



## **Investment Policy**

### **POLICY STATEMENT**

It is the policy of First 5 Ventura County to provide for the prudent investment of funds and the effective management of investment activities, including short-term investments to meet daily cash flow requirements and long-term investments to meet future goals.

### **GUIDING PRINCIPLES**

1. To safeguard the principle while seeking a competitive rate of return on investments.
2. To pursue longer-term investments for a portion of the Commission's investment pool using a laddered investment philosophy.
3. To select an Investment Advisor for day-to-day investment management of the Commission's long term investments.

### **GOVERNING AUTHORITY**

The Commission, as the governing body, is the fiduciary authorized to make investment decisions on behalf of First 5 Ventura County (F5VC). The investment program shall be operated in conformance with federal, state, and other legal requirements, including Government code 53600-53609.

### **SCOPE**

F5VC maintains an Operating Fund, a Community Investment Fund, and an Endowment Fund. This policy applies to the investment of all funds.

### **INVESTMENT PARAMETERS**

F5VC maintains an Operating Fund, a Community Investment Fund, and an Endowment Fund. A minimum of one (1) year of operating funds will be maintained in the Ventura County Treasury Investment Pool or the Local Agency Investment Fund (LAIF). Remaining funds beyond the minimum of 1 year operating funds may be invested in either the Ventura County Treasury Investment Pool or elsewhere as outlined in the Eligible, Authorized, and Suitable Investments section of this Policy.

For those investments made outside of the County Treasury Investment Pool and/or the LAIF, a detailed investment plan shall be developed and approved annually by the Commission. The plan shall specify how funds will be invested.

### **INVESTMENT OBJECTIVES**

When investing, reinvesting, purchasing, acquiring, reacquiring, exchanging, selling, or managing public funds, the primary objective shall be to safeguard the principal. The secondary

objective shall be to meet the liquidity needs of the Commission. The third objective shall be to achieve a competitive return on the investment of the funds.

- **Safety:** Safety of principal is the foremost objective of F5VC's investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
  - **Credit Risk:** Credit risk is the risk of loss due to the failure of the security issuer. Credit risk maybe mitigated by:
    - Determining on-going credit worthiness of the financial institutions, broker/dealers, intermediaries and advisors with which F5VC does business; and,
    - Diversifying the investment portfolio so that potential losses on individual securities will be minimized.
  - **Interest Rate Risk:** Interest rate risk is the risk that the market value of securities in the portfolio will decrease due to changes in general interest rates. Interest rate risk maybe mitigated by:
    - Structuring the portfolio so that securities mature to meet cash requirements, thereby avoiding the need to sell securities prior to maturity.
- **Liquidity:** No investment shall be made that could not appropriately be held to maturity without compromising liquidity requirements. The investment portfolio shall remain sufficiently liquid to meet future requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity).
- **Yield:** The investment portfolio shall be designed with the objective of attaining a maximum rate of return throughout budgetary and economic cycles, taking into account F5VC's investment risk constraints and cash flow characteristics.
- **Maturity:** To the extent possible, investment shall be matched with anticipated cash flow requirements. Additionally, F5VC will not invest in securities maturing more than five years from the date of purchase, unless otherwise authorized by the Commission.

## **STANDARDS OF CARE**

F5VC and/or all persons authorized to make investment decisions on behalf of F5VC, are trustees and therefore fiduciaries subject to the prudent investment standard in accordance with Government Code section 53600.3. All investments must be made in accordance with the prudent investment standard which requires care, skill, prudence, and diligence under the prevailing circumstances, including but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard principal and maintain the liquidity needs of the agency. Individual investments must be considered as part of the overall investment strategy.

**Ethics and Conflicts of Interest:** Each member of the Commission, including the Investment Advisor, and all other persons authorized to make investment decisions on behalf of F5VC, shall refrain from any personal business activity that could compromise the security and integrity of F5VC's investment program, or that could impair their ability to make impartial and prudent decisions. In addition, all Commissioners involved in the investment process shall refrain from

accepting gifts that would be reportable under the Fair Political Practices Commission (FPPC) regulations.

**ELIGIBLE, AUTHORIZED AND SUITABLE INVESTMENT**

All investments made on behalf of F5VC must be in accordance with federal and state law unless additional restrictions are required by this investment policy.

The chart below and footnotes that follow outline the permissible investment and the requirements associated with each type of investment. In addition to the investments listed, funds may also be invested in accordance with Government Code section 53635.2 in the following:

- State or national banks,
- Savings associations,
- Federal associations,
- Credit unions, or
- Federally insured industrial loan companies in California

**Allowable Investment Instruments  
Per State Government Code (as of January 1, 2005)<sup>a</sup>  
Applicable to all local agencies<sup>b</sup>**

<b>Investment Type</b>	<b>Maximum Maturity<sup>c</sup></b>	<b>Maximum Specified Percentage of Portfolio</b>	<b>Minimum Quality Requirements</b>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State of California Obligations	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agencies	5 years	None	None
Bankers' Acceptances	180 days	40 percent <sup>d</sup>	None
Commercial Paper—Select Agencies <sup>e</sup>	270 days	25 percent of the agency's money <sup>f</sup>	"A-1/P-1/F-1"; if the issuer has issued long-term debt it must be rated "A" without regard to modifiers <sup>g</sup>
Commercial Paper—Others Agencies <sup>h</sup>	270 days	40 percent of the agency's money <sup>i</sup>	"A-1/P-1/F-1"; if the issuer has issued long-term debt it must be rated "A" without regard to modifiers <sup>g</sup>
Negotiable Certificates of Deposit	5 years	30 percent	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements & Securities Lending Agreements	92 days <sup>j</sup>	20 percent of the base value of the portfolio	None <sup>k</sup>
Medium-Term Notes <sup>l</sup>	5 years	30 percent	"A" rating
Mutual Funds and Money Market Mutual Funds	N/A	20 percent <sup>m</sup>	Multiple <sup>n,o</sup>
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20 percent	"AA" Rating <sup>p</sup>
Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple <sup>q</sup>
Local Agency Investment Fund (LAIF)	N/A	None	None

\*See "Table of Notes for Figure 1a" for footnotes related to this figure.

## TABLE OF NOTES

- a. Sources: Government Code Sections 16429.1, 53601, 53635, and 53638.
- b. Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.
- c. Government Code Section 53601 provides that the maximum term of any investment authorized under this section, unless otherwise stated, is five years. However, the legislative body may grant express authority to make investments either specifically or as a part of an investment program approved by the legislative body that exceed this five year maturity limit. Such approval must be issued no less than three months prior to the purchase of any security exceeding the five-year maturity limit.
- d. No more than 30 percent of the agency's money may be in Bankers' Acceptances of any one commercial bank.
- e. "Select Agencies" are defined as a "city, a district, or other local agency that do[es] not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body."
- f. 10 percent of the outstanding commercial paper of any single corporate issuer.
- g. Issuing corporation must be organized and operating with the U.S. and have assets in excess of \$500,000,000.
- h. "Other Agencies" are counties, a city and county, or other local agency "that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body." Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set for "Select Agencies," above.
- i. No more than 10 percent of the agency's money may be invested in the Commercial Paper of any one corporate issuer; no more than 10 percent of the outstanding Commercial Paper of any one corporate issuer may be purchased by the local agency.
- j. Reverse repurchase agreements or securities lending agreements may exceed the 92-day term if the agreement includes a written codicil guaranteeing a minimum earning or spread for the entire period between the sale of a security using a reverse repurchase agreement or securities lending agreement and the final maturity dates of the same security.
- k. Reverse repurchase agreements must be made with primary dealers of the Federal Reserve Bank of New York or with a nationally or state chartered bank that has a significant relationship with the local agency. The issuer must have held the securities used for the agreements for at least 30 days.
- l. "Medium-term notes" are defined in Government Code Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating with the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."
- m. No more than 10 percent invested in any one mutual fund.
- n. A mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies or the fund must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least 5 years experience investing in instruments authorized by Government Code Sections 53601 and 53635.
- o. A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than 5 years experience investing in money market instruments with assets under management in excess of \$500 million.
- p. Issuer must have an "A" rating or better for the issuer's debt as provided by a nationally recognized rating agency.

q. A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least 5 years experience investing in instruments authorized by Government Code Section 53601, subdivisions (a) to (n).

### **PROHIBITED INVESTMENTS**

No investments are allowed in securities of companies in the tobacco business, including parent companies and their controlled subsidiaries. No foreign currencies denominated securities are allowed.

### **SAFEKEEPING AND CUSTODY**

All security transactions, including collateral from repurchase agreements, shall be conducted by book entry, physical delivery or by third party custodial agreement basis. Securities must be held in the name of F5VC in the trust department or a separate safekeeping department of the investment entity. All securities purchased by F5VC under this section shall be properly designated as an asset of F5VC's and held in safekeeping. If these conditions cannot be satisfied, securities must be held in the name of F5VC by a third party custodian.

### **INTERNAL CONTROLS**

The Investment Advisor shall establish a system of internal controls to provide reasonable assurance that funds are physically protected from loss, theft, or misuse. The Investment Advisor shall submit a copy of those internal control procedures, including any modifications, to the Administration/Finance Committee and the Commission for its review and approval.

1. **Control and Authority:** The Commission shall, at all times, exercise control and authority over F5VC's investments unless delegated to an Investment Advisor. Investment and management tasks and duties may be delegated to an Investment Advisor on the following conditions:
  - The Commission, upon recommendation of the Administration/Finance Committee, evaluates and hires the Investment Advisor under a written contract with F5VC. The contract imposes safeguards on the Investment Advisor to prevent abuse in the exercise of discretion by the investment advisor, including but not limited to the following: a) the contract shall be subject to and incorporate the terms and conditions of this policy, b) if the investment advisor has any discretion in making any investment decisions with F5VC funds, the investment advisor agrees to be a fiduciary of F5VC in the provision of its services under the contract, and c) the investment advisor shall at least quarterly provide written reports to the Administration/Finance Committee and the Commission.
  - The Commission shall continually monitor the Investment Advisor's performance to keep informed of the status of the investments. Any significant adverse credit changes or market changes to F5VC securities must be reported to the Administration/Finance Committee and the Commission in a timely fashion.
  - The Investment Advisor will be selected by the Administration/Finance Committee and approved by the Commission through a Request for Qualification (RfQ) process. Among the criteria for selection will be the stability of the financial institution, track record, customer service, ability to comply with these investment policies and typical return on investment.
2. **Annual Review and Approval:** The Administration/Finance Committee shall annually evaluate the performance of the Investment Advisor. Subject to this review, F5VC may

renew its contract with the Investment Advisor for another year, or may determine to conduct a competitive process to identify another financial institution to provide investment management services for F5VC.

## **REPORTING REQUIREMENTS**

Any Investment Advisor providing services to F5VC must meet with the Administration/ Finance Committee and the Commission at least annually. The Investment Advisor must also provide the Commission with written reports at least quarterly, within 30 days after the end of each quarter to include a detailed account of F5VC's current investment portfolio invested by the Investment Advisor, and to ensure that the services provided comply with the requirements of the law and this policy. The report must include the following:

- A listing of individual securities by type of investment and maturity held at the end of the reporting period.
- A composite of transactions purchased during the reporting period by type of security.
- Unrealized gains or losses resulting from appreciation or depreciation of securities held in the portfolio, by listing the cost of market value of securities.
- Average weighted yield to maturity of the portfolio and benchmark comparisons.
- Weighted average maturity of the portfolio.
- The percentage that each permitted investment category represented in the portfolio.
- A summary of purchases during the reporting period showing the purchase date, issuing agency, amount purchased and cost. A summary of sales during the reporting period showing the date of sale and gain or loss resulting from the sale.
- An appropriate benchmark to compare return on investments.
- Income and Expense and changes to the value of the portfolio.
- Recommendations, if any, on changing the fund or portfolio structure and investment strategy, subject to this policy.
- A statement of compliance with the Commission's investment policy. An investment summary presented by the Investment Advisor to the Administrative/Finance Committee and the Commission at least on an annual basis.

## **CONTROLLING DOCUMENT**

This investment policy must be incorporated and attached to any contract entered into between F5VC and an Investment Advisor. In the event of any conflict or ambiguity between the investment policy and any other document, including the contract with the Investment Advisor, the provisions of the investment policy shall control.