

San Bernardino Associated Governments	<b>Policy</b>	<b>20100</b>
Adopted by the Board of Directors	October 2, 1996	Revised 1/9/08
<b>Investment Policy</b>		Revision No. 12

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## I. PURPOSE

The purpose of this policy is to provide guidelines for the investment of funds based upon prudent cash management practices and in conformity with all applicable statutes.

## II. POLICY

The Board of Directors of the San Bernardino Associated Governments (SANBAG) and its related authorities and agencies recognizes its responsibility to direct the investment of funds under its care. This policy is designed to meet the specific needs of SANBAG while ensuring the safety of funds.

## III. INVESTMENT GOALS

The investment of funds by SANBAG shall be guided by the goals of safety, liquidity, diversification, and a reasonable market rate of return.

Safety: Safety of principal is the foremost objective of the investment program. Investments of SANBAG will be undertaken in a manner that seeks to ensure the preservation of capital in the portfolio.

Liquidity: SANBAG's investment portfolio will remain sufficiently liquid to enable SANBAG to meet all operating requirements and budgeted expenditures, including an additional amount to cover reasonably estimated contingencies.

Diversification: The investment portfolio will be diversified to avoid risk regarding specific security types or individual financial institutions.

Reasonable Market Rate of Return: The investment portfolio will be designed to attain a market average rate of return through economic cycles which is consistent with SANBAG's primary goals of safety, liquidity and diversification.

## IV. PRUDENT INVESTOR STANDARD

SANBAG investments are governed by the prudent investor standard, set forth as follows:

When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency that a prudent person acting in a like capacity and familiarity with those matters would use in the

investment of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall investment strategy, investments may be acquired as authorized by law.

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## **V. SCOPE**

The investment policy applies to all financial assets held by SANBAG, including bond proceeds. Funds specifically exempt from this policy include employee deferred compensation plans, employee pension plans, or assets held in trust by SANBAG with specific investment instructions.

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## **VI. DELEGATION OF AUTHORITY**

SANBAG's bylaws designate the Executive Director as Treasurer for the Agency.

Under the direction and oversight of the Executive Director, and in consultation with SANBAG's investment adviser, the Chief Financial Officer (CFO) shall direct the investment of SANBAG operating funds, which are not invested in the County Pool or in LAIF ("DIRECT INVESTMENTS"). In addition, the CFO, under the direction and oversight of the Executive Director, and in consultation with SANBAG's investment adviser, shall review the alternatives for the investment of bond proceeds, and shall recommend such investments to the SANBAG Board for its approval. All officials, staff members and consultants are directly accountable to the SANBAG Board for investment functions.

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## **VII. CONFLICTS OF INTEREST**

All officials, staff members and consultants involved in the investment functions will refrain from personal business activity that could conflict with the execution of the investment function or which could impair their ability to make impartial investment decisions. Officials, staff members, and consultants will disclose to the Executive Director any financial interest with a financial institution or broker that conducts business with SANBAG. Officials, staff members and consultants will further disclose any personal financial positions that could be related to the performance of SANBAG's portfolio.

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## **VIII. PORTFOLIO MATURITY LIMITS**

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the Authority to meet all projected obligations.

The maximum maturity of any other investment of operating funds ("direct investments") may not exceed four years.

Investment of bond proceeds shall be made in consideration of the liquidity needs of the bond fund, and may not exceed five years, except for securities to be held in a defeasance escrow for refunded bonds and bond debt serve reserve funds.

Investments in the San Bernardino County Pool and in LAIF are subject to maturity limits and other investment restrictions as imposed by the governing bodies of those agencies.

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## **IX. ALLOWABLE INVESTMENTS FOR SANBAG OPERATING FUNDS**

Investment of SANBAG's funds is governed by the California Government Code, Sections 53600 et seq. and 53635 et seq. Should the Government Code become more restrictive than this policy, the Government Code restrictions shall prevail.

The following investment vehicles are permitted for the investment of operating funds.

- A. Government obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest.
- B. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises. No more than 10% of SANBAG's investment portfolio may be invested in the obligations of any one federal agency or United States government-sponsored enterprise.
- C. Repurchase Agreements used solely as short-term investments not to exceed 30 days.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in par. IX. A and B, will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to SANBAG's custodian bank by book entry, physical delivery, or by a third party custodial agreement. The total of all collateral for each Repurchase Agreement must equal or exceed, on the basis of market value, 102% of the funds borrowed against those securities. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed on a weekly basis and the value of the underlying securities brought back up to 102% no later than the next business day.

Market value must be calculated each time there is a substitution of collateral.

SANBAG or its trustee shall have a perfected first security interest under the Uniform Commercial Code in all securities subject to the Repurchase Agreement.

SANBAG may enter into Repurchase Agreements only with primary dealers of the Federal Reserve Bank of New York.

SANBAG will have specific written agreements with each firm with which it enters into Repurchase Agreements.

Reverse repurchase agreements will not be allowed.

- E. Bankers' Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by a nationally recognized statistical-rating organization.

Purchases of Bankers' Acceptances may not exceed 180 days maturity or 20% of SANBAG's investment portfolio. No more than 5% of SANBAG's investment portfolio may be invested in the Bankers' Acceptances of any one commercial bank.

- F. Commercial paper rated in the highest short-term rating category, as provided by a nationally recognized statistical-rating organization, provided that the issuing corporation is organized and operating within the United States, has total assets in excess of \$500 million and has an "A" or higher rating for its long-term debt, if any, as provided by a nationally recognized statistical-rating organization. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

- (1) The entity meets the following criteria: (a) is organized and operating in the United States as a general corporation; (b) has total assets in excess of five hundred million dollars (\$500,000,000); (c) has debt other than commercial paper, if any, that is rated "A" or higher by a nationally recognized statistical-rating organization.
- (2) The entity meets the following criteria: (a) is organized within the United States as a special purpose corporation, trust, or limited liability company; (b) has program-wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond; (c) has commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical-rating organization.

Purchases of eligible commercial paper may not exceed 270 days maturity nor represent more than 10% of the outstanding paper of an issuing corporation.

Purchases of commercial paper may not exceed 25% of SANBAG's investment portfolio. No more than 5% of SANBAG's investment portfolio may be invested in commercial paper of one issuer.

- G. Medium-term corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the U.S. or any state and operating within the U.S. Medium-term corporate notes shall be rated in a rating category "AA," or its equivalent or better, by a nationally recognized statistical-rating organization.

Purchase of medium-term corporate notes may not exceed 20% of SANBAG's investment portfolio. No more than 5% of SANBAG's investment portfolio may be invested in a medium-term note of any one corporation.

- H. Negotiable certificates of deposit or deposit notes issued by a nationally or state-chartered bank or a state or federal savings and loan association or by a state-licensed branch of a foreign bank provided that the senior debt obligations of the issuing institution are rated "AA" or better by a nationally recognized statistical-rating organization.

Purchase of negotiable certificates of deposit may not exceed 20% of SANBAG's investment portfolio.

- I. State of California's Local Agency Investment Fund (LAIF)  
Investment in LAIF may not exceed 60% of SANBAG's operating funds or \$40 million, whichever is less.

- J. San Bernardino County Investment Pool

- K. Insured savings accounts

- L. 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, et seq.). To be eligible for investment pursuant to this subdivision, these companies shall either: (1) have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations, or (2) have 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 and with assets under management in excess of \$500,000,000.

The purchase price of shares of beneficial interest purchased shall not include any commission that the companies may charge and shall not exceed 20% of SANBAG's investment portfolio. Further, no more than 10% of SANBAG's investment portfolio may be invested in shares of beneficial interest of any one money market fund.

For purposes of determining compliance with this policy, where this section specifies a percentage limitation for a particular category of investment, that percentage is applied on the date of purchase. Credit criteria listed in this section refers to the credit of the issuing organization at the time the security is purchased.

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## **X. ADDITIONAL ALLOWABLE INVESTMENTS FOR BOND PROCEEDS ONLY**

- A. California Asset Management Program (CAMP)'s money market pool, which is rated AAA and has an average maturity of one year or less and its separately managed portfolio.
- B. Investment agreement with an AA rated bank or collateralized investment agreement with an A rated bank or an investment acceptable to a bond insurance company and approved specifically by the SANBAG Board.
- C. Debt service reserve funds and debt service funds may be invested longer than five years as long as they are permitted by state law and investments are readily available for bond payments and other bond purposes (refundings, defeasance, etc.).

- D. U.S. Treasury Securities and State and Local Government Securities having a maturity longer than five years are permitted for escrowed defeasances.
  - E. Forward purchase agreements, forward delivery agreements and debt service reserve agreements approved specifically by the SANBAG Board.
  - F. Other investments as permitted by bond indentures.
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#### **XI PROHIBITED INVESTMENT TRANSACTIONS**

Any investment not specifically allowed by this policy is prohibited.

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#### **XII. INVESTMENT IN "DERIVATIVE" SECURITIES**

Direct investment in derivative securities is prohibited. A "derivative security" is any investment the value of which is derived from an underlying security, commodity or index. For purposes of this policy, a derivative is any security that has principal and/or interest payments which are subject to significant uncertainty as to timing, and/or amount.

It is understood that the County Pool and LAIF may invest in certain derivative securities.

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#### **XIII. LEVERAGING**

All forms of portfolio leverage, including, but not limited to, securities lending programs, reverse repurchase agreements, and margin accounts, are prohibited.

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#### **XIV. SAFEKEEPING OF SECURITIES**

SANBAG shall enter into an agreement with a bank trust department to serve as the safekeeping agent for all direct investments. The safekeeping agent shall hold all investments in an account for the sole benefit of SANBAG. All direct investments shall be delivered by the broker to SANBAG's safekeeping account on a delivery versus payment basis.

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#### **XV. COMPETITIVE BIDDING OF INVESTMENTS**

The investment procedures require that approved broker/dealers compete for direct investment purchases and sales to ensure that all investment transactions are free from favoritism. The CFO shall determine the best execution price for SANBAG, and act accordingly.

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#### **XVI. BROKER/DEALERS**

If a third party investment advisor is authorized to conduct investment transactions on SANBAG's behalf, the investment advisor may use their own list of approved broker/dealers and financial institutions for investment purposes. The investment advisor's approved list must be made available to SANBAG upon request.

For any investment transactions conducted by the Treasurer on behalf of SANBAG, the Treasurer shall comply with the following requirements:

Transactions initiated by SANBAG shall be executed through government securities dealers reporting as primary dealers to the New York Federal Reserve Bank of New York or direct issuers (defined as corporations that issue their own securities) and through secondary dealers who have received prior approval to do business with SANBAG.

Primary dealers wishing to do business with SANBAG must meet the following criteria:

1. The primary dealer representative must have demonstrated experience providing investment services to public agencies in California.
2. The primary dealer representative must provide SANBAG with a minimum of three references of finance officials from public agencies in California.

Secondary dealers must complete a broker/dealer application provided by SANBAG, and must meet the following criteria to the satisfaction of SANBAG's Chief Financial Officer:

1. The broker/dealer must qualify under SEC Rule 15C3-1 (uniform net capital rule).
2. The broker/dealer and the broker/dealer representative must be properly registered with the appropriate state and federal regulatory bodies.
3. The broker/dealer should be a market maker and have a strong market presence in one or more product areas that are pertinent to SANBAG's investment goals.
4. The broker/dealer and its representative should be well established in the business and have an acceptable track record.

Each broker/dealer will be sent a copy of this Policy, a broker/dealer application, and a list of persons authorized to execute transactions on SANBAG's behalf. In order to be considered for investment business opportunities with SANBAG, each firm must acknowledge receipt of such materials.

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#### **XVII. QUARTERLY REPORTING**

The CFO will provide a quarterly report to the Administrative Committee and to the Board of Directors providing the following information:

- A. Breakout of all securities, investments and moneys held by SANBAG by investment type, issuer, date of maturity, par, dollar amount and percent of portfolio invested in each.
- B. A description of all SANBAG's funds, investments or programs that are under the management of any outside party that is not a local agency. This report must also include market valuation of the portfolio and the source of the valuation.
- C. A statement of compliance with investment policy and a statement denoting the ability of SANBAG to meet all expenditures for the next six months.

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#### **XVIII. ANNUAL SUBMISSION OF INVESTMENT POLICY**

SANBAG's CFO shall render a statement of investment policy to the Board of Directors annually. The Board shall consider the policy, with any changes, in a public meeting.

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#### **XIX. REVISION HISTORY**

<b>Revision No.</b>	<b>Revisions</b>	<b>Adopted</b>
0	Adopted by the Board of Directors.	10/02/96
1	20100: Added paragraph starting with "It shall be SANBAG's long term objective . . .".	09/03/97
2	No changes.	12/02/98
3	20100.10: Changed percentage of operating funds amount to 20%. 20100.10: Changed percentage of San Bernardino portfolio to 20%.	11/03/99
4	No changes. Re-approved by the Board of Directors.	11/01/00

Revision No.	Revisions	Adopted
5	<p>Added Para. 20100.16 Qualifications of Broker/Dealers; re-sequenced existing paragraphs. 20100.16, 20100.17, 20100.18, 20100.19, 20100.20, and 20100.21 to 20100.17, 20100.18, 20100.19, 20100.20, and 20100.22.</p> <p>Revised Par. 20100.10: Revised "...not to exceed 20% of SANBAG's operating funds..." to "...not to exceed 30% of SANBAG's operating funds...", and "Portion of Portfolio: 20% maximum" to "Portion of Portfolio: 30% maximum".</p>	11/07/01
6	<p>Changed paragraph numbering style from 20100.1,20100.2, 20100.3 etc. to I, II, III, etc.</p> <p>Par. IX: Changed "one year" to "two years".</p> <p>Par. X.4: Changed "1 year maximum" to "2 year maximum".</p> <p>Par. X.5: Changed "1 year maximum" to "2 year maximum".</p> <p>Par. X.6: Changed "180 days maximum" to "270 day maximum".</p>	11/06/02
7	No changes. Re-approved by the Board of Directors	11/05/03
8	No changes. Re-approved by the Board of Directors	01/05/05
9	No changes. Re-approved by the Board of Directors	11/02/05
10	<p>Paragraphs on DEFINITIONS, ANNUAL MANAGEMENT REVIEW AND AUDIT, AND SEGREGATED INVESTMENT, and EXECUTION AND RECORD KEEPING: Deleted.</p> <p>Paragraphs III, IV, IX, and XVII: Minor revisions.</p> <p>Paragraphs VIII, IX, and XVI: Major revisions.</p>	07/05/06
11	Par. IX.J: Removed limitation.	09/13/06
12	No changes. Re-approved by the Board of Directors	01/09/07