Orange County Mosquito and Vector Control District

Statement of Investment Policy for Liquid Assets
Fiscal Year 2020-21

Policy No. 38
September 17, 2020

1. Purpose: The purpose of this policy is to comply with the requirements of California Government Code Section 53600 et. seq. and to provide clear guidance for the investment of all monies of the Orange County Mosquito and Vector Control District (District).

2. Application: This regulation applies to all liquid financial assets of the District. This regulation shall not apply to assets designated as post-retirement health care plan funds by the District.

3. Regulation:

A. Investment Objectives
The investment of all funds of the District is structured to achieve, in priority order, the goals of safety, liquidity, and yield within the parameters established by law.

The primary objective of the investment policy of the District is safety of principal. To attain this objective, the District will diversify its investments by investing funds among a variety of securities and financial institutions. The goal will be to mitigate credit risk and interest rate risk. Most investments will be highly liquid. Maturities will be selected to anticipate cash needs, thereby, avoiding the need for forced liquidation. The District's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints of safety and liquidity needs.

B. Legal and Policy Constraints
The authority governing investments for municipal government agencies is set forth in the California Government Code Section 53600 et. seq. In all instances, the District shall comply with the requirements of state law as it is amended from time to time. In addition to the requirements of state law, the District:

♦ shall not purchase or sell securities on margin.

♦ shall not borrow funds for the sole purpose of arbitrage.

C. Prudence
The Board of Trustees and persons authorized to make investment decisions for the District are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of 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 the principal and maintain the liquidity needs of the agency.

Investment officials acting in accordance with written procedures and this 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 manner and appropriate action is taken to control adverse developments.

D. Ethics and Conflict of Interest

Officers and employees of the District involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the District Manager/Treasurer any material financial interests in financial institutions that conduct business with the District, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the District, particularly with regard to the time of purchases and sales. The District Manager/Treasurer, or Finance Manager at the direction of the District Manager/Treasurer shall make similar disclosures to the Board of Trustees.

Officers and employees shall refrain from undertaking any personal investment transactions with the same individual with whom business is conducted on behalf of the District. Under no circumstances shall investment officers or employees accept gifts, trips, or any type of gratuity from individuals or institutions engaged in investment practices with the District.

E. Investment Authority

Authority to manage the City's investment program is derived from California Government Code Section 53607. The Board of Trustees will retain ultimate fiduciary responsibility for the portfolio. The Board will receive monthly reports, designate investment officers and review the investment policy making any changes necessary by adoption.

The Board of Trustees delegates to the District Manager/Treasurer the primary responsibility for the District's investment program and the authority to make investments on behalf of the District. Pursuant to Government Code Section 53607, this delegation shall be made each year. Such investments shall be limited to the instruments authorized under California Government Code Sections 53601 and 53635 and further described in Appendix A. The District's Finance Manager has the authority, unless that authority is removed by the District Manager, to facilitate and manage investments on the District's behalf, solely under the direction of the District Manager.

All investments of the District shall be approved by the District Manager/Treasurer.

No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the District Manager /Treasurer.

F. Authorized Financial Institutions and Broker/Dealers

The District Manager/Treasurer will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained for approved security broker/dealers selected by conducting a process of due diligence. These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

Selection of authorized broker/dealers shall be made by the District Manager/Treasurer with the guidance of the Budget and Finance Committee. Periodically, the District will distribute a Broker/Dealer Questionnaire to interested and known financial institutions and broker/dealers. Qualified broker/dealers selected to do business with the District shall submit annually a current audited financial statement. After the annual adoption of the District’s investment policy by the Board of Trustees, a copy shall be sent to all broker/dealers approved to do business with the District. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the District’s investment policies and intends to sell the District only appropriate investments authorized by this policy.

Selection of financial institutions to serve as depositories for the District shall be made by the Board of Trustees upon the recommendation of the District Manager/Treasurer.

G. Deposits

Money must be deposited in state or national banks, state or federal savings associations, or state or federal credit unions in the State of California. Money may be in:

- Active deposits
- Inactive deposits
- Interest-bearing active deposits
- Passbook savings accounts

The depository must secure the District’s deposits by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the District) with the pledged securities having a market value of 110% of the total amount of the deposits. State law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the total amount of the deposits.

The District Manager/Treasurer may, at his/her discretion, waive the collateral requirement for deposits which are fully insured up to $250,000 by the FDIC.

From time to time certain institutions may ask to reduce the existing certificate of deposit of $250,000 down by a few thousand dollars so the accrued interest on the deposit will also be insured. It is to the District’s advantage to reduce the principal deposit to the lower level for full insurance coverage of principal and accrued interest if the financial institution requests the reduction and if there is no penalty assessed for the reduction. If deposits exceed the FDIC insurance level, then the deposits must be collateralized as described in the preceding paragraphs of this section.

H. Safekeeping of Securities

All purchased securities shall be held by an independent third-party safekeeping institution selected by the Board of Trustees and evidenced by safekeeping receipts in the District's name. All security transactions entered into by the District shall be conducted on a delivery-versus-payment (DVP) basis to ensure the securities are deposited in the District's safekeeping institution prior to the release of funds.

I. Diversification

The District shall diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized investment pools (i.e. Local Agency Investment Fund (LAIF) or the Orange County Investment Pool (OCIP) the following shall apply:

1. IRS Section 115 Trust

   The goal of the Plan's investment program is to provide a reasonable level of growth which, will result in sufficient assets to pay the present and future obligations of the Plan. The following objectives are intended to assist in achieving this goal:

   - The Plan should seek to earn a return in excess of its policy benchmark over the life of the Plan.
   - The Plan's assets will be managed on a total return basis which takes into consideration both investment income and capital appreciation. While the Plan Sponsor recognizes the importance of preservation of capital, it also adheres to the principle that varying degrees of investment risk are generally rewarded with compensating returns. To achieve these objectives, the Plan Sponsor allocates its assets (asset allocation) with a strategic perspective of the capital markets.

Investment Time Horizon:	Long- term 10+ years or
Anticipated Cash Flows:	***Pension/OPEB Trust Plan:*** Assets in the Plan can be used to reimburse the District for eligible expenditures. Reimbursement of these expenditures can be transferred back to the District at its discretion.
Investment Objective:	*Moderate Objective* The assets in this Plan will eventually be used to pay District's OPEB obligations
Risk Tolerance:	Conservative to *Moderate* The account's risk tolerance has been rated conservative to moderate, which demonstrates that the account can accept some price fluctuations to pursue its investment objectives.

2. Federal Agency Securities

No more than 50 percent (50%) of the District's investment portfolio shall be invested in securities of a single issuer (e.g., FFCB, FNMA, etc.),

3. All Other Securities

No more than 15 percent (15%) of the District's investment portfolio shall be invested in a single security type and no more than 5 percent (5%) with a single issuer.

J. Maturity and Term

The District administers funds according to cash flow requirements. As a result, there is a core of funds that are not necessary for the daily operational needs of the District for paying expenses. From time to time market conditions of fixed income markets present opportunities for higher interest rates on high grade securities with a low risk exposure. It is in the best interest of the District to practice a fully diversified investment plan that will ensure safety, liquidity, and the increase of acceptable yield from these situations.

To the extent possible, the District will attempt to match its investments with anticipated cash flow requirements

K. Investments

The following is a list of allowable investments instrument authorized by the California Government Code and recommended by the California Debt and Investment Advisory Commission (CDIAC) (see Appendix A for descriptions and for table of notes):

INVESTMENT TYPE	MAXIMUM REMAINING MATURITY[C]	MAXIMUM SPECIFIED % OF PORTFOLIO[D]	MINIMUM QUALITY REQUIREMENTS	GOVERNMENT CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations: CA and Others	5 years	None	None	53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S. Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40%[E]	None	53601(g)
Commercial Paper: Non-pooled Funds[F]	270 days or less	25% of the agency's money[G]	Highest letter and number rating by an NRSRO[H]	53601(h)(2)(C)
Commercial Paper: Pooled Funds[I]	270 days or less	40% of the agency's money[G]	Highest letter and number rating by an NRSRO[H]	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30%[J]	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	30%[K]	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	30%[K]	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days[L]	20% of the base value of the portfolio	None[M]	53601(j)
Medium-term Notes[N]	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds and Money Market Mutual Funds	N/A	20%[O]	Multiple[P,Q]	53601(l) and 53601.6(b)
Collateralized Bank Deposits[R]	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass–through and Asset Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple[S]	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund[T]	N/A	None	None	16340
Supranational Obligations[U]	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)

L. Internal Controls and Transfers of Investment Funds

Management shall establish a system of internal controls, which shall be documented in writing. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District.

The internal controls shall be reviewed annually by the external auditor. This review will provide internal control by assuring compliance with policies and procedures.

The transferring of investment funds will be carried out exclusively by use of telephonic or electronic wire transfers. Each entity with which the District does business shall receive, in writing from the District Manager/Treasurer, a listing which limits transfers of funds to preauthorized bank accounts only. The listing will also contain the names of District staff authorized to request such transfers and will be updated, in writing, for all changes of authorized staff and bank accounts, as necessary.

M. Performance Standards

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

The bases used by the District Manager/ Treasurer to determine whether market yields are being achieved shall be investment return of the Local Agency Investment Fund (LAIF) and the interest rate of a U.S. Treasury obligation with a maturity that approximates the average maturity of the portfolio.

N. Reporting

In accordance with California Government Code Sections 41004, 53607 and 53646, the District Manager/Treasurer and the Finance Manager shall render monthly reports to the Board of Trustees showing receipts, disbursements and fund balances for the month, along with: (a) type of investment; (b) issuer; (c) date of maturity; (d) par and dollar amount of deposit; (e) current market value for all securities with a maturity of more than twelve (12) months and the source of the valuation information; (f) rate of interest on each security; and (g) such other data as the Board of Trustees may, from time to time, specify, for all investments in the portfolio. The report shall also state the degree of compliance of the portfolio to the Investment Policy, and shall include a statement denoting the ability of the District to meet its expenditure requirements for the next six months.

For investments in LAIF and OCIP, the report may include the most recent statement received by the District from these institutions in lieu of the information required by the preceding paragraph.

O. Policy Review

1. Annual Statement of Investment Policy

   The District Manager/Treasurer and the Finance Manager shall annually in June render to the Board of Trustees a Statement of Investment Policy which Statement shall be adopted by Resolution of the Board of Trustees.

2. Periodic Review

   To ensure a statement which is consistent with any new relevant legislation and financial trends, the District Manager/Treasurer and the Finance Manager shall periodically report to the Board of Trustees proposed changes and amendments to this policy for review and approval. In any event, all changes in state law that restrict investments beyond what is allowed in this policy shall be considered incorporated immediately upon their effective date unless otherwise adopted earlier by action of the Board of Trustees.

APPENDIX A

TABLE OF NOTES FOR FIGURE 1

A *Sources: Sections 16340, 16429.1, 27133, 53601, 53601.6, 53601.8, 53630 et seq., 53635, and 53635.8.*

B *Municipal Utilities Districts have the authority under the Public Utilities Code Section 12871 to invest in certain securities not addressed here.*

C *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 exceeds this five year remaining 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 *Percentages apply to all portfolio investments regardless of source of funds. For instance, cash from a reverse repurchase agreement would be subject to the restrictions.*

E *No more than 30 percent of the agency's money may be in bankers' acceptances of any one commercial bank.*

F *Includes agencies defined as a city, a district, or other local agency that do not pool money in deposits or investment with other local agencies, other than local agencies that have the same governing body.*

G *Local agencies, other than counties or a city and county, may purchase no more than 10 percent of the outstanding commercial paper of any single issuer.*

H *Issuing corporation must be organized and operating within the U.S., have assets in excess of $500 million, and debt other than commercial paper must be in a rating category of "A" or its equivalent or higher by a nationally recognized statistical rating organization, or the issuing corporation must be organized within the U.S. as a special purpose corporation, trust, or LLC, have program wide credit enhancements, and have commercial paper that is rated "A-1" or higher, or the equivalent, by a nationally recognized statistical rating agency.*

I *Includes agencies defined as a county, 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 forth in Section 53601(h)(2)(C).*

J *No more than 30 percent of the agency's money may be in negotiable certificates of deposit that are authorized under Section 53601(i).*

K *No more than 30 percent of the agency's money may be invested in deposits, including certificates of deposit, through a placement service (excludes negotiable certificates of deposit authorized under Section 53601(i)).*

L *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.*

M *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 local agency must have held the securities used for the agreements for at least 30 days.*

N *"Medium-term notes" are defined in 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 within the United States or by depository institutions licensed by the United States or any state and operating within the United States."*

O *No more than 10 percent invested in any one mutual fund. This limitation does not apply to money market mutual funds.*

P *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 five years' experience investing in instruments authorized by Sections 53601 and 53635.*

Q *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 five years' experience investing in money market instruments with assets under management in excess of $500 million.*

R *Investments in notes, bonds, or other obligations under Section 53601(n) require that collateral be placed into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, among other specific collateral requirements.*

S *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 five years' experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).*

T *Local entities can deposit between $200 million and $10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account.*

U *Only those obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), and Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less.*

APPENDIX A

DEPOSITORY SERVICES

Active deposits are demand or checking accounts which receive revenues and pay disbursements.

Inactive deposits are Certificates of Deposit issued in any amount for periods of time as short as fourteen days and as long as several years.

Interest-bearing active deposits are money market accounts at a financial institution (i.e., bank, savings and loan, credit union). These accounts are demand accounts (i.e., checking accounts) with restricted transaction activity.

Passbook savings account is similar to an inactive deposit except not for a fixed term. The interest rate is much lower than Certificates of Deposit, but the savings account allows for flexibility. Funds can be deposited and withdrawn according to daily operational needs.

INVESTMENT SECURITIES

Bankers Acceptances are short term credit arrangements that are high-grade, negotiable instruments. They are time drafts drawn on and accepted by a commercial bank, primarily used to finance international trade by its acceptance, the bank becomes primarily liable for the payment of the draft at maturity. Purchases of bankers' acceptances may not exceed 180 days to maturity. Local Agencies cannot invest more than forty percent (40%) of their surplus money in Bankers Acceptances nor more than thirty percent (30%) of their surplus money in Bankers Acceptances of any one commercial bank.

California or Local Agency Bonds, Notes, Warrants, or Other Debt are obligations of any U.S. state or of any local agency within the State of California. These obligations may consist of registered treasury notes or bonds or other types of obligations.

Commercial Paper is a short term unsecured promissory note issued by a corporation to raise working capital. These negotiable instruments must be of prime quality as defined by State law and may be purchased at a discount up to par value or as interest bearing. Purchases of eligible commercial paper may not exceed 270 days maturity. Local agencies cannot invest more than twenty-five percent (25%) of the agency's surplus funds in Commercial Paper nor more than 10% of their surplus money in Commercial Paper of any one issuer.

Federal Agency Issues are issued by direct U.S. Government agencies or U.S. Government-sponsored enterprises. These issues are guaranteed by the United States Government or U.S. Government-sponsored enterprises. Examples of these securities are Federal Home Loan Bank (FHLB) notes, Federal Home Loan Mortgage Association (FHLMC), Federal National Mortgage Association (FNMA) notes and Federal Farm Credit Bank (FFCB) notes and Government National Mortgage Association (GNMA) notes. GNMA securities are guaranteed by the full faith and credit of the United States Government. Securities of the other agencies are guaranteed by the agencies and have an "implicit guarantee" of the U.S. Government.

Local Agency Investment Pools (such as the State Finance Manager's Local Agency Investment Fund (LAIF) or the Orange

County Investment Pool (OCIP)) are special funds in a state or local agency treasury which local agencies may use to deposit funds for investment. They offer high liquidity because deposits can quickly be converted to cash. All interest is distributed to participating agencies on a proportionate share basis of amount and length of time.

Medium Term Corporate Notes are unsecured promissory notes issued by a corporation organized and operating in the United States. These are negotiable instruments and are traded in the secondary market. Medium Term Corporate Notes (MTN) can be defined as extended maturity commercial paper. Corporations use these MTN's to raise capital.

These investments must be in corporations rated in the top three note categories by a single nationally recognized rating service. Further restrictions are a maximum term of five years to maturity and total investments in Medium Term Corporate Notes may not exceed thirty percent (30%) of the local agency's surplus money.

Money Market Mutual Funds are referred to in California Government Code Section 53601(L) as "shares of beneficial interest issued by diversified management companies." The Mutual Fund must be restricted by its by-laws to the same investments as the local agency by the California Government Code.

The purchase price of shares shall not include any commission that the fund manager may charge and investments in these funds shall not exceed 20 percent of the agency's funds that may be invested. In addition, no more than 10 percent of the agency's funds may be invested in shares of any single mutual find.

Negotiable Certificates of Deposit (NCD) are unsecured obligations of the financial institution. These securities are generally issued in bearer form and pay interest at maturity.

Repurchase Agreements are short term investment transactions. Banks buy temporarily idle funds from a customer by selling him U.S. Government or other securities with a contractual agreement to repurchase the same securities on a future date. The customer receives interest from the bank. The term of a repurchase agreement may not exceed one year.

Reverse Repurchase Agreement is opposite of a repurchase agreement; it is an investment in which the local agency sells securities prior to the purchase with a simultaneous agreement to repurchase the security. The term of a repurchase agreement may not exceed one year.

Securities Lending Agreement means an agreement with a local agency that agrees to transfer securities to a borrower who, in turn agrees to provide collateral to the local agency. During the term of the agreement, both the securities and the collateral are held by a third party. At the conclusion of the agreement, the securities are transferred back to the local agency in return for the collateral.

Supranationals are multi-national organizations, whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries. Supranational securities allowed by state law are U.S. dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the Internal Bank for Reconstruction and Development, International Finance

Corporation, or Inter-American Development Bank.

U.S. Treasury Issues are direct obligations of the United States Government. These issues are called bills, notes, and bonds. The maturity range of new issues is from 13 weeks (T-Bills) to 30 years (T-Bonds). These are highly liquid and are considered the safest investment security.