



**COUNTY OF TUOLUMNE
TREASURER'S INVESTMENT POLICY**

Effective date: May 1, 2024

I. AUTHORITY

In accordance with Tuolumne County Ordinance #2148, the Tuolumne County Treasurer's Office is responsible for investing and reinvesting all of the funds in the County Treasury.

II. POLICY STATEMENT

The purpose of this Investment Policy (Policy) is to establish cash management and investment guidelines for the County Treasurer, who is responsible for the stewardship of the Tuolumne County Pooled Investment Fund. Each transaction and the entire portfolio must comply with California Government Code Section 53601, et seq., Section 53635 et seq., and this Policy. All portfolio activities will be judged by the standards of the Policy and ranking of investment objectives. Those activities which violate its spirit and intent will be deemed to be contrary to the Policy.

III. STANDARD OF CARE

The County Treasurer is the Trustee of the Pooled Investment Fund and therefore, a fiduciary subject to the Prudent Investor Standard. The County Treasurer, employees involved in the investment process shall refrain from all personal business activity that could conflict with the management of the investment program. All individuals involved will be required to report all gifts and income in accordance with California State law. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the County Treasurer shall act with care, skill, prudence and diligence to meet the aims of the investment objectives listed in Section VIII, Investment Objectives.

IV. LIMITATIONS ON HONORARIA

In accordance with Government Code §27133 (d) et seq., this Policy hereby establishes limits for the County Treasurer, individuals responsible for management of the portfolio, any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of \$50 in a rolling twelve month time period from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the County Treasurer and complete the appropriate State forms.

No individual may receive aggregate gifts, honoraria, and gratuities in a rolling twelve month time period in excess of \$470. Any violation must be reported to the California Fair Political Practices Commission.

V. METHOD OF CALCULATING COSTS AND YIELD

Calculations for the treasurer's administrative fee for costs of managing the investment portfolio include, but are not limited to: investment management, accounting for the investment activity, custody of the assets, managing and accounting for the banking, receiving and remitting deposits, oversight controls and costs, and indirect and overhead expenses as authorized in Government Code § 27013. The fee is based upon actual costs and is subtracted from gross interest earnings on a quarterly basis prior to distribution of net interest earnings to all funds.

VI. EARNINGS DISTRIBUTION

Interest earnings shall be allocated quarterly according to each fund's average daily cash balance as a percentage of the total investment pool. Earnings shall be the net of accrued and received interest, amortized premiums, accreted discounts and profit or loss on the sale or trade of a security attributable to the quarter being apportioned, plus adjustments from prior quarters. The interest shall be apportioned as of the last day of the quarter and added to each participating fund's balance in the Pooled Investment Fund. The interest apportionment report shall show the gross interest, treasurer's administrative fee and net interest allocated to each fund which earns interest as a part of the investment pool.

VII. WITHDRAWAL REQUESTS

The County Treasurer will honor all requests to withdraw funds for normal cash flow that are approved by the County Auditor at a one dollar net asset value. Any requests to withdraw funds for purposes other than cash flow, such as for external investing, shall be subject to the consent of the County Treasurer. In accordance with Government Code § 27136 et seq., and § 27133 (h) et seq., such requests for withdrawals must first be made in writing to the County Treasurer. These requests are subject to the County Treasurer's consideration of the stability and predictability of the Pooled Investment Fund, or the adverse affect on the interests of the other depositors in the Fund. Any withdrawal for such purposes shall be at the lower of the market value or total adjusted cost of the Pooled Investment Fund as of the end of the month prior to the date of withdrawal.

For outside investors who utilize Government Code § 53684, where the County Treasurer does not serve as the agency's Treasurer, any withdrawal request must be made in writing 30 days in advance. These withdrawals will also be at the lower of market value or total adjusted cost of the Pooled Investment Fund as of the end of the month prior to the date of withdrawal.

VIII. INVESTMENT OBJECTIVES

The primary investment objective of the Tuolumne County Treasurer's Office (TCTO), in its investment of surplus funds, is to preserve capital by investing in securities in accordance with the Government Code while maintaining an appropriate level of risk. The second objective is to maintain liquidity to meet cash flow needs. The third objective shall be to achieve a reasonable rate of return (defined as income plus realized and unrealized capital gains and losses) on surplus funds.

Sections 53601, 53601.1 and 53630 of the Government Code provide legal authorization for investment of funds of local agencies. All investments of the TCTO shall conform to the restrictions of those laws. In addition, an appropriate risk level shall be maintained by primarily purchasing securities that are liquid, marketable, and of high quality.

Adequate diversification shall be applied to the individual issuers of debt, both within each class of investment and collectively. The intent is to prevent an undue amount of investments from being at risk with any one corporation.

The classes of investments that most adequately meet the above mentioned criteria shall be allowed for purchase. They are issues of the United States Government, agencies (the Government National Mortgage Associations, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Federal Farm Credit System, the Tennessee Valley Authority, and the Student Loan Marketing Association), negotiable certificates of deposit (including Yankees), bankers' acceptances (including foreign issues), commercial paper, medium-term notes and supranationals. While not as liquid or marketable as the prior mentioned securities, repurchase agreements and time certificates of deposit shall also be allowable investments. The TCTO will not buy stocks or deal in futures, options, security loan agreements, reverse repurchase agreements, or margin trading.

The TCTO shall also have the option of depositing funds with the Local Agency Investment Fund up to the maximum allowed.

The below guidelines have been developed for each type of security recommended above to allow investment policy to be properly implemented. Included in the guidelines are a brief description of each type of security, legal restrictions, quality standards, and diversification requirements (if issued by a corporation).

The yield on the investment portfolio can be optimized by using various accepted investment methods and techniques. Maturities of investments will be selected taking many variables into consideration. An important variable is the shape of the yield curve and the anticipated change in that curve. Proper use of the yield curve will involve not only purchasing securities with desirable maturities, but also swapping from existing

portfolio securities with less desirable maturities into those with maturities that are perceived as currently more advantageous. The average maturity of the portfolio will be shortened or lengthened primarily depending upon the expectations of future interest rates.

Additional income can be obtained through prudent use of swaps. Securities in different classes (sectors) trade at "average" yield differentials from each other. When those spreads are at extremes, an opportunity to increase returns exists by selling a security in the portfolio and purchasing (swapping into) a security in another sector that has a wider than "average" yield spread. This type of swap can be reversed when the yield differential becomes narrower than normal between the two issues, and the process repeated when conditions are appropriate.

IX. SUMMARY OF INVESTMENT LIMITATIONS

	*Limit Per <u>Institution</u>	*Limit Per Type of <u>Investment</u>
<u>Treasuries</u>		None
<u>Agencies</u>		
GNMA, FFCB, FHLB, FHLMC, FNMA, SLMA, TVA		None
<u>Supranationals</u>	10%	15%
World Bank (IBRD), International Finance Corp (IFC), International American Development Bank (IADB)		
BA's	15%	40%
TCD's	15%	50%
CP	10%	40%
CD's	10%	30%
MTN's	10%	30%
<u>Repos</u>		
Less than 30 days	20%	100%
Greater than 30 days	10%	100%

*Based on total of surplus funds at the time the investment decision is made.

The aggregate of all investments or deposits in any one corporation (including affiliated companies), shall be no more than 20 percent of surplus funds.

Deposits may only be placed with (Qualified Institutions) authorized to provide investment and/or depository services and products to the Treasurer.

Qualified institutions are an approved issuer, or regional broker/dealer qualifying under

SEC Rule 15c-3 (uniform net capital rule) or a “well capitalized” financial institution, as defined in Title 12 of the Code of Federal Regulations (CFR) Part 6.4. Qualified institutions must comply with the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board (Section 27133 (c). A detailed questionnaire is required to be completed by securities dealers and financial institutions wishing to be approved.

X. DEFINITIONS

U.S. Treasuries and Agencies

INVESTMENT: Issues of the U.S. Treasury (treasuries or governments) and agencies of the federal government shall be authorized as acceptable investments for the Tuolumne County Treasurer’s Office.

REASONS: U.S. Treasury issues are judged to be the safest of all investments. Agencies are typically considered the next safest class of securities available. (The Federal National Mortgage Association is now publicly owned but the investment world still generally groups it with the agencies. For purposes of these guidelines, it will be referred to as an agency.) These securities are very liquid, marketable and they offer a wide range of available maturities.

LEGAL AUTHORITY: Section 53601 of the Government Code authorizes local agencies to purchase all of these securities with no limitations as to the amount that can be owned of each.

CHARACTERISTICS: Agencies of the Federal government are the Federal Home Loan Bank System (FHLB), the Federal Farm Credit System (FFCS), the Federal Home Loan Mortgage Corporation (FHLMC), and the Government National Mortgage Association (GNMA), the Tennessee Valley Authority (TVA), and the Student Loan Marketing Association (SLMA). Securities issued by the GNMA are guaranteed by the Federal government and it is a general belief that the other agencies carry an “implied” guarantee (excluding FNMA).

Along with treasuries, agencies can be issued in discount form for securities with maturities of one year or less, or with coupons if the maturities are greater than one year.

With the exception of the FFCS, TVA and SLMA the agencies issue a variety of Securities backed by mortgages. Maturities on treasuries and agencies can be from just a few days to thirty years.

While all of these securities are classified as agencies, there are perceived differences in quality and consequently each will trade at a different yield from each other and treasuries. Issues of the GNMA, because of the government guarantee, are considered the safest of the agencies.

GUIDELINES: There shall be no restrictions on the amount of dollars to be placed in governments or agencies at any one time.

Time Certificates of Deposit

INVESTMENT: Time Certificated of Deposit (TCDs) shall be authorized as acceptable investments for the investment portfolio of the Tuolumne County Treasurer's Office.

REASONS: TCDs can be attractive investments because they offer competitive yields, a wide range of maturities, and a relatively high degree of safety if they are issued by a financial institution of high quality and collateralized.

DEFINITIONS: A TCD is a non-negotiable instrument evidencing a deposit with a financial institution for a fixed period of time and normally for a fixed rate of interest. TCDs can be collateralized with securities or mortgages or, if issued in denominations of \$250,000 or less, they can be insured by the Federal Deposit Insurance Corporation, or other corporations.

LEGAL AUTHORITY: Section 53630 of the Government Code allows public agencies to invest in the TCDs of depositories (banks, savings and loan associations, savings associations, savings banks or federally insured loan companies).

CHARACTERISTICS: TCDs purchased by public agencies pay interest at least quarterly. Maturities are typically one year or less. Because they are non-negotiable, they are non-liquid and cannot be sold or redeemed prior to maturity without suffering a loss of interest. TCDs can be written for any amount, but it has become common practice over the past few years to issue TCDs in \$250,000 denominations to take advantage of the insurance available on that amount.

TCDs covered by insurance typically yield slightly more than TCDs collateralized. Because of prior financial strains suffered by some depositories, yields on TCD issued by different institutions can vary a great deal depending upon the quality and size of the institution. Normally, yields on TCDs issued by larger, more stable (first tier) banks will be at a slight premium to treasury yields. TCDs of lower-rated depositories can yield up to 300-400 basis points over those of first-tier banks during periods of tight monetary policy.

GUIDELINES: Investments in TCDs eligible for purchase by the Tuolumne County Treasurer's Office shall:

- Have no more than 15 percent of surplus funds placed in TCDs of any one institution at any one time.

- Have deposits fully collateralized as provided for in the Government Code. Waivers for insurance will be allowed (only for those institutions meeting the minimum quality standard).
- Have interest collected monthly when possible. Up to 50 percent of funds being managed may be deposited in TCDs at any one time.
- Place deposits in any one financial institution, in combination with any other debt issued by that institution or its holding company should equal no more than 20 percent of surplus funds (excluding repos and commercial paper with maturities or seven days or less).

Negotiable Certificates of Deposit

INVESTMENT: Domestic and Yankee negotiable certificates of deposit (CDs) shall be authorized as acceptable investments for the investment portfolio of the Tuolumne County Treasurer's Office.

REASONS: NCDs have become a desirable investment because they offer a good combination of liquidity, marketability, yield, safety, and choice of maturities.

DEFINITIONS: A NCD is a negotiable instrument evidencing a time deposit with a bank at a fixed rate of interest for a fixed period of time. A variation is a variable rate CD that periodically changes the interest rate based upon a predetermined index, usually an average of shorter term CDs or treasury bills. These are guaranteed by the bank up to \$250,000. Yankee CDs are issued by foreign banks branches in the United States.

LEGAL AUTHORITY: Section 53601 of the Government Code allows public agencies to invest in a maximum of 30 percent of surplus funds in CDs.

CHARACTERISTICS: CDs are coupon bearing. Interest on CDs with maturities of one year or less is usually paid at maturity. CDs with maturities greater than one year will normally pay interest on a monthly or semiannual basis. CDs are often used as a way to invest in a low-risk, low-interest security. Yankee CDs usually trade at a slight yield premium to domestic CDs and domestics at a premium to treasuries.

GUIDELINES: Investments in NCDs eligible for purchase by the Tuolumne County Treasurer's Office shall:

- Be limited to Certificates of Deposits issued by nationally or state-chartered banks or a state or federal association federally or state-licensed branch of a foreign bank
- Shall not exceed the FDIC insured limit. The current FDIC Negotiable CD insured limit is \$250,000 (principal and interest)
- Up to 30 percent of funds and no more than 10 percent of those funds shall at any one time be in the CDs issued by a single bank.

- In combination with any other debt issued by any one bank, (excluding repurchase agreements and commercial paper with maturities of seven days or less), no more than 30 percent of managed funds should be placed in that bank at any one time.

Medium-Term Corporate Notes

INVESTMENT: Medium-term notes (MTNs) shall be authorized as acceptable investments for the Tuolumne County Treasurer's Office.

REASONS: Medium-term notes are a suitable investment for maturity requirements of one to five years. High-quality corporate notes are relatively safe as to principal; reasonably liquid and they can offer attractive yields and a wide range of maturities.

DEFINITION: MTNs are negotiable instruments issued by corporations with maturities of nine months to fifteen years. Most are unsecured, although some are collateralized or carry other credit enhancements such as a letter of credit.

LEGAL AUTHORITY: Section 53601 of the Government Code allows public agencies to invest a maximum of 30 percent of surplus funds in MTNs with maturities up to five years. Issuers must be operating within the United States and possess ratings in the top three categories (A or better) by two of the three largest nationally recognized rating services (currently Moody's, Standard and Poor's, and Fitch's Rating Services).

CHARACTERISTICS: MTNs are generally issued in minimum amounts of \$25,000 or \$100,000 and integral amounts of \$1,000. Interest is calculated on a 30-day month, 360-day year basis and paid semi-annually on two pre-established dates. Floating rate MTNs can pay interest monthly, quarterly, or semi-annually.

Yields on MTNs will normally exceed those on treasuries with comparable maturities by about 10 to 75 basis points. Levels of interest rates, maturities, the quality of each issue, and supply and demand factors will affect available yields.

GUIDELINES: Investments in MTNs eligible for purchase by the Tuolumne County Treasurer's Office shall:

- Be issued by the most stable corporations
- Only have up to 30 percent of surplus funds placed in MTNs at any one time
- Have no more than ten percent of surplus funds placed in the notes of any one issuer at any one time.
- In combination with any other debt issued by any one corporation or its holding company, no more than 20 percent of surplus funds should be placed in that corporation at any one time.

Repurchase Agreements

INVESTMENT: Repurchase Agreements (Repos) shall be authorized as acceptable investment instruments for the Tuolumne County Treasurer's Office.

REASONS: Repo's are one of the most flexible investments available to invest short-term funds, and when proper guidelines are followed, are relatively safe.

DEFINITION: A Repo involves two simultaneous transactions. One transaction involves the sale of securities (collateral) by a borrower of funds, typically a bank or broker/dealer in governments or agencies, to a lender of funds. The lender can be any investor with cash to invest. The second transaction is the commitment by the borrower to repurchase the securities at the same price plus a predetermined amount of interest on an agreed future date.

LEGAL AUTHORITY: Section 53601 of the Government Code permits Repos in any security that is allowed for purchase as defined in that same section of the Code. Collateral must be delivered to the local agency by book entry, physical delivery or third-party custodial agreement. Market value of collateral must be equal to at least 102 percent of the repo.

CHARACTERISTICS: Repos can be entered into with any amount of dollars, including odd amounts. They are typically for very short periods, often one day; but it is not unusual for Repos to be for periods of up to 180 days and occasionally longer.

Any type of security can be used as collateral, but most often government, agencies, or money market securities are utilized.

The interest rate earned on a Repo is a function of short-term borrowing rates, the term of the Repo, the size of the transaction, and the quality and supply of the securities used as collateral.

GUIDELINES: Collateral used for Repos shall be any security approved for purchase.

- For Repos of 30 days or less, no more than 20 percent of the funds managed by the Tuolumne County Treasurer's office shall be invested with any one institution.
- For Repos of over 30 days, no more than 10 percent of the funds managed shall be placed with any one institution.
- Securities purchased through Repurchase Agreements shall be considered "owned" and added to the total of those securities (excluding Repos of seven days or less). This will prevent percentage limitations on any type of security from being exceeded.

Bankers' Acceptances

INVESTMENT: Domestic Bankers' Acceptances only shall be authorized as acceptable investments for the Tuolumne County Treasurer's Office.

REASONS: Bankers Acceptances (BAs) are a suitable alternative to Fed Funds as a short-term investment. In addition to providing additional yield, they are considered a safe and liquid investment.

DEFINITION: A BA is a time draft on and accepted by a bank for payment of the shipment or storage of merchandise. The initial obligation of payment rests with the drawer, but the bank substitutes its credit standing for that of the borrower and assumes the obligation to pay face value at maturity.

LEGAL AUTHORITY: Section 53601 of the Government Code allows local agencies to place up to 40 percent of surplus funds in banker's acceptances.

CHARACTERISTICS: BAs are issued in bearer form and are a discount instrument. Normal trading blocks are \$5 million, but the odd-lot market is active. The majorities of BAs are created with a 90-day maturity and rarely extend over 180 days.

Due to the high volume being traded, they are relatively liquid instruments with spreads between the quoted bid and offer typically being between five and ten basis points, but are often brokered for as little as two basis points.

The spread between treasuries and BAs will vary, depending upon a variety of circumstances. During periods of tight money, the spreads can be substantial. Likewise, easy money can produce narrower yield differentials.

Since BAs are a "two-name paper" they are perceived to be the safest of bank obligations. During the more than 70 years that BAs have been actively traded in the U.S., no loss of principal has been documented.

GUIDELINES: Banker's Acceptances eligible for purchase by the Tuolumne County Treasurer's Office shall:

- Be only the most financially sound banks
- Purchased from banks that are approved by the Tuolumne County Treasurer
- Have up to 40 percent maximum invested in BAs, but no more than 15 percent of funds in the Tuolumne County treasury placed in the BAs of any one bank at any one time
- Have in combination with all other investments from the same bank (excluding repurchase agreements and commercial paper with maturities of seven days or less), BAs of any one bank should not exceed 20 percent of surplus funds.

Commercial Paper

INVESTMENT: Commercial Paper (CP) shall be authorized as an acceptable investment of the Tuolumne County Treasurer's Office.

REASONS: Commercial paper can be an appropriate short-term investment because of its yield, liquidity and choice of maturities.

DEFINITION: Commercial paper is unsecured negotiable instruments normally issued by financially sound corporations.

LEGAL AUTHORITY: Section 53601 of the Government Code allows local agencies to invest up to 30 percent of surplus funds in commercial paper if certain conditions are met.

CHARACTERISTICS: Commercial paper can be issued bearing a coupon or it can be discounted. Maturities never exceed 270 days and the majority of commercial paper is issued for 30 days or less. It can be issued by an “industrial” company of a bank holding company, but not directly by a bank.

Commercial paper can be written for any amount, but normally is issued in increments of \$1 million. There is a secondary market for commercial paper, but it has very limited liquidity compared to the CD or BA markets.

Commercial paper issuers can obtain a letter of credit from a bank to guarantee payment of principal and interest at maturity or a bank line of credit that can be drawn on for such payments. Top grade commercial paper will typically yield slightly less than top grade CDs.

GUIDELINES: Commercial paper eligible for purchase by the Tuolumne County Treasurer’s Office shall:

- Have the highest rating offered by Moody’s Investors Service, Inc. (A-1), or Standard and Poor’s Corporation (P-1). (Current Law)
- Have a Moody’s or Standard and Poor’s rating of “A” or better on its debentures other than commercial paper. (Current Law)
- Be approved by the Tuolumne County Treasurer. This is the same restriction placed on banks that issue BAs and CDs.
- Be organized and operating within the United States. (Current Law)
- Have assets in excess of \$500,000,000.00. (Current Law)
- No more than 10 percent of surplus funds shall be placed in the commercial paper of any one institution at any one time. (Law as of 01/01/00)
- Up to 40% of surplus funds placed in commercial paper. (Law as of 1/01/00)
- In combination with all other investments from the same bank (excluding repurchase agreements of seven days or less) the commercial paper of any one institution shall not exceed 20 percent of surplus funds.

Supranationals

INVESTMENT: Supranationals shall be authorized as acceptable investment instruments

for the Tuolumne County Treasurer's Office.

REASONS: Supranationals are a suitable alternative to Agencies. In addition to providing additional yield, they are considered a safe investment.

DEFINITION: International institutions formed by two or more governments that transcend boundaries to pursue mutually beneficial economic or social goals. Supranational organizations also issue debt in the United States.

LEGAL AUTHORITY: Section 53601(q) of the Government Code allows local agencies to invest in bonds issued by one of three supranational institutions: The International Bank for Reconstruction and Development (IBRD or World Bank), International Finance Corporation (IFC), and Inter-American Development Bank (IADB).

CHARACTERISTICS: These three supranational entities were established by international treaties, incorporated into U.S. Federal law by Congressional Acts and headquartered in Washington D.C. Currently these entities carry the highest credit ratings (AAA) based on their financial structure, policies, performance and capital support from shareholders. Securities issued by approved supranationals include benchmark bonds, global bonds, structured notes, plain fixed and floating rate notes, discount notes as well as green bonds.

GUIDELINES: Supranationals eligible for purchase by the Tuolumne County Treasurer's Office shall:

- Have a maturity of five years or less
- Be eligible for purchase and sale within the US
- Be in a rating category of "AA" or its equivalent or better by a nationally recognized statistical rating organization (NRSRO)
- Cannot exceed 15 percent of the agency's investment portfolio