

CALIFORNIA JOINT POWERS RISK MANAGEMENT AUTHORITY

STATEMENT OF INVESTMENT POLICY

(Revised 12/16/2010, Approved 12/16/2010)

I. INTRODUCTION

This statement will identify various policies and procedures that will foster a prudent and systematic investment program as well as organize and formalize investment related activities. The related activities which comprise good cash management include:

- A. accurate cash projections;
- B. timely collection of revenues;
- C. control of disbursements;
- D. cost-effective banking and financial services; and
- E. a system of internal controls.

II. SCOPE

This policy will cover all funds and investment activities under the direction/control of the Authority and/or its investment manager(s). Investment of bond proceeds shall be governed by the provisions of the related bond indentures.

III. OBJECTIVES

A. Safety

The primary objective of this policy is to protect, preserve and maintain the cash and investments of the Authority.

B. Liquidity

An adequate percentage of the portfolio will be maintained in liquid short-term securities which can be converted to cash, as necessary, to meet disbursement requirements. The liquidity percentage will be determined, from time to time, from projected cash flow reports. Investments will be made in securities with active secondary or resale markets. Securities with low market risk will be emphasized.

C. Return

Within the constraints of safety and liquidity, the highest and best return will be sought.

D. Market-Average Rate of Return

The portfolio will be designed to attain a market-average rate of return, consistent with the agreed upon benchmark, taking into account risk constraints of the Authority, cash flow characteristics of the portfolio and compliance with state and federal regulations.

E. Diversification

The portfolio will be diversified in order to avoid incurring unreasonable and avoidable risks regarding specific types of securities or individual financial institutions. Excluding U.S. Government and agency securities, no more than 10% of the portfolio may be invested in any one institution.

F. Prudence

Persons authorized to make investment decisions on behalf of local agencies are trustees and therefore fiduciaries subject to the prudent investor standard. 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, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part to an overall strategy, a trustee is authorized to acquire investments as authorized by law. (Government Code Section 53600.3)

G. Public Trust

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust. In a diversified portfolio, it must be recognized that occasional measured losses are inevitable and that such losses must be considered within the context of the overall investment return.

IV. AUTHORITY TO INVEST MONIES

Government Code sections 53600 through 53601.6 provide legal authorization for investment of the funds of local agencies. All investments of the Authority shall conform to the restrictions of those laws.

Management responsibility is here by delegated to the Treasurer, who shall establish procedures for the operation of the investment program. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates. The responsibility for investment transactions may be delegated to staff personnel or an outside professional service.

V. REPORTING

A. Monthly

The investment manager(s) shall submit a monthly report to the Authority. The Authority shall submit this report to the Board of Directors on a quarterly basis. This report will include all items required by Government Code Section 53646. These items are:

1. type of investment;
2. issuer;
3. date of maturity;
4. par and dollar amount invested on all securities;
5. current market value of all securities and the source of the valuation;
6. rate of interest;
7. a statement of compliance with the investment policy;
8. a statement that there are sufficient funds to meet the next six month's financial obligations;
9. accrued interest;
10. interest earned to date;
11. average weighted yield;
12. average term to maturity;
13. actual transactions;

14. the percentage distribution of investment types;
15. modified duration;
16. average credit quality; and
17. the total rate of return.

B. Quarterly

The Treasurer and the General Manager shall meet with the investment manager(s) on a quarterly basis. The meeting will cover such topics as:

1. market environment;
2. portfolio strategy;
3. portfolio characteristics;
4. duration;
5. maturity distribution;
6. sector distribution;
7. investment performance; and
8. recommended policy or strategy changes.

C. Annually

The investment policy shall be submitted to the Board of Directors for review and adoption annually. Additionally, the investment manager(s) shall provide a report detailing the performance of the portfolio through the end of the immediately preceding fiscal year.

VI. INVESTMENT ACCOUNTS

Funds available for investment shall be segregated into two categories in order to meet the Authority's investment goals. Those categories and their specific characteristics are set forth below.

A. The Loss Payment Account

- B.** The Loss Payment Account shall be invested to maintain funds to pay claims as they come due and pay the operating expenses of the Authority. **The Long-Term Growth Account**

Recognizing that casualty liabilities are inflation sensitive, the Authority has established the Long-Term Growth Account to provide for long-term asset growth in order to offset potential inflation.

From time to time, the General Manager will inform the investment manager(s) of amounts that are to be allocated to the two categories and that are required for the payment of claims and operating expenses. The General Manager will provide current actuarial information to the investment manager(s) in order to assist them in determining the duration of those two accounts.

VII. INVESTMENT PARAMETERS

A. The Loss Payment Account

1. The Loss Payment Account shall be managed to a duration approximately equal to the duration of current claim liabilities and the operating expenses of the Authority.
2. The maximum stated final maturity of securities in the Loss Payment Account shall be five years.
3. The investment manager(s) shall maintain sufficient short-term liquidity in order to pay claims and operating expenses as they arise.
4. The performance objective for the Loss Payment Account shall be to equal the return on a benchmark index, selected by the Authority and the investment manager(s), with characteristics (duration and sector allocation) similar to the characteristics of the Loss Payment Account.

B. The Long Term Growth Account

1. The Long-Term Growth Account shall be managed to a duration approximately equal to the duration of the Bank of America Merrill Lynch five to 10 year Government Index, or an equivalent index of five to 10 year government securities.
2. The duration of the Long-Term Growth Account shall typically be managed in a range not to exceed 120%, nor be less than 80% of the duration of the benchmark.
3. The performance objective of the Long-Term Growth Account shall be to exceed the return on the benchmark index over a market cycle.
4. The maximum final stated maturity of individual securities in the Long-Term Growth Account may not exceed 10 years.

VIII. INVESTMENT INSTRUMENTS AND MATURITIES

A. Permitted Investments

Securities purchased will be maintained within statutory limits imposed by Government Code Section 53601, as follows:

PERMITTED INVESTMENTS/DEPOSITS	CREDIT PERCENTAGES	MINIMUM QUALITY	MATURITY
Asset backed, Mortgage backed, CMO securities	20%	AAA	5 years
Bankers Acceptances	40%	A1/P1	180 days
Commercial Paper (avg. maturity < 31 days)	25%	A1/P1	31 days
Commercial Paper (avg. maturity < 270 days)	15%	A1/P1	270 days
LAIF	20%		
Medium Term Notes	30%	A	5 years
Money Market Account	15%	AA	
Mutual Funds	20%	AAA	
Negotiable Certificates of Deposit	30%	AA	3 years
CA Local Agency Notes	Unlimited	A	5 years *
Notes issued by any State in the US	Unlimited	A	5 years *
Repurchase Agreements	10%		1 year
Time Certificates of Deposit	Unlimited		3 years
Treasury Bills and Notes	Unlimited		5 years *
Government and Agency Securities	Unlimited		5 years *
* Maximum terms unless expressly authorized by the Board of Directors within the prescribed time frame for approval (Government Code Section 53601).			

Investments shall be purchased according to the minimum credit standards listed. In the event of a downgrade in credit below the minimum required credit rating after the date of purchase, the Treasurer shall advise the Executive Committee /Board of Directors of the change, at the next regular meeting, and use his/her best professional judgment concerning the retention of that security in the portfolio.

B. Excluded Investments

The following investments or investment practices are not permitted under this Statement of Investment Policy:

1. purchase or sale of securities on margin;
2. reverse repurchase agreements;
3. financial futures and financial options; and
4. Guaranteed Small Business Administration (SBA) Notes.

C. Investment Maturities

1. California Government Code Section 53601 requires that the governing body grant specific authority for the use of securities with final stated maturities in excess of five years.
2. Since the Long-Term Growth Account has the specific purpose of providing for long-term growth, and since the cash flow requirements of the Authority are met through other investments, the Board of Directors hereby grants authority for the purchase of securities with maturities in excess of five years. Such purchases shall be of US Treasury and federal agency securities only, including mortgage-backed securities, and shall only be made in the Long-Term Growth Account. The maximum maturity of individual securities is limited to 10 years.

D. Investment in “derivative” securities

Investment in derivative securities is governed by the following paragraphs:

1. Definition of a fixed income derivative: For purposes of this policy, a derivative is any security that has principal and/or interest payments which are subject to uncertainty as to timing and/or amount, or any security which represents a component of another security which has been separated from other components (“stripped” coupons and principal).
2. Investment is permitted in the following types of derivatives only:
 - a) stripped coupons and principal;
 - b) fixed coupon callable and puttable securities;
 - c) “step-up” notes;
 - d) variable, or floating rate notes, that are
 - (1) market based: float in the same direction as the general level of interest rates, based on a market-determined rate (i.e., Tbills, LIBOR, commercial paper, Fed Funds). If maturity < three years, these are subject to very little price volatility; or
 - (2) other: float in the same direction as the general level of interest rates, based on a rate that is not directly determined by the market (i.e. Cost of Funds), or that is pre-determined at the time of issuance. These are subject to some price volatility and offer value in certain interest rate environments;

- e) asset-backed securities;
 - f) collateralized mortgage obligations (CMOs); and
 - g) mortgage pass-through securities issued by agencies of the Federal Government.
3. Investment in derivatives is further restricted as follows:
- a) Investment in any single derivative security is limited to 5% of the portfolio per issue.
 - b) Any single derivative security, with the exception of mortgage pass-through securities issued by agencies of the US Government (but not including CMOs) shall have a final stated maturity of five years or less at the time of purchase.
 - c) A maximum of 30% of the total fund may be invested in all derivatives. "Make whole" callable securities are excluded from this limitation.
4. Investment in any type of derivative security not specifically described herein is prohibited. In accordance with California Government Code Section 53601.6, prohibited investments include, but are not limited to, the following:
- a) inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages; and
 - b) any security that could result in a zero interest accrual if held to maturity.

IX. INTERNAL CONTROLS

A system of internal controls shall be established and maintained in written form. These controls shall be designed to prevent losses of public funds arising from fraud, error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees/officers of the Authority. The most important controls are: control of collusion, separation of duties, separation of transaction authority from accounting and bookkeeping, custodial safekeeping, delegation of authority, limitations regarding securities losses and remedial action, written confirmation of telephone transactions, minimization of the number of authorized investment officials, documentation of transactions and strategies, and annual review of controls by the Treasurer.

X. BANKS AND SECURITIES DEALERS

In selecting financial institutions for the deposit or investment of Authority funds, the Treasurer shall consider their credit worthiness. The Treasurer shall continue to monitor their credit characteristics and financial history throughout the period in which Authority funds are deposited or invested. A commercial rating or bank watch service may be used to accomplish this objective.

Financial institutions/investment managers shall annually sign a certification form attesting that the individual responsible for the Authority's account with that firm has reviewed and understands the investment policy and intends to present only those investment transactions appropriate under the policy.

XI. INVESTMENT RISKS

The Authority recognizes that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way of controlling such risk. Investment manager(s) are expected to display prudence in the selection of securities as a way to minimize the risk of default. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. The Treasurer shall meet, periodically, with the Board of Directors in order to establish guidelines and strategies to control credit risk, market risk and illiquidity.

In addition to these general policy considerations, the following specific policies will be followed:

- A. all transactions will be executed on a delivery versus payment basis; and
- B. a competitive bidding process from at least three sources will be used to transact all investments, when practical.

XII. SAFEKEEPING AND CUSTODY

Securities purchased from broker/dealers will be held in a third-party custodian/safekeeping account. The only exception to this policy is the collateral for time deposits in banks and savings and loans. Collateral for time deposits shall be held in accordance with applicable with state and federal regulations.

XIII. CONFLICT OF INTEREST

Officers and employees involved in the investment process shall refrain from engaging in any personal business activity that could conflict with the proper execution of the investment program or impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the General Manager any material financial interests in financial institutions which conduct business within this jurisdiction. They shall further disclose any large personal financial/investment positions that could be related to the performance of the Authority's portfolio.

XIV. ANNUAL REVIEW AND ADOPTION OF INVESTMENT POLICY

The statement of investment policy shall be reviewed and adopted annually by the Board of Directors at a public meeting.