FIRST 5
FRESNO COUNTY

Investment Policy

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1. Objective

This investment policy provides the framework for decision-making in the investment approach for the future of the Children & Families Commission of Fresno County (the Commission).

2. Policy

The investment policies and practices of the Commission are based on state law and prudent money management. All funds will be invested in accordance with the Commission's Investment Policy and Section 53600 et seq. of the California Government Code. The Commission will invest its funds in a manner that will attain a rate of return consistent with safety and liquidity considerations.

3. Scope

This Investment Policy applies to all funds of the Commission. These funds are accounted for in the Commission's annual audited financial report.

4. Prudence

All persons authorized to make investment decisions on behalf of the Commission are considered trustees and therefore fiduciaries who are subject to the prudent investor standard established by state law, Title 5, Section 53600.3

This standard shall be applied in the context of managing an overall portfolio. Commissioners, the Executive Director and/or designee, and Commission staff, acting in accordance with the Commission's written Accounting Policies and Procedures Manual and Investment Policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

5. Objectives

The primary objectives, in priority order, of the Commission's investment activities shall be:

a) Safety: Safety of principal is the foremost objective of the investment program. Investments of the Commission shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. Investments may be made in securities of high quality to avoid credit risk and loss of principal. Investments susceptible to wide price fluctuations due to market volatility shall be avoided.

b) Liquidity: The Commission's investment portfolio will remain sufficiently liquid to enable the Commission to meet any operating requirements that might be reasonably anticipated or respond to opportunities for investments arising from changing market conditions.

c) Return on Investments: The Commission's investment portfolio shall be designed with the objective of attaining a market rate of return throughout economic cycles commensurate with the Commission's investment risk constraints and cash flow considerations.

6. Delegation of Authority

The Commission's Bylaws state the authority to manage the Commission's investment program is assigned as follows: Management responsibility of the investment program is hereby delegated to the Commissioners of the Commission. The Commissioners have delegated management of the investment program to the Executive Director and/or designee who shall maintain written procedures for the operation of the investment program consistent with this Investment Policy.

The Commission may delegate its investment decision making and execution authority to an investment advisor. The advisor shall follow the policy statement and such other written instructions as are provided.

7. Ethics and Conflicts of Interest

Commissioners, Executive Director and/or designee, and Commission staff involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

8. Borrowing for Purposes of Making Investments

The Commission is prohibited from the practice of borrowing for the sole purpose of making investments.

9. Authorized Financial Dealers and Institutions

To provide for the optimum yield in the Commission's portfolio, the Commission's procedures are designed to encourage competitive bidding on transactions from an approved list of broker/dealers.

The Executive Director and/or designee, or the Commission's investment advisor, shall maintain a list of authorized broker/dealers and financial institutions that are approved for investment purposes. The maintenance of this list will require a comprehensive credit and capitalization analysis to indicate if the firm is adequately financed to conduct business with public entities. It is the policy of the Commission to purchase securities only from those authorized institutions or firms.

10. Authorized & Suitable Investments

a) 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.

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.

c) Obligations of the State of California or any local agency within the state, including bonds payable solely out of revenues from a revenue-producing property owned, controlled or operated by the state or any local agency or by a department, Commission, agency or authority of the state or any local agency. Obligations eligible for investment under this subdivision shall be rated in a category of "AA" or better, or the equivalent, by a nationally recognized statistical rating organization (NRSRO).

d) Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California. Obligations eligible for investment under this subdivision shall be rated in a category of "AA" or better, or the equivalent, by an NRSRO.

e) Repurchase Agreements used solely as short-term investments not to exceed 30 days.

The Commission may enter into Repurchase Agreements with primary dealers in U.S. Government securities who are eligible to transact business with, and who report to, the Federal Reserve Bank of New York.

The following collateral restrictions will be observed: Only U.S. Treasury securities or Federal Agency securities, as described in VII. 1 and 2 will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the Commission's custodian bank versus payment or be handled under a properly executed tri-party repurchase agreement. The total market value of all collateral for each Repurchase Agreement must equal or exceed, 102 percent of the total dollar value of the money invested by the Commission for the term of the investment. For any Repurchase Agreement with a term of more than one day, the value of the underlying securities must be reviewed at least weekly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.

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

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

The Commission will have properly executed a Public Securities Association (PSA) agreement with each counter party with which it enters into Repurchase Agreements.

f) Banker's Acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the Commission's investment portfolio. No more than 10 percent of the Commission's investment portfolio may be invested in the Banker's Acceptances of any one commercial bank.

g) Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by an NRSRO. The entity that issues the commercial paper shall meet all the conditions in either paragraph (i) or paragraph (ii) below:

   i. The entity meets the following criteria:
      1. Is organized and operating in the United States as a general corporation.
      2. Has total assets in excess of five hundred million dollars ($500,000,000).
      3. Has debt other than commercial paper, if any, that is rated in a category of "A”, its equivalent or higher, by an NRSRO.

   ii. The entity meets the following criteria:
      1. Is organized within the United States as a special purpose corporation, trust, or limited liability company.
      2. Has program-wide credit enhancements including, but not limited to, over-collateralization, letters of credit, or surety bond.
      3. Has commercial paper that is rated “A-1” or higher, or the equivalent, by an NRSRO.

   Purchases of eligible commercial paper may not exceed 270 days maturity.

Purchases of commercial paper may not exceed 25 percent of the Commission's investment portfolio and the Commission may invest no more than 10 percent of its total investment assets in the commercial paper and the medium-term notes of any single issuer.

h) 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. Medium-term corporate notes shall be in a rating category of "A", or its equivalent, or better by an NRSRO.

Purchase of medium-term corporate notes may not exceed 30 percent of the Commission's investment portfolio and the Commission may invest no more than 10 percent of its total investment assets in the commercial paper and the medium-term notes of any single issuer.

i) Federal Deposit Insurance Corporation (FDIC) insured or fully collateralized time certificates of deposit in financial institutions located in California, including U.S. branches of foreign banks licensed to do business in California. All time deposits must be collateralized in accordance with California Government Code section 53630 et seq, either at 150% by promissory notes secured by first mortgages and first trust deeds upon improved residential property in California eligible under section (m) or at 110% by eligible marketable securities listed in subsections (a) through (l) and (n) and (o). The Commission, at its discretion and by majority vote of the Commissioners, on a quarterly basis, may waive the collateralization requirements for any portion of the deposit that is covered by federal insurance.

j) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated in a rating category of "A" or better, or the equivalent, by an NRSRO.

The Commissioners, Executive Director and/or designee, or other officials of the Commission having legal custody of the Commission's money are prohibited from investing the Commission's funds, or funds in the custody of the Commission, in negotiable certificates of deposit issued by a state or federal credit union if a member of the Commission or any person with investment decision making authority is a part of staff, serves on the board, or any committee appointed by the board, the credit committee, or the supervisory committee of the state or federal credit union issuing the negotiable certificates of deposit.

Purchase of negotiable certificates of deposit may not exceed 30 percent of the Commission's investment portfolio.

k) State of California's Local Agency Investment Fund (LAIF): Investment in LAIF may not exceed the maximum set by the Local Investment Advisory Board. LAIF shall be reviewed periodically.

l) The Fresno County Treasury Pool.

m) Insured savings account or bank money market account. In accordance with California Government Code Section 53635.2 to be eligible to receive local agency deposits a financial institution must have received a minimum overall satisfactory rating for meeting the credit needs of California Communities in its most recent evaluation.

n) 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) attain the highest-ranking letter or numerical rating provided by no less than two NRSROs or (2) have an investment advisor registered or exempt from registration with the Securities and Exchange Commission with no less than five years experience managing money market mutual funds and with assets under management in excess of five hundred million dollars ($500,000,000).

   The purchase price of shares shall not exceed 15 percent of the investment portfolio of the Commission.

o) 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. Securities eligible for investment under this subdivision shall be rated in a rating category of "AA" or its equivalent or better by an NRSRO and have a maximum remaining maturity of five years or less. Purchase of securities authorized by this subdivision shall not exceed 20 percent of the agency's surplus moneys that may be invested pursuant to this section.

p) Shares of beneficial interest issued by a joint powers authority organized pursuant to California Government Code Section 6509.7 that invests in the securities and obligations authorized in California Government Code 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 no less than five years of experience investing in the securities and obligations authorized in California Government Code 53601 subdivisions (a) to (q), inclusive; (3) The adviser has assets under management in excess of five hundred million dollars ($500,000,000). This investment must be rated AAA, or the equivalent as provided for by an NRSRO.

q) 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 better, or the equivalent, by an NRSRO and shall not exceed 30 percent of the Commission's moneys that may be invested pursuant to this section.

   Credit criteria and maximum percentages listed in this section refer to the credit of the issuing organization at the time the security is purchased. The Commission may from time to time be invested in a security whose rating is downgraded. In the event a rating drops below the minimum allowed rating category for that given investment type, the investment advisor shall notify the Executive Director and/or designee and recommend a plan of action. The Executive Director and/or designee shall immediately notify the Commission Chair or Treasurer of both the downgrade and the investment advisor's recommendation.

11. Ineligible Investments

The Commission shall not invest any funds in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity.

Notwithstanding the prohibition in the above paragraph, the Commission may invest in securities issued by, or backed by, the United States government that could 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. The Commission may hold these instruments until their maturity dates. This permission shall remain in effect only until January 1, 2026, and as of that date is repealed.

12. External Investment Managers

The Commission may contract with external investment managers to provide investment management services. These managers may be hired to actively invest funds not needed for liquidity. The Commission's benchmark is the Merrill Lynch 1-5-year U. S. Treasury Note Index.

External investment managers are required to provide timely reports to ensure that the manager's actions comply with the requirements of the law and this Investment Policy.

The manager's performance shall be reviewed against the agreed upon benchmarks.

13. Diversification

The investments of the Commission shall be diversified by security type and institution.

14. Maximum Maturity

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

The maximum maturity will be no more than five (5) years from purchase date to maturity date.

15. Safekeeping and Custody

The assets of the Commission shall be secured through the third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Collateralized securities such as repurchase agreements shall be purchased using the delivery vs. payment procedure.

16. Internal Control

The investments shall be subject to an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with the Commission's Investment Policy.

17. Performance Standards

Performance of the investments of the Commission will be reflected in financial reports from the investment manager's quarterly reports.

The investment portfolio shall be designed with the objective of obtaining a market rate of return throughout economic cycles, commensurate with investment risk constraints and cash flow needs.

18. Market Yield/ Benchmark

The Commission's investment strategy is active. Given this strategy, the benchmark used to compare returns will be the ICE Bank of America Merrill Lynch 1-5-year U. S. Treasury note index. The benchmark may change over time based on changes in market conditions or cash flow requirements.

19. Reporting

The Commission's contracted investment advisor is required to provide timely reports to the Commission that provide a clear picture of the status of the current investment portfolio. The investment report shall include comments on the fixed income and equity markets and economic conditions, discussions regarding restriction on percentage of investment by categories, possible changes in the portfolio structure going forward and thoughts on investment strategies.

The Executive Director and/or designee may provide an investment report to the Commission at minimum on an annual basis (CA law, Government Code Section 53646(a)(2)). The report shall include the following information for each individual investment:

- Description of investment instrument
- Issuer name
- Yield on cost
- Purchase date
- Maturity date
- Purchase price
- Par Value
- Current market value and the source of the valuation

The report also shall (i) state compliance of the portfolio to the Investment Policy Statement, or manner in which the portfolio is not in compliance, (ii) include a description of any of the Commission'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 the Commission to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

20. Investment Policy Adaptations

The Executive Director and/or designee may annually render or review the Investment Policy to/with the Commission. Any updates to the policy shall be considered by the Commission at a public meeting.

21. Trading and Sales of Investments

Permitted investments may be purchased with the intent of holding them until maturity. However, in an effort to increase the total return of the portfolio (and subject always to the investing objectives of this Policy), permitted investments may be sold prior to their maturities when economic circumstances warrant a sale of the securities to enhance the Commission's overall portfolio quality, duration, yield, and/or total return.

Glossary

AGENCIES: Federal agency securities and/or Government-sponsored enterprises.

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The official annual report of the *Commission.*

ASKED: The price at which securities are offered.

BANKERS' ACCEPTANCE (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $250,000 per entity.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages.

FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven-member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes. LOCAL GOVERNMENT

INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller borrower.

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

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

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): A reverse-repurchase agreement (reverse repo) involves an investor borrowing cash from a financial institution in exchange for securities. The investor agrees to repurchase the securities at a specified date for the same cash value plus an agreed upon interest rate. Although the transaction is similar to a repo, the purpose of entering into a reverse repo is quite different. While a repo is a straightforward investment of public funds, the reverse repo is a borrowing.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15(C)3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.