



COUNTY OF MONTEREY TREASURER'S INVESTMENT POLICY

FISCAL YEAR 2024-2025

APPROVED BY THE BOARD OF SUPERVISORS AUGUST 13, 2024

COUNTY OF MONTEREY INVESTMENT POLICY
TABLE OF CONTENTS
2024-2025

| | | |
|------|--|---|
| 1.0 | Policy..... | 1 |
| 2.0 | Scope..... | 1 |
| 3.0 | Prudence..... | 1 |
| 4.0 | Objectives..... | 2 |
| 5.0 | Socially Responsible Investment Consideration..... | 2 |
| 6.0 | Delegation of Authority | 2 |
| 7.0 | Conflict of Interest..... | 3 |
| 8.0 | Authorized Dealers and Institutions..... | 3 |
| 9.0 | Authorized and Suitable Investments | 4 |
| 10.0 | Safekeeping and Custody | 5 |
| 11.0 | Investments Outside Treasury Pool..... | 5 |
| 12.0 | Criteria for Withdrawal of Funds from the Treasury Investment Pool | 5 |
| 13.0 | Maximum Maturities..... | 6 |
| 14.0 | Audits..... | 6 |
| 15.0 | Performance Standards | 6 |
| 16.0 | Investment Policy Review and Approval..... | 7 |
| 17.0 | Reporting | 7 |
| 18.0 | Allocation of Investment Costs..... | 7 |
| 19.0 | Disaster Recovery..... | 7 |
| | APPENDIX A | 8 |

INVESTMENT POLICY

Treasurer-Tax Collector County of Monterey

1.0 Policy

It is the policy of the Treasurer-Tax Collector of the County of Monterey (“Treasurer”) to invest public funds in a manner which provides for the safety of the funds on deposit, the cash flow demands or liquidity needs of the Treasury Pool participants, and the highest possible yield after first considering the first two objectives of safety and liquidity. In addition, it is the Treasurer’s Policy to invest all funds in strict conformance with all state statutes governing the investment of public monies.

2.0 Scope

This Investment Policy applies to all financial assets in the Treasury Pool. The Policy does not apply to bond proceeds, which are governed by their respective bond documents. Also excluded from this Policy is the County’s 115 Pension Trust, which is governed by a separate policy. These funds are accounted for in the Annual Comprehensive Financial Reports of the County and each of the Treasury Pool's participating agencies.

2.1 Participating Agencies

Participants in the Treasurer's Investment Pool shall be limited to the County of Monterey, school districts within Monterey County and those special districts, which, by statute, maintain depository authority with the Treasurer.

2.2 Outside Agency Participation

It is the Treasurer's policy to prohibit any voluntary agency participation in the Treasury Pool.

3.0 Prudence

The Treasurer is a trustee and therefore a fiduciary subject to the prudent investor standard¹. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the Treasurer shall act with care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the county and the other depositors. Within the limitations of this section and considering individual investments as part of an overall investment strategy, a trustee is authorized to acquire investments as authorized by law.

Nothing in this Policy is intended to grant investment authority to any person or governing body except as provided in Sections 53601 and 53607 of the California

¹ California Government Code §53600.3

Government Code.

4.0 Objectives

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

4.1 Safety of Principal

Investments of the County shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. To attain this objective, diversification is required in order that potential losses do not exceed the income generated from the remainder of the portfolio.

4.2 Liquidity

The investment portfolio shall remain sufficiently liquid to enable all depositors to meet all expenditure requirements that might be reasonably anticipated. A minimum of 30% of the invested assets, including cash held in commercial bank accounts, shall be kept in assets having a maturity of one (1) year or less. In the event that unforeseen cash-flow fluctuations temporarily cause the ratio of liquid assets to decline below 30% of the portfolio balance, no new investments with maturities beyond one year will be made until the minimum percentage is restored. (Custom portfolios are not required to maintain a 30% liquidity rate)

4.3 Return on Investment

The County's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the County's investment risk constraints and the cash flow characteristics of the portfolio.

5.0 Socially Responsible Investment Consideration

In addition to and subordinate to the objectives set forth in Section 4.0 herein, the Treasurer will be mindful of environmental, social and governance (ESG) principles including, but not limited to, environmental sustainability, social and economic justice, and good corporate governance.

6.0 Delegation of Authority

Subject to amended delegation by the Board of Supervisors pursuant to Government Code Section 53607, the Treasurer is authorized to manage the County of Monterey investment program. The Treasurer shall establish written procedures for the operation of the investment program consistent with this Investment Policy. Procedures should include reference to safekeeping, master repurchase agreements, funds transfer agreements, collateral/depository agreements and banking service contracts. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions, including a third-party Investment Advisor, if so engaged. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

7.0 Conflict of Interest

Pursuant to Article 2 (commencing with Section 87200) of Chapter 7 of Title 9 of the Government Code and the regulations of the Fair Political Practices Commission enacted pursuant thereto, the Treasurer shall disclose investments, interests in real properties, and any income received during the period since the previous statement was filed. Such disclosure shall be in writing and shall be filed with the officer designated by law within the time periods specified by law.

7.1 Limits on Honoraria, Gifts and Gratuities

The Treasurer and all designated departmental staff shall be governed by the provisions of the State Political Reform Act and the Treasurer's Conflict of Interest Code, which provide annual limits on the acceptance of monetary or in-kind gifts from any individual, broker, dealer, or firm doing business or seeking to do business with the Treasurer. Those individuals shall be required to file an annual statement of economic interest.

8.0 Authorized Dealers and Institutions

The Treasurer will maintain a list of broker/dealers and institutions authorized to provide investment services. Repurchase agreements and reverse repurchase agreements shall only be made with primary dealers designated by the Federal Reserve Bank of New York. The Treasurer may impose additional qualifications of brokers and their firms in order to ensure professionalism and suitability. At a minimum, all broker/dealers and/or financial institutions authorized to provide investment services to Monterey County shall meet the following criteria:

- a. Commercial banks and savings institutions must be authorized as insured with the FDIC, SIPC, or NCUA (credit unions), as applicable.
- b. Must hold an active corporate registered status with the Secretary of State (California), or an out-of-state counterpart agency.
- c. Commercial banks and savings institutions used for deposits, must be a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, in this state.
- d. Must be an active member of the Financial Industry Regulatory Authority (FINRA). Both the firm and any individuals serving the County must be registered to do business in California.

If a third-party Investment Advisor is authorized to conduct investment transactions on the County's behalf, the Investment Advisor may use its own list of approved broker/dealers and financial institutions for investment purposes. The Investment Advisor's approved list must be made available to the County upon request.

8.1 Limitations on Political Contributions

Pursuant to Government Code Section 27133 (c), the Treasurer shall not select for business any broker, brokerage, dealer, or securities firm that has made a political contribution within the last four years in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the County

Treasurer, any member of the County of Monterey Board of Supervisors, or any candidate for those offices.

9.0 Authorized and Suitable Investments.

The authorized investments of the Treasurer are governed by Section 53601 and 53635 of the Government Code of the State of California, and within the limits of any other Government Code Statute that permits public agency investment in various securities or participation in investment trading techniques or strategies. The Treasurer seeks to restrict investments authorized by Code, as defined in Appendix A. Investments excluded from Appendix A are not permitted. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameters shall take precedence. A security purchased in accordance with this Policy shall not have a forward settlement date exceeding 45 days from the time of investment.

Rating requirements and percentage limitations, where indicated, apply at the time of purchase.

9.1 Limitations

The Treasurer shall not invest in any security, which, by its structure, term or other characteristics, has the possibility of returning a zero or negative yield or could be subject to a loss of principal at the time such security has attained its maturity date. Investments shall not be made in inverse floaters, range notes, and mortgage-derived interest-only strips.

Notwithstanding the prohibition in the above paragraph, the Treasurer 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 County may hold these instruments until their maturity dates. This section shall remain in effect only until January 1, 2026, and as of that date is repealed. (Note: this section was added to California Government Code Section 53601.6 from the passage of Senate Bill 998, effective January 1, 2021, in response to the latest round of near-zero interest rates in the U.S. It would provide the County with an alternative should interest rates go negative in the U.S. like they have been in parts of Europe for some time.)

9.2 Reverse Repurchase Agreements

Any reverse repurchase agreement shall have a maximum maturity of 92 days, and the proceeds shall not be invested beyond the expiration of the reverse repurchase agreement. The maximum amount of Reverse Repurchase Agreements shall be limited to 20% of the portfolio's book value on the date of the transaction.

9.3 Maximum Credit Exposure

The Treasurer shall limit the investments in any single issuer, regardless of the combination of asset class, to no more than 5% of the portfolio's book value on the date of the transaction, unless otherwise noted in Appendix A. Obligations of the U.S. Treasury, federal agencies, supranational, and pooled investments such as LAIF, CAMP, CalTrust, and money market funds are exempted from this restriction.

9.4 Credit Downgrade

In the event a security held by the County is downgraded below the minimum ratings required by the Policy, the security will be reviewed. The course of action will be determined on a case-by-case basis, considering such factors as the reason for the ratings change, remaining maturity, prognosis for recovery or further ratings changes, and the market price of the security.

10.0 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, shall be conducted on a delivery-versus-payment basis. Securities shall be held by a third-party custodian designated by the Treasurer and evidenced by safekeeping receipts and tri-party master repurchase agreements.

11.0 Investments Outside Treasury Pool

The Treasurer will accept funds for investment outside of the core pooled portfolio (custom invested funds) from depository agencies who also deposit their operating fund in the core portfolio under the following criteria:

- a. All such investments are subject to prior approval by the Treasurer.
- b. The funds represent proceeds of bonds, other forms of indebtedness, or special purpose funds not required for normal operating expenses, and
- c. The funds represent new or additional assets of the agency that were not previously invested in the County of Monterey Investment Pool and, are of a value that, in the Treasurers' opinion, will benefit from a "custom investment(s)" or under other conditions approved by the Treasurer, and
- d. The funds may be transferred to the core portfolio upon mutual agreement between the depository agency and the Treasurer. Any such transfer will reflect the market value of any securities sold prior to their maturity, where the underlying funds cannot be transferred back to a custom investment outside the core portfolio unless approved by the Treasurer, and
- e. Funds may be transferred to the Treasurer's operating (checking) account for further disbursement provided the funds originate from: maturing securities; overnight funds; sold securities subject to subsection 10 (c.) above, and associated earned income on those funds, and
- f. Within 7 business days prior to the maturity of any security the depository agency shall inform the Treasurer of the desired disposition of such maturing assets to include, rollover to a new asset, transfer to the core portfolio, or transfer to the Treasurer's operating account subject to the conditions in 10 (a.) through (g.) inclusive, and
- g. Any earned income on "custom invested funds" will be segregated from the core portfolio and deposited to an overnight fund designated specifically for such income. Any liquidation or transfer of the underlying asset will invoke a corresponding transfer of the associated earned income.
- h. Any costs incurred specific to "custom invested funds" will be charged to that fund

separate and apart from any other costs.

12.0 Criteria for Withdrawal of Funds from the Treasury Investment Pool Section 27133 (h) and Section 27136 - Government Code

An agency with funds on deposit in the County Treasury where such funds may statutorily be invested outside of the County Treasury may apply for a withdrawal of those funds. Pursuant to Government Code Sections 27133 (h) and 27136, the County Treasurer shall evaluate each proposal for withdrawal of funds. The Treasurer's evaluation shall assess the effect of a proposed withdrawal on the stability and predictability of the investments in the County Treasury Pool. In addition and prior to any withdrawal, the Treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the Treasury Pool.

All applications for withdrawal must be submitted by a Resolution of the depository agency at least 30 days in advance of the anticipated date of withdrawal. Resolutions for withdrawal shall include:

- a. A statement of the purpose for withdrawal.
- b. The date(s) and amount(s) of funds to be withdrawn.
- c. A certification that funds withdrawn from the county pool shall be managed by a qualified fiduciary of the applicant agency and that withdrawn funds shall not be returned for future investment by the County Treasurer for a term of two year(s), and
- d. An acknowledgement that the value of any funds withdrawn from the County Treasury shall reflect their most recent quarterly asset valuation as reported by the Treasurer.

The Treasurer shall provide an applicant agency a written response within 15 days from receipt of the application. The Treasurer's determination shall be final.

13.0 Maximum Maturities

Any non-marketable investments, such as time deposits, should not exceed a two-year maturity. In addition, no specific investment shall have a term remaining to maturity in excess of five years, unless the Board of Supervisors has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment. For purposes of compliance with this section, an investment's term or remaining maturity shall be measured from the settlement date to final maturity.

13.1 Weighted Average Maturity

The weighted average maturity of the pool portfolio (exclusive of custom investments) shall not exceed two years.

Other special purpose investments where the maturity term is not integral to short term cash flow needs may have a weighted average maturity of greater than two years.

14.0 Audits

The County of Monterey investment portfolio shall be subject to a process of independent review by the Auditor-Controller's internal auditor. The County's external auditors shall review the investment portfolio in connection with the annual county audit and requirements of the Governmental Accounting Standards Board (GASB).

15.0 Performance Standards

The investment portfolio will be designed to obtain a market average rate of return during budgetary and economic cycles, taking into account the County's investment risk constraints and cash flow needs. The County may establish a market-based performance benchmark for comparison.

16.0 Investment Policy Review and Approval

The Treasurer shall submit the Investment Policy to the Board of Supervisors for review and approval at least annually.

16.1 Legislative Changes

Any State of California legislative action that further restricts allowable maturities, investment types, minimum credit requirements, or percentage allocations will be incorporated immediately into the Investment Policy.

17.0 Reporting

Pursuant to Government Code Section 53646 (b) the Treasurer may provide quarterly investment reports to the Board of Supervisors and all pool participants. The report shall include a listing of all securities held in the portfolio. Such listing shall include investment description, maturity date, par, amortized book value, market values and their source, and a risk measurement standard such as duration, along with certifications concerning the portfolio's compliance with the Policy and the portfolio's available liquidity to meet expenditure requirements for the next six months. The quarterly report shall be submitted to the Board of Supervisors within 45 days of the quarter end being reported.

18.0 Allocation of Investment Costs

The costs of investing, banking, and cash management as budgeted annually and applied quarterly shall be assessed to depositing agencies at the time of quarterly interest apportionment by the County Auditor-Controller, and in accordance with Government Code statutes. Depositing agencies will receive net revenue after pro rata application of costs that correspond to a basis point reduction to earned interest rates.

When actual annual costs of investing are determined, any differences from budgeted amounts shall be included in an adjusting interest allocation by the Auditor-Controller.

19.0 Disaster Recovery

The Treasurer shall maintain a disaster recovery plan and shall include contact information for key personnel as well as active bankers, broker/dealers, and the County's investment advisor.

APPENDIX A
Authorized Investments County General Pool

| Instrument | Maximum Maturity per code | Max %/ Dollar Limit | Government Code Sections |
|---|----------------------------------|--|---------------------------------|
| Collateralized bank deposits | 5 years | N/A | 53630 et seq and 53601(n) |
| California State Treasurer's Local Agency Investment Fund (LAIF) | N/A | Amount permitted by LAIF per account or as approved by the State Treasurer for bond/note proceeds (Currently \$75,000,000) | 16429.1 |
| California Asset Management Program (CAMP) | N/A | 20% | 53601(p) |
| CalTrust | N/A | 20% | 53601(p) |
| Bonds, including revenue bonds, issued by the County, its Agencies, or authorities | 5 years | 10% limit issuer | 53601(a) |
| U.S. Treasury notes, bonds, bills, or certificates of indebtedness bearing a full faith and credit pledge | 5 years | N/A | 53601(b) |
| Registered warrants, notes, and bonds, including revenue bonds, of the State of California and all other 49 states ⁽¹⁾ | 5 years | 10% limit issuer | 53601(c) and 53601(d) |
| Bonds, notes, warrants, and other evidences of indebtedness issued by any local agency within California, including revenue bonds ⁽¹⁾ | 5 years | 10% limit issuer | 53601(e) |
| Obligations of federal agencies and United States government-sponsored enterprises | 5 years | N/A | 53601(f) |
| Bankers acceptances ⁽²⁾ | 180 days | 40% | 53601(g) |
| Prime commercial paper of domestic issuers with assets in excess of \$500 million ⁽²⁾ | 270 days | 40% | 53601(h) and 53635(a)(1),(2) |
| Negotiable certificates of deposit issued by domestic banks, associations, and state- chartered branches of foreign banks ⁽¹⁾ | 5 years | 30% | 53601(i) |
| Reverse repurchase agreements | 92 days matched maturities | 20% | 53601(j) |
| Repurchase agreements | 1 year | 20% | 53601(j) |
| Medium term notes 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 ⁽³⁾ | 5 years | 30% | 53601(k) |
| Money market mutual funds | N/A | 20% Total all funds 10% any one fund | 53601(l) |
| Mortgage-based and asset-backed securities ⁽⁴⁾ | 5 years | 20% | 53601(o) |
| U.S. 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, and eligible for purchase and sale within the U.S. ⁽⁴⁾ | 5 years | 30% | 53601(q) |
| Overall portfolio weighted average maturity | 2 years | ----- | ----- |

- (1) which are rated in a long-term rating category of "A" or in a short-term rating category of "A-1" or its equivalent, or better at time of purchase by a minimum of one nationally recognized statistical rating organization (NRSRO)
- (2) which are rated in a rating category of "A-1" or its equivalent, or better by a minimum of one NRSRO at time of purchase
- (3) which are rated in a rating category of "A" or its equivalent, or better by a minimum of one NRSRO at the time of purchase
- (4) which are rated in a rating category of "AA" or its equivalent, or better by a minimum of one NRSRO at time of purchase. Minimum rating requirement, maximum maturity limit, and maximum % dollar limit do not apply to securities that are issued or guaranteed by the United States, a federal agency, or government sponsored enterprise.