

PARSAC

STATEMENT

OF

INVESTMENT POLICY

For the 2018/19

Fiscal Year

Approved December 3,
2015 Revised May 31,
2018

PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA

Statement of Investment Policy

Effective May 31, 2018

I. PURPOSE

This statement is intended to provide guidelines for prudent investment of the Public Agency Risk Sharing Authority of California's ("PARSAC") temporarily idle cash.

II. SCOPE

This Policy covers all funds and investment activities under the direction of PARSAC.

III. OBJECTIVES

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

1. Safety: Safety of principal is the foremost objective. Investments of PARSAC shall be made in a manner that seeks to ensure preservation of capital.
2. Liquidity: The investment portfolio will remain sufficiently liquid to enable PARSAC to meet cash flow requirements which might be reasonably anticipated.
3. Yield: Investment return becomes a consideration only after the basic measurements of safety and liquidity have been met.

IV. PRUDENCE

Section 53600.3 of the Government Code identifies as trustees those persons authorized to make investment decisions on behalf of a local agency. As a trustee, the standard of prudence shall be the "prudent investor" standard. Investments shall be made 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 PARSAC, 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 PARSAC.

V. DELEGATION OF AUTHORITY

The Board of Directors ("Board") hereby delegates authority to invest PARSAC's funds for a one-year period to the Treasurer, who shall thereafter assume full

responsibility for those transactions until the delegation of authority is revoked or expires. Subject to review, the Board may renew the delegation of authority each year. No person may engage in an investment transaction except as provided under the limits of this Policy. The Treasurer may delegate day-to-day investment decision making and execution authority to an investment advisor. The advisor shall follow this Policy and such other written instructions as are provided.

VI. ETHICS AND CONFLICTS OF INTEREST

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment recommendations and decisions.

VII. AUTHORIZED INVESTMENTS

PARSAC is governed by Government Code, Sections 53600 et seq. Within the investments permitted by the Government Code, PARSAC seeks to further restrict eligible investment to the investments listed below. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters will take precedence.

Credit criteria listed in this section refers to the credit quality of the issuing organization at the time the security is purchased. The maturity limits are applied at the time of purchase

- 1. United States Treasury Issues.** United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest. There is no limitation as to the percentage of the portfolio that may be invested in this category.
- 2. Federal Agency Obligations.** 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. There is no limitation as to the percentage of the portfolio that may be invested in this category, however, not more than 30 percent of the portfolio shall be placed in any one Agency. Furthermore, purchases of Federal Agency mortgage-backed securities issued by or fully guaranteed as to principal and interest by government agencies are limited to a maximum of 20 percent of the portfolio.
- 3. Bankers Acceptances.** Bankers acceptances, otherwise known as bills of exchange or time drafts, that are drawn on and accepted by a commercial bank. Purchasers are limited to issuers whose short-term debt is rated A-1/P-1. Bankers acceptances cannot exceed a maturity of 180 days. A maximum of 25 percent of the portfolio may be invested in this category. Furthermore, the

amount invested in bankers acceptances with any one financial institution in combination with any other debt from that financial institution or issuer shall not exceed 20 percent of the portfolio.

4. **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. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (A) or paragraph (B):
 - (A) The entity meets the following criteria: (i) Is organized and operating in the United States as a general corporation. (ii) Has total assets in excess of five hundred million dollars (\$500,000,000). (iii) Has debt other than commercial paper, if any, that is rated “A” or higher by a nationally recognized statistical-rating organization (NRSRO).
 - (B) The entity meets the following criteria: (i) Is organized within the United States as a special purpose corporation, trust, or limited liability company. (ii) Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond. (iii) Has commercial paper that is rated “A-1” or higher, or the equivalent, by a nationally recognized statistical-rating organization.

Eligible commercial paper shall have a maximum maturity of 270 days or less and not represent more than 10 percent of the outstanding paper of an issuing corporation. A maximum of 25 percent of the portfolio may be invested in this category. Furthermore, the amount invested in commercial paper with any one issuer in combination with any other debt from that financial institution or issuer shall not exceed 20 percent of the portfolio.

5. **Medium-Term Notes.** Medium-term notes defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, 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. Notes eligible for investment under this subdivision shall be rated in a rating category of “A” or the equivalent, or better, by a nationally recognized statistical rating organization. Purchases of medium-term notes may not exceed 30 percent of the portfolio. Furthermore, the amount invested in corporate notes with any one issuer in combination with any other debt from that financial institution or issuer shall not exceed 5 percent of the portfolio.
6. **Time Certificates of Deposit.** Time Certificates of Deposit (TCDs) placed with commercial banks and savings and loans. The purchase of TCDs from out-of-state banks or savings and loans is prohibited. The amount on deposit shall not exceed the shareholder’s equity the financial institution. To be eligible for purchase, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2. TCDs are required to be collateralized as specified under Government Code Section

53630 et. seq. PARSAC, at its discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. PARSAC shall have a signed agreement with the depository per Government Code Section 53649. TCDs may not exceed one (1) year in maturity. A maximum of 20 percent of the portfolio may be invested in this category. Furthermore, the amount invested in TCDs with any one financial institution in combination with any other debt from that financial institution or issuer shall not exceed 20 percent of the portfolio.

7. **California Municipal Obligations.** 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. Obligations are required to be rated in a rating category of “AA” or the equivalent or better by a nationally recognized statistical-rating organization. No more than 25 percent of the portfolio may be invested in California municipal obligations.
8. **Passbook Savings Accounts.** Passbook Savings Accounts placed with commercial banks and savings and loans. To be eligible to receive deposits, the financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation, as provided Government Code Section 53635.2. Passbook Savings Accounts are required to be collateralized as specified under Government Code Section 53630 et. seq. PARSAC, at its discretion, may waive the collateralization requirements for any portion that is covered by federal insurance. PARSAC shall have a signed agreement with the depository per Government Code Section 53649. There is no limitation as to the percentage of the portfolio that may be invested in this category.
9. **Money Market Funds.** Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1 and following) and that invest in the securities and obligations as authorized by Government Code, Sections 53601 subdivisions (a) to (k), inclusive, and subdivisions (m) to (q), inclusive. The company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations. (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years’ experience managing money market mutual funds with assets under management in excess of five hundred million dollars (\$500,000,000). A maximum of 10 percent of the portfolio may be invested in this category.
10. **State of California Local Agency Investment Fund (LAIF).** There is no limitation as to the percentage of the portfolio that may be invested in this

category. However, the amount invested may not exceed the maximum allowed by LAIF.

11. Local Government Investment Pools. Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in Government Code, Section 53601 subdivisions (a) to (q), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:

- (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
- (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (q), inclusive.
- (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

12. Supranationals. United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated in a rating category of “AA” or its equivalent or better by an NRSRO and shall not exceed 10 percent of PARSC’s portfolio.

13. Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638. The legislative body of a local agency and the treasurer or other official of the local agency having legal custody of the moneys are prohibited from investing local agency funds, or funds in the custody of the local agency, in negotiable certificates of deposit issued by a state or federal credit union if a member of the legislative body of the local agency, or a person with investment decision-making authority in the administrative office manager’s office, budget office, auditor-controller’s office, or treasurer’s office of the local agency also serves on the board of directors, or any committee appointed by the board of directors, or the credit committee or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit. Purchases of negotiable certificates of deposit shall not exceed 30 percent of PARSAC’s moneys that may be invested pursuant to this section. Furthermore, the amount invested in negotiable certificates of deposit with any one issuer in combination with any other debt from that financial institution or issuer shall not exceed 5 percent of the portfolio. Negotiable certificates of deposit eligible for investment

under this subdivision shall be rated in a rating category of “A” or the equivalent, or better, by a nationally recognized statistical rating organization.

14. Asset-Backed Securities. A mortgage passthrough security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable passthrough certificate, or consumer receivable-backed bond of a maximum of five years’ maturity. Securities eligible for investment under this subdivision shall be issued by an issuer rated in a rating category of “A” or its equivalent or better for the issuer’s debt as provided by an NRSRO and rated in a rating category of “AA” or its equivalent or better by an NRSRO. Purchase of securities authorized by this subdivision shall not exceed 20 percent of PARSAC’s surplus moneys that may be invested pursuant to this section. Furthermore, the amount invested with any one issuer in combination with any other debt from that institution or issuer shall not exceed 5 percent of the portfolio.

VIII. TERM OF INVESTMENTS

No investment shall exceed a maturity of five years from the date of purchase unless the Board has granted express authority to make that investment either specifically or as a part of an investment program approved by the Board no less than three months prior to the investment.

IX. PROHIBITED INVESTMENTS

Any investment in a security not specifically listed above, but otherwise permitted by the Government Code, is prohibited. Section 53601.6 of the Government Code specifically disallows investments in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages. In addition to the limitations in Government Code Section 53601.6, this Policy further restricts investments as follows:

1. No investment will be made that has either (a) an embedded option or characteristic which could result in a loss of principal if the investment is held to maturity, or (b) an embedded option or characteristic which could seriously limit accrual rates or which could result in zero accrual periods.
2. No investment will be made that could cause the portfolio to be leveraged.

X. BANKS AND SECURITIES DEALERS

For investments made by an investment advisor, PARSAC authorizes the investment advisor to use broker/dealers and financial institutions that the investment advisor has reviewed and approved for investment purposes. The investment advisor’s approved list must be made available to PARSAC upon request. If investments are made directly by the Treasurer, other than funds invested in LAIF, Time Certificates of Deposit, or passbook savings accounts, the Treasurer will maintain a list of at least five broker/dealers and financial institutions that have been reviewed and approved for investment purposes.

XI. PURCHASE, PAYMENT, DELIVERY, AND SAFEKEEPING

A competitive bid process shall be used to place all investment transactions. All security transactions entered into by or on behalf of PARSAC shall be conducted on a delivery -vs- payment basis. All securities will be held in PARSAC's name by a third party custodian designated by the Treasurer. The only exception to the foregoing shall be depository accounts and securities purchases made with: (i) local government investment pools; (ii) time certificates of deposit, and, (iii) money market mutual funds, since the purchased securities are not deliverable. Evidence of each of these investments will be held in the Treasury vault. Collateral for time deposits in savings and loans will be held by the Federal Home Loan Bank or an Approved Agent of Depository.

XII. REPORTING

The Treasurer shall render a quarterly investment report to the Executive Committee and Board. The report shall include the following information for each individual investment: Description of investment instrument, Issuer Name, Maturity date, Purchase price, Par value, Current market value and the source of the valuation. The quarterly report also shall (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of PARSAC's funds, investments or programs that are under the management of contracted parties, including lending programs, and (iii) include a statement denoting the ability of PARSAC to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money may or may not be available. The report shall include a list of monthly investment transactions. This quarterly report shall be submitted within 30 days following the end of the quarter covered by the report.

XIII. STATEMENT OF INVESTMENT POLICY

Annually, the Treasurer shall render to the PARSAC's Board a "Statement of Investment Policy," which the board shall review and approve at a public meeting. Any change in the policy shall also be reviewed and approved by the board at a public meeting.

GLOSSARY

Bankers Acceptance: investment vehicle created to facilitate international commercial trade transactions. The bank accepts responsibility to repay a loan to the holder of the investment vehicle created in a commercial transaction. The credit worthiness of Bankers Acceptances are enhanced because they are secured by the issuing bank, the goods themselves, and the importer. Bankers Acceptances are sold on a discounted basis.

Buy and Hold Strategy: investments in which management has the positive intent and ability to hold each issue until maturity.

Collateralization: to secure a debt in part or in full by pledge of collateral, asset pledged as security to ensure payment or performance of an obligation.

Commercial Paper: short-term IOU, or unsecured money market obligation, issued by prime rated commercial firms and financial companies, with maturities from 2 days up to 270 days. A promissory note of the issuer used to finance current obligations, and is a negotiable instrument.

Delivery Versus Payment: securities industry term indicating payment is due when the buyer has securities in hand or a book entry receipt.

Interest-Only Strips: mortgage backed instrument where investor receives only the interest, no principal, from a pool of mortgages. Issues are highly interest rate sensitive. Cash flows vary between interest periods. As well, the maturity date may occur earlier than that stated if all loans within the pool are pre-paid. High prepayments on underlying mortgages can return less to the holder than the dollar amount invested.

Inverse Floater: mortgage backed bond, usually part of a collateralized mortgage obligation (CMO) bearing an interest rate that moves in the opposite direction of an index, for example, the LIBOR rate. An inverse floater may have a floor and a cap.

Leverage: investing with borrowed money with the expectation that the interest earned on the investment will exceed the interest paid on the borrow money.

Local Agency Investment Fund (LAIF): a voluntary investment program offering participating agencies the opportunity to participate in a major portfolio which daily invests hundreds of millions of dollars, using the investment expertise of the State Treasurers Office Investment staff at no additional cost to the taxpayer. Investment in LAIF, considered a short term investment, is readily available for a cash withdrawal on a daily basis.

Medium-Term Corporate Note: Debt securities issued by a company. Corporate bonds are a way companies raise funds for their operations or for a specific project. The risk of a corporate bond for a bondholder depends on the creditworthiness of the issuing company. As with all bonds, corporate bonds have a maturity, at which time the principal is repaid to bondholders. They also usually have a stated coupon rate.

Nominee Name: registered owner of a stock or bond if different from the beneficial owner, who acts as holder of record for securities and other assets. Typically, this arrangement is done to facilitate the transfer of securities when it is inconvenient to obtain the signature of the real owner, or the actual owner may not wish to be identified. Nominee ownership simplifies the registration and transfer of securities.

Range Notes: investment whose coupon payment varies (e.g. either 7% or 3%) and is dependent on whether the current benchmark (e.g. 30 year Treasury) falls within a pre-determined range (e.g. between 6.75% and 7.25%).

Repurchase Agreement: contract to purchase and subsequently sell securities at a specified date and price

Third-Party Custodian: corporate agent, usually a commercial bank, who, acting as trustee, holds securities under a written agreement for a corporate client and buys and sells securities when instructed. Custody services include securities safekeeping, and collection of dividends and interest. The bank acts only as a transfer agent and makes no buy-sell recommendations.

Time Certificates of Deposit: deposit account paying interest for a fixed term, with the understanding that funds cannot be withdrawn before maturity without giving advance notice.

Unrealized Profits (Losses): paper profits (**losses**) representing the difference between the book value of the securities owned and their current market value. Paper profits (**losses**) in an investment portfolio are realized when the securities are sold.

Zero Accrual Periods: a period of time in which an investment accumulates no interest.

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