity” of an investment portfolio using each investment’s maturity weighted by the size of that investment.

**DURATION:** A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

**FEDERAL FUNDS RATE:** Interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. A target rate is set by the FOMC.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** This committee sets Federal Reserve guidelines regarding purchases and sales of government securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** A U.S. centralized banking system, which has supervisory powers over the 12 Federal Reserve banks and about 6,000 member banks.

**FITCH, INC:** (see Nationally Recognized Statistical Rating Organization)

**FIXED-INCOME SECURITIES:** Securities that return a fixed income over a specified period.

**FLOATING RATE NOTE:** A debt security whose interest rate is reset periodically (monthly, quarterly, annually) and is based on a market index (e.g. Treasury bills, Secured Overnight Financing Rate (SOFR), etc.).

**INTEREST:** The amount earned while owning a debt security, generally calculated as a percentage of the principal amount.

**INTERNAL CONTROLS:** An internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management.

**INVESTMENT COMPANY ACT OF 1940:** Federal legislation which sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

**LIQUIDITY:** The speed and ease with which an investment can be converted to cash.

**LOCAL AGENCY:** County, city, city and county, including a chartered city or county, school district, community college district, public district, county board of education, county superintendent of schools, or any public or municipal corporation.

**MARK-TO-MARKET:** The market valuation for every security in a portfolio used in determining Net Asset Value (NAV).

**MARKET RISK:** The risk that changes in overall market conditions or interest rate may adversely affect current market prices.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract between the parties of a repurchase agreement establishing each party's rights in all current and future transactions until termination of the contract by either party.

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**MEDIUM TERM NOTES (MTN):** Debt securities issued by a corporation or depository institution with a maturity ranging from nine months to five years. The term "medium-term note" refers to the time it takes for an obligation to mature, and includes other corporate debt securities originally issued for maturities longer than five years, but which have now fallen within the five- year maturity range. MTNs issued by banks are also called "bank notes."

**MONEY MARKET:** The market in which short-term debt instruments (Treasury bills, discount notes, commercial paper, bankers acceptances, etc.) are issued and traded.

**MONEY MARKET MUTUAL FUNDS:** An investment company that pools money from investors and invest in a variety of short-term money market instruments

**MOODY'S INVESTORS SERVICE, INC:** (See Nationally Recognized Rating Services)

**MUNICIPAL DEBT:** Bonds, notes and other securities issued by a state, municipality or county.

**NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO):** Firms that review the creditworthiness of the issuers of debt securities, and express their opinion in the form of letter ratings (e.g. AAA, AA, A, BBB, etc.). The primary rating agencies are the following: Standard & Poor's Corporation; Moody's Investor Services, Inc.; and Fitch, Inc.

**NEGOTIABLE CD:** (See Certificates of Deposit)

**NET ASSET VALUE (NAV):** A per-share valuation of a mutual fund based on total assets minus total liabilities.

**NON-CALLABLE:** Bond that cannot be called at the option of the issuer.

**OFFER PRICE:** The price asked by a seller of securities.

**PAR or PAR VALUE:** The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in \$1,000 increments per bond.

**PHYSICAL DELIVERY:** The delivery of an investment to a custodian bank in the form of a physical certificate and/or supporting documents evidencing the investment (as opposed to “book entry” delivery).

**PORTFOLIO:** A group of securities held by an individual or institutional investor.

**PREMIUM:** The difference between the par value of a bond and the market value of the bond, when the market value is above par.

**PRICE RISK:** The risk that the price of a bond sold prior to maturity will be less than the price at which the bond was originally purchased.

**PRIMARY DEALER:** Banks and securities brokerages authorized to buy and sell government securities in direct dealings with the Federal Reserve Bank of New York in its execution of Federal Open Market Operations.

**PRIME RATE:** The base rate that banks use in pricing commercial loans to their best and most creditworthy customers.

**PRINCIPAL:** The face value or par value of an investment.

**PROSPECTUS:** A legal document that must be provided to any prospective purchaser of a new securities offering registered with the SEC. This can include information of the issuer, the issuer’s business, the proposed use of proceeds, the experience of the issuer’s management, and certain certified financial statements.

**QUALIFIED INSTITUTIONAL BUYER (QIB):** Defined in CFR Section 230.144A as a class of investors that can be conclusively assumed to be sophisticated and in little need of the protection afforded by the Securities Act’s registration provisions. They must own and invest on a discretionary basis at least \$100 million in securities of issuers that are not affiliated with the QIB to qualify for qualified institutional buyer status. This includes any institutional investors included in the accredited investor definition, provided they satisfy the \$100 million threshold.

**RATING OUTLOOK:** The potential direction of the credit rating assigned by a NRSRO for a specific company.

**REINVESTMENT RISK:** The risk that coupon payments (or other payments received) cannot be reinvested at the same rate as the initial investment.

**RECEIVABLE-BACKED SECURITIES:** Securities collateralized with consumer receivables, such as automobile loans, credit card receivables, or home equity loans, which are owned by the issuer, but placed with a trustee for the benefit of the investor.

**RECEIVABLE PASS-THROUGH CERTIFICATE:** A debt obligation that is backed by a portfolio of receivables, normally issued by a bank or financial institution. The interest and principal of the obligation is paid out of the cash flow generated by the receivables portfolio.

**REFUNDED BOND:** A bond secured by an escrow fund that is sufficient to pay off the entire issue of bonds at the next call date (pre-funded) or maturity (escrowed to maturity).

**REGISTERED STATE WARRANT:** A short-term obligation of a state governmental body issued in anticipation of revenue.

**REPURCHASE AGREEMENT (REPO):** The purchase of securities, on a temporary basis, with the seller's simultaneous agreement to repurchase the securities back at a later date at a specified price that includes interest for the buyer's holding period.

**RULE 2a-7 OF THE INVESTMENT COMPANY ACT:** Applies to all money market mutual funds and mandates such funds to maintain certain standards.

**RULE G-37 OF THE MUNICIPAL SECURITIES RULEMAKING BOARD:** Federal regulations to sever any connection between the making of political contributions and the awarding of municipal securities business.

**SAFEKEEPING:** Storage and protection of a customer's financial assets, valuables, or documents, provided as a service by an institution serving as Agent or Custodian and, where control is delegated by the customer.

**SECURITIES & EXCHANGE COMMISSION (SEC):** The federal agency responsible for supervising and regulating the securities industry.

**SINKING FUND:** Money accumulated on a regular basis in a separate custodial account that is used to redeem debt securities or preferred stock issues.

**STANDARD & POOR'S CORPORATION:** (See Nationally Recognized Rating Services)

**STRUCTURED INVESTMENT VEHICLE (SIV):** A pool of investment assets that attempts to profit from credit spreads between short-term debt and long-term structured finance products such as asset-backed securities (ABS). Funding for SIVs comes from the issuance of commercial paper that is continuously renewed or rolled over; the proceeds are then invested in longer maturity assets that have less liquidity but pay higher yields. SIVs often employ great amounts of leverage to generate returns.

**SUPRANATIONAL:** An entity that is formed by two or more central governments with the purpose of promoting economic development for the member countries. Examples include the International Bank for Reconstruction and Development, International Finance Corporation, and the Inter-American Development Bank.

**THIRD-PARTY CUSTODIAL AGREEMENT:** (See Custodian)

**TOTAL RETURN:** The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period.

$$(\text{Price appreciation}) + (\text{Dividends paid}) + (\text{Capital gains}) = \text{Total Return}$$

**TRADE DATE:** The date and time corresponding to an investor's commitment to buy or sell a security.

**U. S. GOVERNMENT AGENCY SECURITIES:** Debt securities issued by U.S. Government sponsored enterprises and federally related institutions. These government agencies include: Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National Mortgage Association (FNMA or Fannie Mae), Federal Farm Credit Banks (FFCB) and Tennessee Valley Authority (TVA).

**U.S. TREASURY SECURITIES:** Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the U.S. and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

**Treasury bills:** non-interest-bearing discount securities with maturities under one year issued by the U.S. Treasury to finance the national debt.

**Treasury notes:** interest-bearing obligations of the U.S. Treasury with maturities ranging from two to ten years from date of issue.

**Treasury bonds:** interest-bearing obligations issued by the U.S. Treasury with maturities that range from ten to thirty years from date of issue.

**UNIFORM NET CAPITAL RULE:** SEC Rule 15C3-1 outlining capital requirements for broker/dealers.

**VARIABLE RATE NOTE:** (See Floating Rate Note)

**VOLATILITY:** A degree of fluctuation in the price and valuation of securities.

**WEIGHTED AVERAGE MATURITY (WAM):** The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 60 days and no one security may have a maturity that exceeds 397 days.

**WHEN ISSUED (WI):** A conditional transaction in which an authorized new security has not been issued. All “when issued” transactions are settled when the actual security is issued.

**YIELD:** The annual rate of return on a debt investment computed as though held to maturity expressed as a percentage.

**YIELD TO CALL (YTC):** The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**YIELD TO MATURITY (YTM):** The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.

**ZERO-COUPON BONDS/U.S. TREASURY STRIPS:** A bond which represents ownership of a single coupon or principal payment due on a U.S. Treasury bond. Zeros or strips mature at face value at a specified date in the future and make no payments until that date. They always sell at a discount from face value.