

ASSOCIATION OF BAY AREA GOVERNMENTS

INVESTMENT POLICY

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Revised: September 17, 2015

Association of Bay Area Governments
Investment Policy

1.0 Policy

It is the policy of the Association of Bay Area Governments (ABAG) to invest public funds in a manner which will provide the highest investment return consistent with maximum security while meeting the daily cash flow demands of ABAG and conforming to all state and local statutes governing the investment of public funds.

2.0 Scope

This investment policy applies to activities of ABAG with regard to investing the financial assets that arise from ABAG's operation.

3.0 Prudence

The investment portfolio of ABAG will be managed under the Prudent Person Rule which states, in essence, that "a trustee shall exercise the judgment and care, under the circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The application of this rule opens up a broad spectrum of investment opportunities as long as the investment is deemed prudent and is permissible under currently effective legislation of the State of California and this policy.

4.0 Objectives

It is the objective of this policy to provide a system which will accurately monitor and forecast revenues and expenditures so that ABAG can invest funds to the fullest extent possible. Funds of ABAG will be invested in accordance with sound treasury management principles with the following priorities:

1. Safety of invested funds
2. Maintenance of sufficient liquidity to meet cash flow needs
3. Attainment of maximum possible yields consistent with the above principles

4.1 Safety

A. To protect the value of the principal and interest of the invested funds, ABAG will invest only in the safest securities which include those backed by the U. S. Government or its agencies; those which have insurance on principal backed by the FDIC; or those which have legally required collateral backing of the invested principal.

B. ABAG's investment portfolio shall be diversified by type of investment, issuer and maturity dates to protect against changes in the market.

C. ABAG will not place any funds with any institution which is less than three (3) years old.

4.2 Liquidity

Maturity dates of investments shall be timed to provide funds for scheduled administrative and operating expenses.

The State Local Agency Investment Fund (LAIF) shall be used as one means of providing liquidity. However, because of the limitation in number of transactions allowed per month, some pre-planning will be necessary. CalTRUST will be used as an investment option to augment LAIF.

4.3 Yield

ABAG seeks to attain market rates of return on its investments, consistent with constraints imposed by its safety objectives and cash flow consideration. Purchase and sale of securities should be made on the basis of competitive offers and bids, when practical, to obtain the highest possible rates.

5.0 Designation of Treasurer

ABAG's Finance Director is hereby designated as treasurer. An investment team made up by the Finance Director, the Executive Director, and the Financial Services Manager shall advise the Treasurer on investment of ABAG's funds. The Treasurer is responsible for ensuring all investment activities are within the guidelines of these policies. ABAG shall develop and maintain administrative procedures for the operation of the investment program. In order to optimize total return through active portfolio management, resources shall be allocated to the investment program. This commitment of resources shall include financial and staffing considerations.

6.0 Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the President any material financial interests in financial institutions that conduct business with ABAG or its affiliated entities, and they shall further disclose any large personal financial/investment positions that could be related to the performance of ABAG, particularly with regard to the time of purchases and sales.

7.0 Authorized Financial Dealers and Institutions

The Finance Director will maintain a list of financial institutions authorized to provide investment services. In addition, a list will also be maintained of approved security broker/dealers selected by credit worthiness who are authorized to provide investment services in the State of California. These may include primary or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No deposit of public funds shall be made except in a qualified public depository as established by state laws.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director with the following: audited financial statements, proof of National Association of Security Dealers certification, trading resolutions, proof of state registration, and certificate of having read ABAG's investment policy.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Finance Director. A current audited financial statement is required to be on file for each financial institution and broker/dealer through which ABAG invests.

8.0 Authorized and Suitable Investments

The following is a summary of the authorized investment instruments and the applicable limitations to each:

<u>Type</u>	<u>Backed by</u>	<u>Limits</u>	<u>Term to maturity</u>
Local Agency Investment Fund (LAIF)	State Treasurer	As determined by State Treasurer	On demand
Investment Trust of California (CalTRUST)	CalTRUST	As determined by CalTRUST	On demand
Money Market Funds	Banks/mutual funds	20% of portfolio	On demand
Investment Agreements	Financial institutions		On demand

U.S. Treasury Bills	U.S. Treasury		To one year
U.S. Treasury Notes	U.S. Treasury		To one year
U.S. Govt. Agency Issues (e.g. FNMA, GNMA)	Federal Agencies		6 mos. to 5 years
Banker's Acceptances	Accepting Bank	40% of portfolio	Up to 180 days
Certificates of deposit with banks or savings and loan associations	FDIC or FSLIC insured	10% of portfolio per institution	To three years
Negotiable certificates of deposit	Issuing Bank	10% of portfolio	14 days to one year
Repurchasing Agreements	Issuing Bank/ Collateralized	10% of portfolio	Not to exceed 15 days
Commercial Papers	Corporations Liquidity	10% of portfolio	Up to 180 days

See Appendix A for description of above securities

8.1 Prohibited Investment Practices and Instruments

Certain investment practices and instruments are inconsistent with the first objective of this policy--safety of invested funds, and are therefore prohibited:

ABAG shall not engage in leveraged investing, such as in margin accounts or any form of borrowing for the purpose of investment.

ABAG shall not invest in instruments whose principal and interest have no backing as described in Section 1.A. of this policy. Examples of these instruments are options and future contracts.

ABAG shall not invest in securities with floating coupon interest rates.

With the exception of investments in the Local Agency Investment Fund (LAIF), CalTRUST and certificates of deposit that are insured by the FDIC, the Pool shall invest in securities that are rated within the top two rating categories of a nationally recognized rating service (e.g. Standard & Poor's and Moody's).

9.0 Collateralization

Collateralization will be required on two types of investments: certificates of deposit not insured by the FDIC, and repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be (102%) of market value of principal and accrued interest.

ABAG chooses to limit collateral to U. S. Treasury and Federal Agency securities.

Collateral will always be held by an independent third party with whom ABAG has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to ABAG and retained.

10.0 Safekeeping and Custody

All security transactions, including collateral for repurchase agreements, entered into by ABAG shall be conducted on a delivery-versus-payment (DVP) basis. Securities will be held by a third party custodian designated by the Finance Director and evidenced by safekeeping receipts.

11.0 Diversification

ABAG will diversify its investments by security type and institution. With the exception of the California State Local Agency Investment Fund and U. S. Treasury securities, no more than 50 % of ABAG's total investment portfolio will be invested in a single security type or with a single financial institution.

12.0 Maturity

To the extent possible, ABAG will attempt to match its investments with anticipated cash flow requirements, and strive to limit average maturity of the investment portfolio to less than seven years.

13.0 Internal Control

The Finance Director shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

14.0 Performance Standards

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

14.1 Market Yield Benchmark

For its operating funds, ABAG will strive to achieve an average rate of return that is no lower than the average rate of return from the California State Local Agency Investment Fund

15.0 Reporting

The Finance Director will submit a monthly investment report which summarizes total investment return and budgetary expectations. The report shall also disclose all investment transactions during the period as well as a complete list of securities in the portfolio showing type, institution, coupon rate, effective yield and current market value.

16.0 Policy Adoption

ABAG's investment policy shall be adopted by resolution of the Board of Directors. The policy shall be reviewed by the Finance Committee and any modification made thereto must be approved by the Board.

Appendix A

Explanation of Allowable Instruments

Local Agency Investment Fund (LAIF). The LAIF was established by the State of California to enable treasurers to place funds in a pool for investments. There is a limitation of \$50 million per agency subject to a maximum of 15 total transactions per month. ABAG uses this fund when interest rates are declining as well as for short-term investments and liquidity.

Investment Trust of California (CalTRUST). Shares of beneficial interest issued by the Investment Trust of California (CalTRUST), pursuant to California Government Code Section 6509.7; and authorized for local agency investment by California Government Code Section 53601(o). As a public agency, CalTRUST's investment portfolio is subject to the same Government Code restrictions and limitations as ABAG's, although its portfolio may contain investments not otherwise permitted under this policy. As such, the portion of ABAG's assets invested in CalTRUST shall be governed by the CalTRUST investment policy.

Money Market Funds. Diversified investment funds which invest in government-backed securities, provide daily liquidity and have no risk in principal. No more than 10 percent of the agency's funds may be invested in one issuer.

Investment Agreements. Government investment contracts with financial institutions rated within the two top rating categories of a nationally recognized rating agency; provided that if such rating falls below the two top rating categories of such agency, the investment agreement shall allow for the option to replace such financial institution or shall provide for the investment agreement to be fully collateralized by U.S. Treasury and Agency securities, provided further that if so collateralized the agency or its trustee, as the case may be, has a perfected first security lien on the collateral.

U.S. Treasury Bills. Commonly referred to as T-Bills, these are short-term marketable securities sold as obligations of the U.S. Government. They are offered in three-month, six-month, and one-year maturities. T-Bills do not accrue interest but are sold at a discount to pay face value at maturity.

U.S. Treasury Notes. These are marketable, interest-bearing securities sold as obligations of the U.S. Government with original maturities of one to ten years. Interest is paid semi-annually.

U.S. Government Agency Issues. Include securities which fall into these categories: 1) Issues which are unconditionally backed by the full faith and credit of the United States, 2) Issues which are conditionally backed by the full faith and credit of the United States and 3) Issues which are not backed by the full faith and credit of the United States.

Issues which are unconditionally backed by the full faith and credit of the United States include: Small Business Administration (SBA) and General Services Administration (GSA).

Issues which are not backed by the full faith and credit of the United States include: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Farm Credit System, Banks for Cooperation (Co-ops), Federal Lands Banks (FLB), and Federal Intermediate Credit Banks (FICB).

While all the above issues are not unconditionally backed by the full faith and credit of the United States, they do in fact have defacto backing from the federal government, and it would be most unlikely that the government would let any of these agencies default on its obligations.

Banker's Acceptance. This is a negotiable time draft (bill of exchange) with a maturity of six months or less drawn on and accepted by a commercial bank. Banker's acceptances are usually created to finance the import and export of goods, the shipment of goods within the United States and storage of readily marketable staple commodities.

Certificate of Deposit (CDs) is a receipt for funds deposited in a Bank or Savings and Loan Association for a specified period of time at a specified rate of interest. The first \$250,000 of a certificate of deposit is guaranteed by the Federal Deposit Insurance Corporation (FDIC). CD's with a face value in excess of \$250,000 can be collateralized by Treasury Department Securities, which must be at least 110% of the face value of the CD's, in excess of the first \$250,000, or by first mortgage loans which must be at least 150% of the face value of the CD balance in excess of the first \$250,000.

Negotiable Certificate of Deposit is a form of Certificate of Deposit, usually supported only by the strength of the institution, but can be sold at any time. Interest on CD's with maturities of one year or less is typically paid at maturity, while interest on CD's with maturities over one year is typically paid semi-annually.

Repurchase Agreement (REPOS) is a contractual arrangement between a financial institution, or dealer, and an investor. This agreement normally can run for one or more days. The investor puts up his funds for a certain number of days at a stated yield. In return, he takes a given block of securities as collateral. At maturity, the securities are repurchased and the funds repaid plus interest.

Commercial Paper notes are secured promissory notes of industrial corporations, utilities and bank holding companies. Notes are in bearer form starting at \$100,000. State law limits an agency to invest in United States corporations having assets in excess of five hundred million dollars with an "A" or higher rating. ABAG may not invest more than 30% of idle cash in commercial papers.